ESG INTEGRATION

Features of Integration			
Equity Investment	When evaluating the ESG characteristics of portfolio companies, we focus not only on potential risks but also on opportunities to generate future earnings. Although each equity strategy integrates ESG considerations into its investment philosophy and process in a different way, a common ESG evaluation platform is shared by all strategies.	Fixed Income Investment	We select and model ESG factors that are material for credit investment based on a variety of research. In addition to this ESG factor model integration, qualitative evaluations by credit analysts are also considered within the investment process to improve the portfolio's risk-adjusted return and sustainability.

Integrating ESG factors into the investment process is critical, as we believe financial performance and ESG efforts (non-financial information) are closely related and influence one another. At Nomura Asset Management, we utilize proprietary ESG evaluations of portfolio companies when making investment decisions. In order to effectively incorporate ESG considerations and other non-financial information into the investment process to supplement the analysis of a company's fundamentals (financial information used to evaluate a company), we conduct our own ESG assessment for both equity investing and fixed income investing. This integration of ESG factors into the investment process not only helps reduce downside risk, but is also an essential component to improve returns.

ESG assessment is not limited to Japanese companies, as the scope also includes companies in developed countries in Europe and the Americas, as well as companies in Asia and emerging countries. In addition to global themes such as climate change and human rights, we assess specific material ESG considerations for individual industries and companies, and utilize information from multiple external sources to create our proprietary ESG scores. These ratings are made available to all portfolio managers for integration into the investment decision-making process.

Equity Integration

Equity Integration Approach

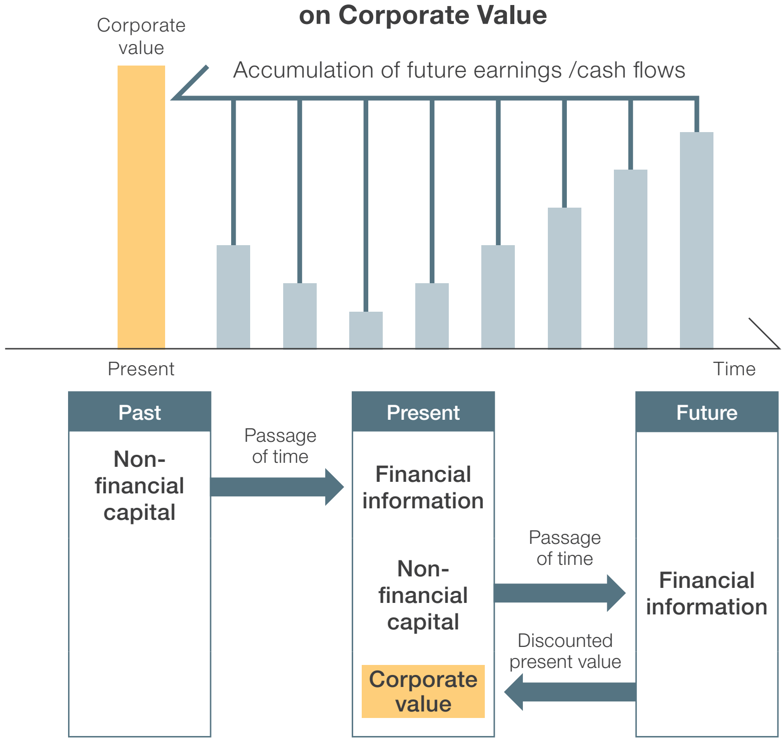
Corporate value is essentially the discounted present value of future free cash flows. The business assets that generate future free cash flow include not only fixed assets such as production facilities, but also various types of intangible assets (capital) not found in financial statements, including human capital, natural capital and social capital. Evaluating such capital, or business assets including non-financial information, is necessary in order to analyze corporate value. We believe that, in addition to financial data, reflecting non-financial data in company evaluations, and making investment decisions based on these evaluations, is essential in order to increase the added value of our investments.

There are two aspects to evaluating intangible assets that do not appear in a company's financial information. The first is evaluating the profits that intangible assets can bring, or a "growth evaluation," and the other is a "business risk evaluation" related to the risks to which a company's profits are exposed.

For "growth evaluation", the business impact of climate change, supply chain resilience, intellectual property, R&D capabilities and organizational strength, quality of human resources and diversity are among the sources of competitiveness that help differentiate a company from its peers. These factors manifest themselves in the future as financial information such as corporate profits and growth.

"Business risk evaluation" aims to ascertain the stability and sustainability of future profits based on whether or not the company is able to accumulate intangible assets, and to determine whether or not future profits will fluctuate sharply due to changes in the business environment. In other words, this "business risk evaluation" is looking at how to evaluate the discount rate when discounting future cash flows to the present value. To put it another way, the valuation of intangible assets is an important aspect of determining whether the valuation (relative price metric for the stock price) of the investment target company is too high or too low.

