Responsible Investment Report 2022

https://global.nomura-am.co.jp/
We create economic and social value through the asset management business
This is the philosophy of Nomura Asset Management

About Nomura Asset Management

03 Our Strengths in Responsible Investment
05 Cooperation with Overseas Offices
07 CEO Message
09 Investment Chain
11 Our Materiality
13 ESG Statement
18 PRI Assessment
19 Basic Policy for Responsible Investment
23 Towards Realizing a Monitoring Board
27 TCFD & NET ZERO GOAL (by 2050)
41 Initiatives on Human Rights
45 Biodiversity
49 Sustainable Finance and ESG Product Governance

Basic Stance on Engagement
Engagement Process and Results
Engagement on Priority Topics
Review of Priority Topics
Engagement by Analysts
Measuring the Effects of Engagement Activities
Global Equity Engagement
Global Equity Milestone Management
Engagement by Sustainalytics
Cooperation with Initiatives

The Outline of Proxy Voting / System to Manage Conflicts of Interest
Proxy Voting Process for Japanese and Global Equities
Changes in Results of Exercise of Voting Rights for Japanese Companies
Overview of Proxy Voting Standards for Japanese Companies
Changes to Proxy Voting Standards for Japanese Companies
Disclosure of Proxy Voting Results (Reasons for voting for or against proposals)
Proxy Voting FAQ

Features of Integration
Equity Integration
ESG Scores for Japanese Equities
IMPACT INVESTING (GSE, JSEG, ASE)
Fixed Income Integration
Global Net-Zero Bond Product
Global ESG Balance Fund Product
Fixed Income Engagement

Messages from the Responsible Investment Council
Results of Self-Evaluation of 2022 Stewardship Activities
Nomura Asset Management’s ESG Communication Activities
Review of 2022, 2023 and Beyond

About photos in this report: Photos for this report were taken with the room doors open and adequate ventilation, and the size of the photography crews was limited to avoid overcrowding.
Nomura Asset Management

Our Strengths in Responsible Investment

Long-term commitment to responsible investment

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

Systematic and Continuous ESG-related Initiatives

Our company’s second strength is our systematic and ongoing efforts for ESG-related issues addressing the needs and changes of the times. Examples of our efforts include the establishment of the Responsible Investment Committee as the highest decision-making body for responsible investment and the Responsible Investment Council which supervises the Committee, the establishment of policies including the ESG Statement, engagement and proxy voting in order to realize desirable management, as well as providing information to stakeholders through disclosure materials such as the Responsible Investment Report and the TCFD Report. We are also enhancing ESG from an organizational perspective. For example, we established the Sustainability Development Department in order to advance business operations with an emphasis on sustainability, while we created the Net Zero Strategy Department to bolster our efforts to address climate change.

Historical timeline of ESG initiatives:

- 2001: Proxy Voting Committee established for TCFD
- 2004: Responsible Investment Committee established
- 2011: ESG Committee established
- 2015: Responsible Investment Committee established
- 2016: Net Zero Strategy Department established
- 2017: Proxy voting results disclosed individually
- 2019: Support for TCFD, including our company’s action plan to tackle climate change.
- 2020: Global and highly-diverse investment and research framework established
- 2021: Strengthening our efforts to address climate change.

Global Approach and Diversity

Our company’s third strength is our global and highly-diverse investment and research framework. Based on our platform for responsible investment, we have established an ESG investment and research framework made up of