Investors' Basic Philosophy on Corporate Value

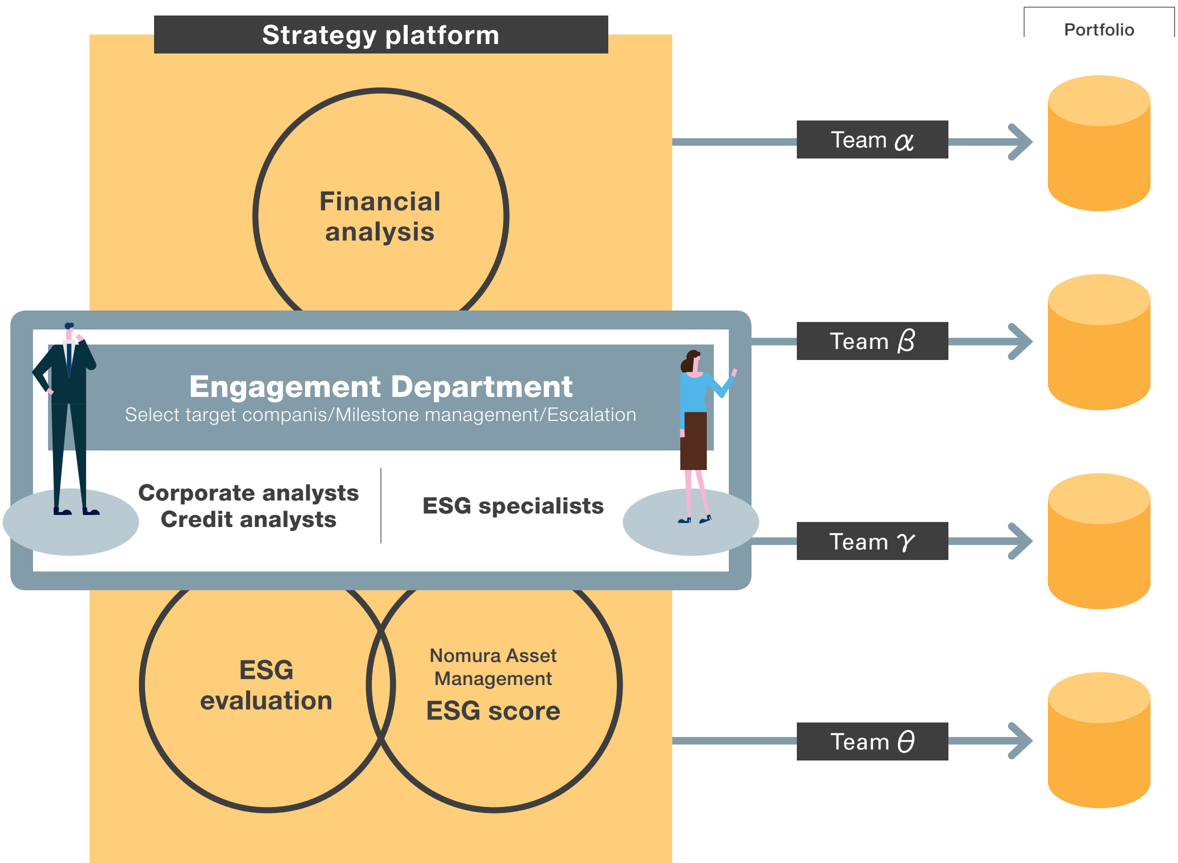


"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.

Equity Investment Process

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

Our ESG evaluation framework is also applied to our global equities investment. In addition to global themes such as climate change and human rights, we assess specific material ESG considerations for individual industries and companies and utilize information from multiple external sources to create our proprietary ESG ratings. These ratings are made available to all portfolio managers for incorporation into the investment decision-making process. For example, at our Singapore Office, country specialists (CS) are assigned to cover each country in this diverse region, and the main source of added value is the bottom up research conducted by meeting with companies (2387 meetings in 2021). Investment ratings are assigned to individual stocks based on the fundamental research carried out by CSs as well as the ESG evaluation. The portfolio is constructed based on these ratings.



Efforts to Advance ESG Integration

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

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

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

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

Portfolio Manager's ESG Viewpoint

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

Chief Senior Portfolio Manager
Masaaki Tezuka

ESG Scores for Japanese Equities

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

ESG Score Content

The following is an overview of ESG scoring. The assessment comprises four items each with a weighting of 25%. These four items are Environment, Social, Governance, and SDGs. There are a total of approximately 100 evaluation items, with a good balance between risks and opportunities. In terms of opportunities, we evaluate items including management's vision and commitment with respect to ESG issues (ability to explain, plan, and execute initiatives, as well as past achievements), along with the future growth potential of companies that contribute to the achievement of SDGs, as well as the management resources that contribute to this. Meanwhile, for risks, our evaluations emphasize items that can be quantitatively analyzed, such as whether or not a company has provided disclosure and/or obtained certification, as well as the data disclosed and trends for such data.

For "Environment," we look at whether a company is managing transition risks and physical risks related to climate change and incorporating such risks into its business strategy. We also look at whether the company's management has expressed a commitment to the environment. With respect to matters such as the TCFD, we analyze and evaluate based on a company's integrated report and materials posted on its website. With respect to evaluating natural capital and other environmental assessments, we evaluate items such as those related to waste management, conservation of river and marine resources, and biodiversity (including preventing marine pollution).

For "Social" factors, our evaluation is divided into looking at a company's internal and external risks as well as measures to address such risks. The former includes assessments such as those related to employees' human rights and the utilization of human capital, while the latter relates to the issues surrounding the quality of products and services as well as supply chain management. Recently, much attention around the world has been given to human rights initiatives. For Japanese companies in particular, we emphasize the evaluation of supply chain management at business sites both in Japan and overseas.

In "Governance," we evaluate multiple items to make sure that companies have put appropriate structures/systems in place, such as the composition of the board, outside director independence, and whether nomination and compensation committees have been established. Meanwhile, we also evaluate qualitative issues such as dialogue with top management and successor planning. The unique strengths of our corporate analysts, who have been studying and analyzing companies extensively for many years, are reflected in our evaluations.

In "SDGs", we proactively evaluate a company's stance vis-à-vis working on future opportunities. We evaluate whether a company considers solutions to SDG issues as business opportunities and appropriately incorporates them into its business strategies. In doing so, rather than simply looking at whether or not a company has businesses that enable it to contribute to the achievement of each goal, we conduct extensive research and forecast future sales mixes capable of contributing to SDGs goals, and look at whether or not a company has excellent human and technological resources to differentiate itself from industry peers.

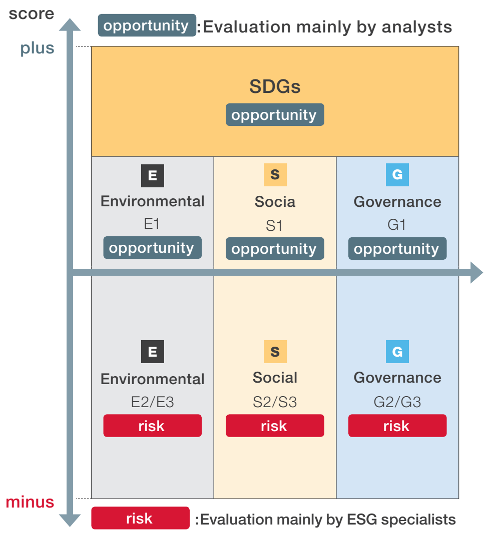
To determine ESG scores, corporate analysts who have frequent contact with companies and know the companies they cover inside and out collaborate with ESG specialists who analyze ESG from a cross-industry perspective. They work together, identifying items where one or the other possess particular expertise.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

ESG Scoring Revision

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

New ESG Scoring Framework

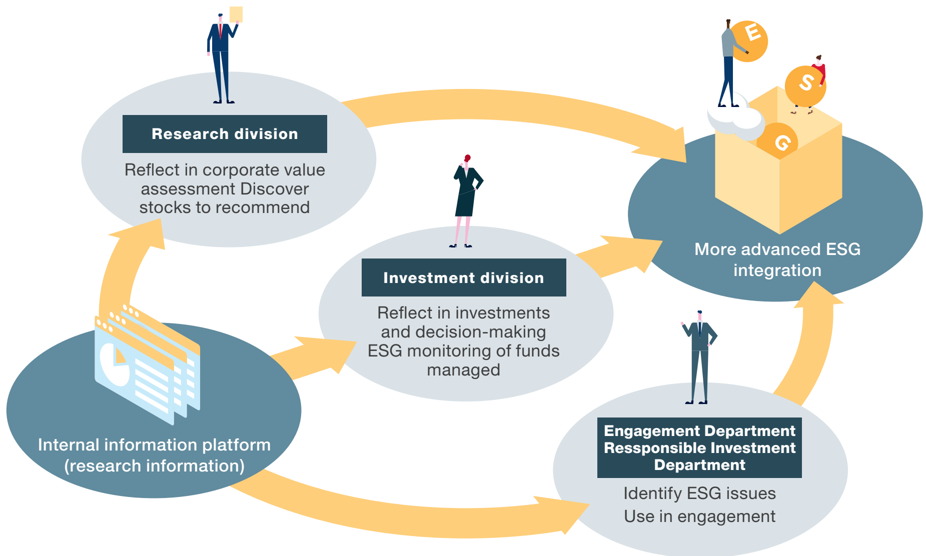
Main category	Sub-category		Sub-items
E Environmental 25% of total	E1:Environmental strategy, senior management's initiatives	opportunity	Evaluate individual sub-items in line with the theme of the larger grouping Reflect importance (materiality) in score, taking industry characteristics into account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



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

Utilizing ESG Scores

ESG scores generated by quantification of non-financial information are used not only for investment decisions and new product development in investment portfolios, but also for client reporting and our ESG investment management.



Utilizing ESG score data in engagement	ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities. By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores in engagement such as discussing future course of action.
Utilizing ESG score data in investment activity	ESG scores are posted on an internal research-sharing system. The materials used by investment committees and others to evaluate investment value for individual companies contain usual financial indicators as well as ESG scores and ESG comments by the analysts in charge. These scores are actively utilized in making investment decisions.
Utilizing ESG scores in portfolio construction and monitoring	When building and reviewing portfolios, we check scores for individual companies, use them to make comparisons with industry peers and see how a company's score has changed, as well as to check the ESG quality of the portfolio. Investment managers can also use the items comprising the ESG scores of individual companies as a standalone data. Additionally, by regularly comparing the portfolio's overall ESG score to the benchmark, they can use ESG scores to check ESG risk bias and other factors.

What is impact investing?

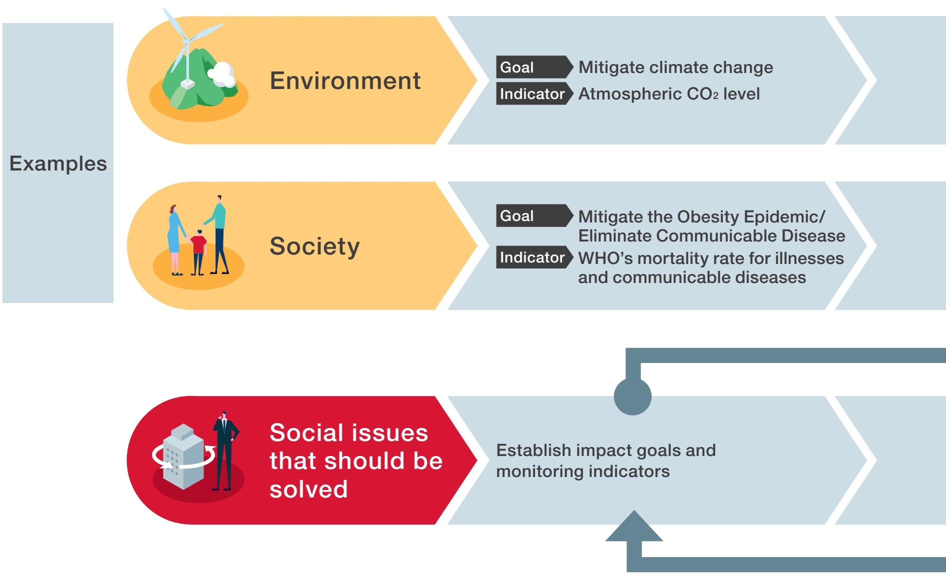
At Nomura Asset Management, we believe that impact investing is not limited to simply having an impact on the environment or society, and we feel it is important for the impact to generate earnings and cash flows, which will ultimately be returned to asset owners and other stakeholders. In carrying out impact investing, we extensively analyze the impact that a portfolio company has on the environment and society, as well as the portfolio company's earnings/cash flows generated. At the same time, we engage with the portfolio company to help it set KPI and targets that generate impact, as well as proactively support business activities aimed at achieving them.

Impact investment is generally defined as investment that aims to create environmental and/or social impact and an economic return on investment at the same time. As opposed to the conventional two-dimensional evaluation of risk and return, impact investment requires the advanced skill of three-dimensional evaluation covering risk, return and impact. Impact investing is defined as one category of ESG investment and sustainable investment given the fact that it is expected to bring about environmental and social improvements.

The United Nations SDGs are often used as a framework for impact investing. Adopted by the

Our Impact Investment Process

Our ESG Statement is the starting point for our approach to impact investing. The statement identifies issues such as climate change, natural capital, and social responsibility (human rights, diversity and inclusion, value creation to realize well-being within society) as key topics. Through internal discussions on the above, we have set impact goals which we aim to achieve through our impact investment. These goals target urgent issues facing the world including climate change, natural capital depletion, access to healthcare, social responsibility (for example, financial services and access to drinking water). We then establish indicators to measure the degree of improvement for each established impact goal. For example, for the impact goal "Eliminate Communicable Disease,"



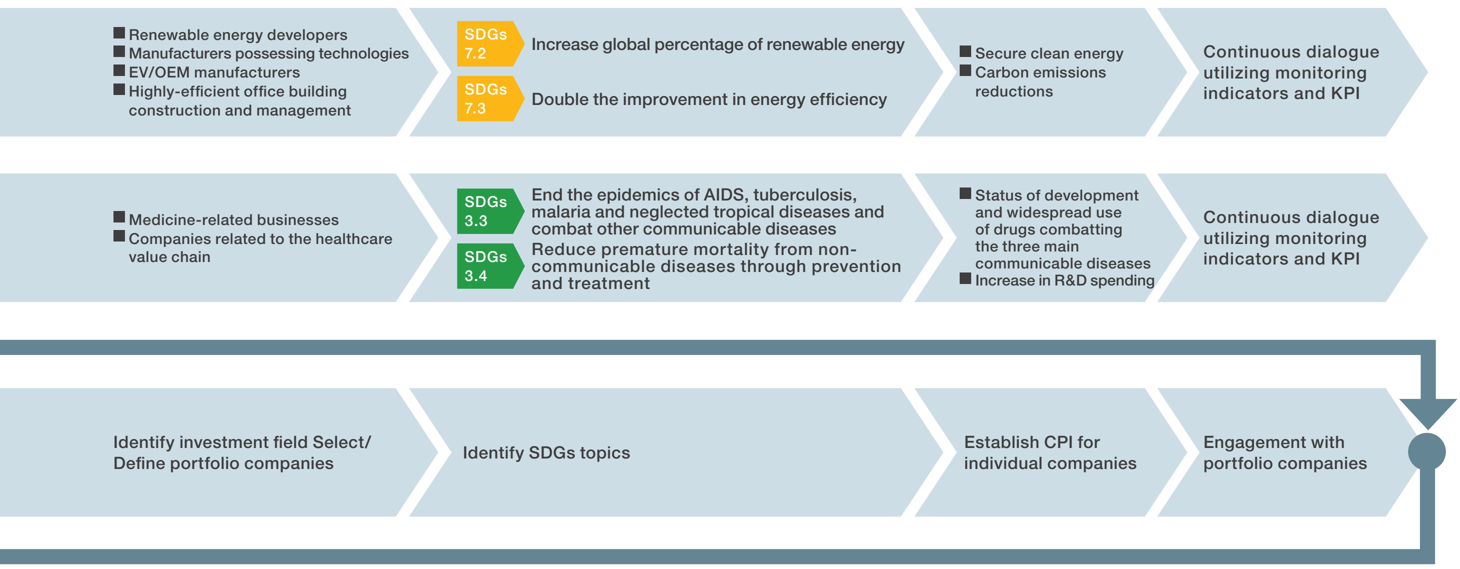
United Nations in 2015, the SDGs set forth 17 goals and 169 targets. The SDGs indicate the enormous needs of the global market and effective risk management methods that lead to returns on investments in portfolio companies, and are viewed as useful indicators for measuring the impacts on the environment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

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

we can evaluate the global progress by monitoring indicators such as mortality rates for HIV, tuberculosis, malaria, and other illnesses published by World Health Organization (WHO). Additionally, we specify further segmented areas of investment linked to these indicators, and then select companies to invest in in that area. Companies included in the investment universe are linked with the 17 goals of the SDGs, and more detailed CPI (Company Performance Indicator) are then set. Carrying out detailed and continuous monitoring of the established CPI allows us to not only appraise each company's impact, but also measure the extent of the improvement of the overall portfolio and the impact itself.

Moreover, we are encouraging companies' efforts to solve issues by engaging with portfolio companies based on what we learn from monitoring. By repeating this process, we will be able to continue to generate impacts that solve social issues while also pursuing economic returns.

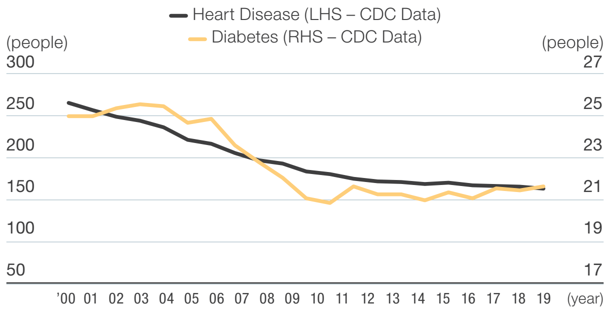
Our impact investment fund is constructed based on the so-called "outside-in" concept, in which social issues are applied to portfolio companies, and is shared within our domestic and overseas impact investment strategies.



GSE

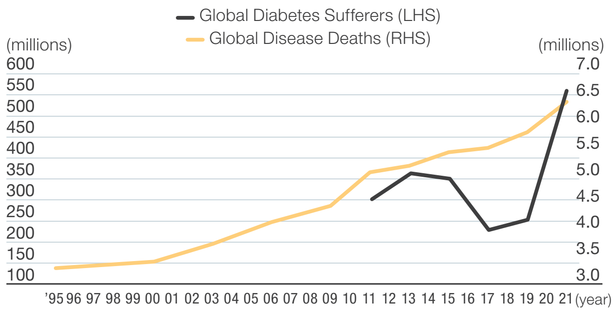
Global Sustainable Equity Strategy

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



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

Global Number of People with Diabetes and Annual Deaths



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

Nomura Global Sustainable Equity Strategy(GSE)
Lead portfolio manager

Alex Rowe

Nomura Asset Management's UK Office manages the Equity Strategy Nomura Global Sustainable Equity Fund based on the concept of impact investing. This fund not only encourages companies to tackle the key challenges facing the world today, but also imparts social impact on a variety stakeholders by encouraging them to address the sustainability of their businesses. The key is establishing impact goals and measuring their impact. By establishing monitorable indicators related to the impact goals, we can measure the degree of improvement in each country or region (developed or emerging), and at the global level. Also, we measure a variety of social impacts from the CPI of individual companies linked to the actual portfolio.

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

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

Engaging for Impact

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

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

Global Sustainable Equity Fund Impact Report 2020

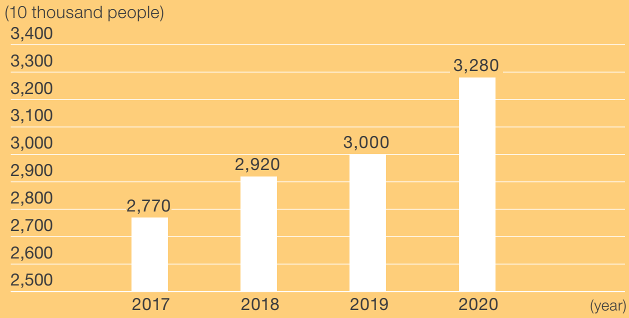
Nomura Global Sustainable Equity Strategy

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

GSE individual company's CPI

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

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

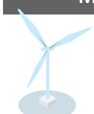


The Global Sustainable Equity Fund Investee Company Impact

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

Environment

Mitigate Climate Change



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

Mitigate Natural Capital Depletion

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

Society

Eliminate Communicable Disease/ Mitigate the Obesity Epidemic

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

Social infrastructure maintenance and productivity enhancement

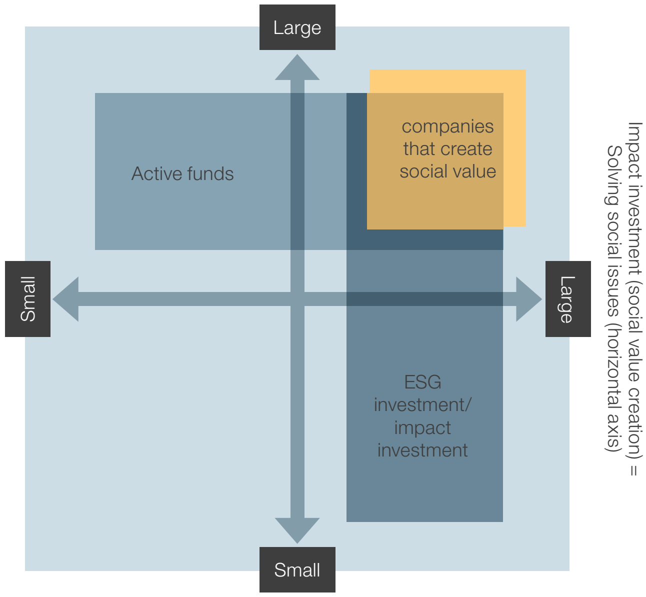
Provided **7billion** liters of clean water through filter-related products in 2020

JSEG

Japan Sustainable Equity Growth Strategy

Concept of "Japan Sustainable Equity Strategy" investment

Profit growth = Investment return (vertical axis)



Right | Portfolio Manager **Shintaro Harada**

Middle | Main Portfolio Manager **Jun Takahashi**

Left | Portfolio Manager **Kodai Sasaki**

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

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

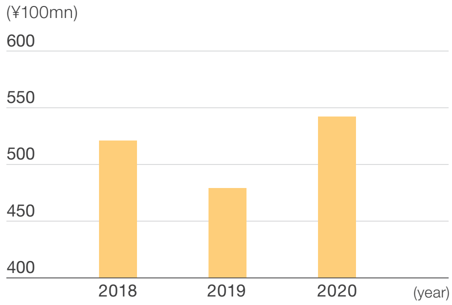
Because ESG issues involve many topics to be addressed over the medium to long term, we believe that investing in companies on the premise of long-term ownership will allow us to make investments that seek both excess returns and aim to address ESG issues. Utilizing our own ESG cores, this strategy invests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

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

JSEG individual company's CPI

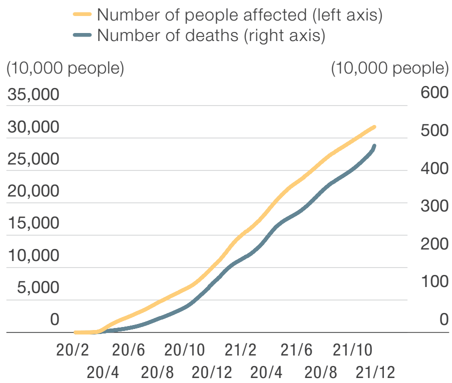
Investment Perspective	Development of drugs for the three main communicable diseases (tuberculosis, HIV, malaria) and contribution to widespread access to drugs that combat HIV in developing countries
Alignment with SDGs SDGs3.3	End the epidemics of AIDS, tuberculosis, malaria and neglected tropical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

R&D Expenses Period: FY2018-FY2020

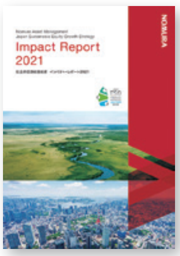


Source: Prepared by Nomura Asset Management from company reports

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



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



JSEG Impact Report 2021

Nomura Asset Management Japan Sustainable Equity Growth Strategy

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

Impact from JSEG Portfolio Companies

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

Environment

Mitigate Climate Change

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

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

Mitigate Natural Capital Depletion

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

Reduced plastic packaging, etc. by **122,000tons** by reusing plastic bottles, switching away from using plastic bottles, increasing the concentration of, and using film containers for, detergents and other products.

Society

Eliminate Communicable Disease

Provided **30 million** tablets of antifilarial medicine for neglected tropical diseases to **12 million** people

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

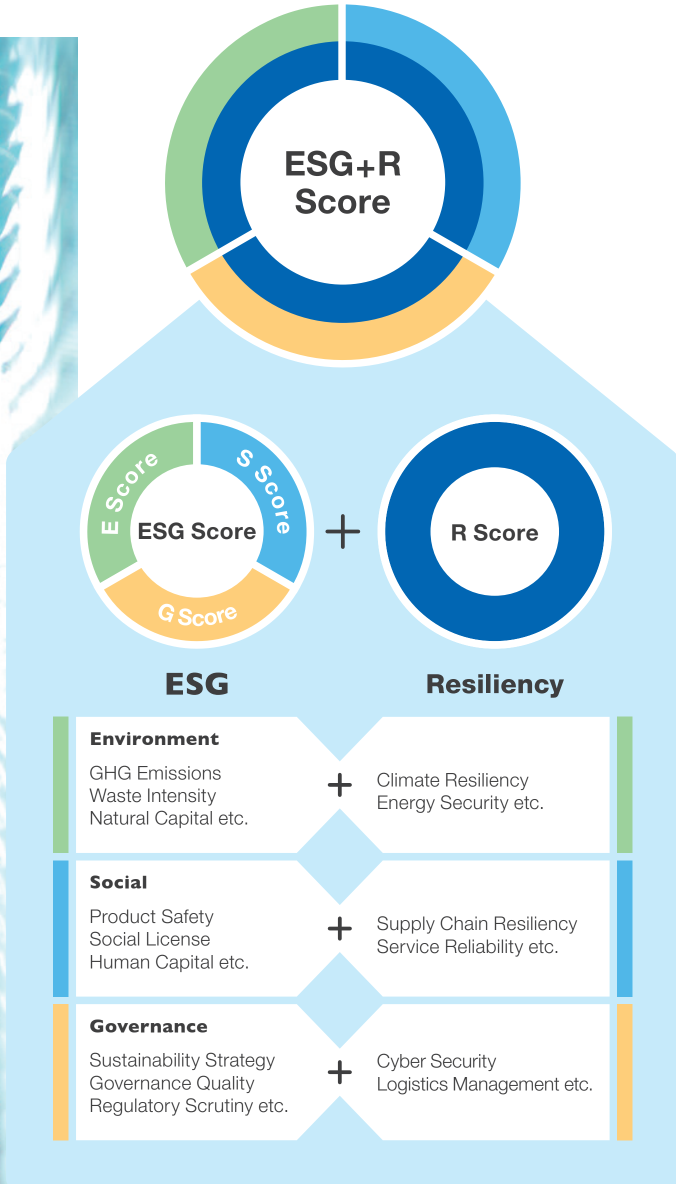
Improving Living Standards

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

Maintaining Social Infrastructure and Improving Productivity

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

IMPACT INVESTING



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

Development of ESG Integration in Fixed Income Investment

Identifying new and emerging Sustainability issues for ESG integration

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

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

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

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

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

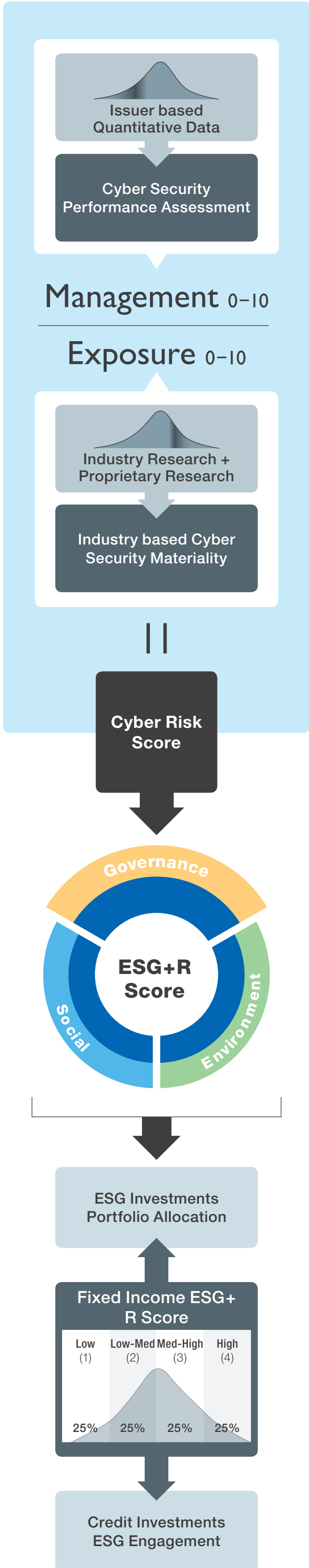
We believe “Resiliency” of investments is an increasingly important topic for investors to consider as a compliment to Sustainability. NAM credit ESG scores is built upon our own unique database of ESG factors and industry-specific factor weights, which can be flexibly upgraded by incorporating new and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

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

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

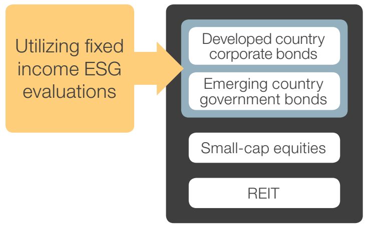
We combine these cyber risk ratings with NAM’s proprietary framework for industry-specific cyber-risk materiality. This “Materiality-adjusted Cybersecurity Performance Score” directly integrates into the NAM Credit ESG model’s assessment of Governance risk. This way, we can incorporate cybersecurity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

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



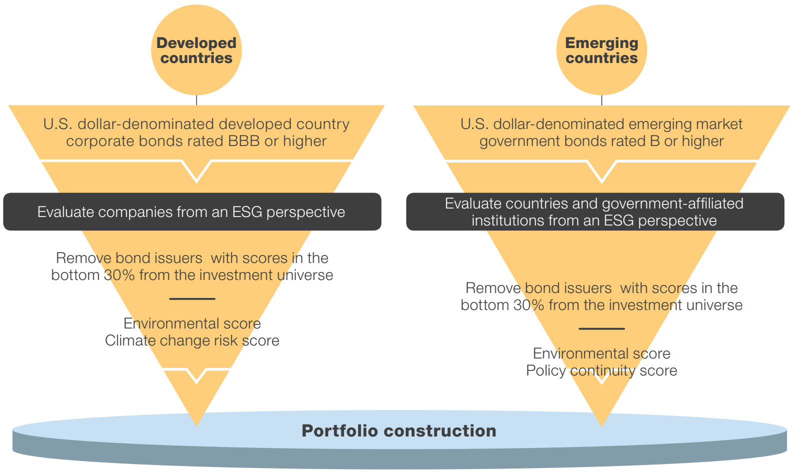
Global ESG Balance Fund

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



Investment Process

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



US Dollar-Denominated ESG Developed Country Corporate Bonds

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

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

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

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

Example of Using ESG Evaluation in Developed Country Corporate Bonds

NextEra Energy

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

Portfolio Manager
Yuka Fudeno

Senior Portfolio Manager
Sohei Koizumi

Portfolio Manager
Nanako Iwasaki

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

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

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

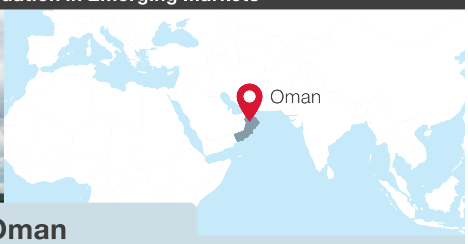
ESG evaluation is an absolutely essential element in understanding downside risk of an issuing country's creditworthiness, which is the crux of emerging market fixed income investing.

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

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

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

Example of Using ESG Evaluation in Emerging Markets



Oman

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

Emerging market bond weightings

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

Note: Weights as of January 2022.

COLUMN

Creation of a Scheme to Donate to Regional Revitalization Efforts

– Supporting hometowns through investment trusts -

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

We are proactively engaging in ESG-related activities in order to create a sustainable society and solve social issues, based on the "Drive Sustainability" concept that is a point of focus for the entire Nomura Group. Nomura Asset Management considers regional revitalization to be an important ESG issue. Currently, regional areas across Japan are working with the national government to develop their own independent initiatives for a sustainable society leveraging their unique characteristics and to solve issues facing Japan, such as the rapid decline in population and the super-aging of society. As a part of this movement, regional financial institutions are leveraging their expertise and networks to contribute to regional revitalization efforts.

Under the donation scheme, we will contribute a portion of the revenues from our ESG investment products to SDG-related local government projects throughout Japan. We will make donations once a year, based on the amount of sales of selected funds at each regional financial institution. The selected funds are the ESG funds that we, in collaboration with regional financial institutions, have determined can contribute to regional revitalization efforts. We have branded this project the "Kokorozashi" Project. In FY2021, we planned to donate money to a total of 47 projects in 33 prefectures.

FY2020 donations

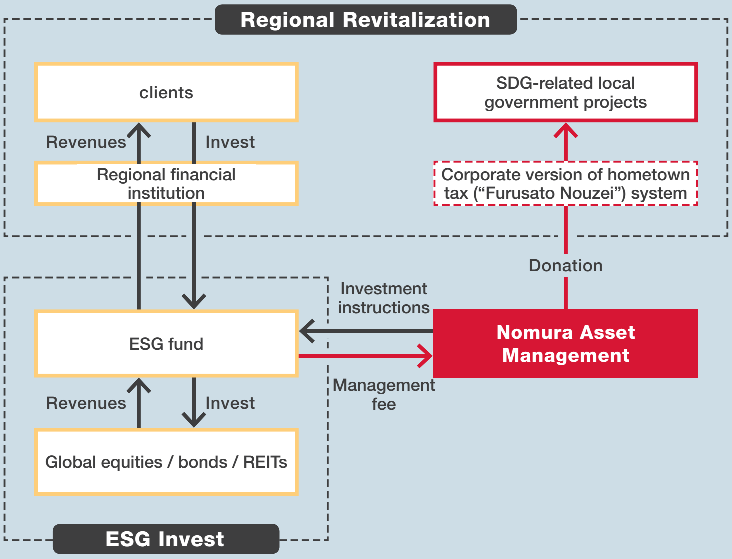
Total of 27 projects/ 19 prefectures

▼

FY2021 planned donations

Total of 47 projects / 33 prefectures

Outline of donation scheme targeting regional revitalization



"Kokorozashi" Project web page

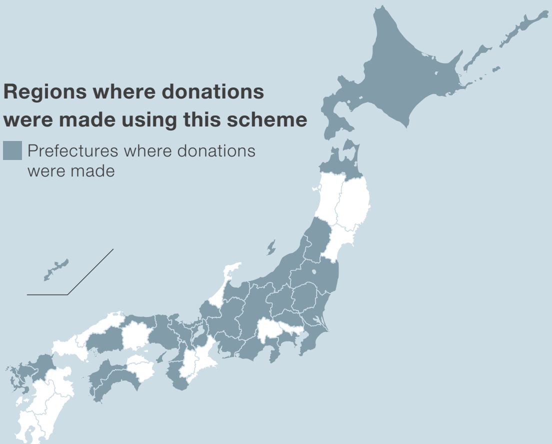

Presentation ceremony (Tochigi Prefecture)

Certificate of appreciation (Ibaraki Prefecture)

Certificate of appreciation (Kyoto Prefecture)

Regions where donations were made using this scheme

Prefectures where donations were made



Fixed Income Engagement

Distinctive Characteristics of Fixed Income Engagement

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

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

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

Strengthening Engagement in Japanese Fixed Income Investing

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

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

Right | Senior Credit Analyst
Toshihiko Suzuki

Left | Credit Analyst
Ayaka Tamura

Example of Engagement

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

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

Ex.02 Example of Dialogue about Setting Appropriate Financial Targets

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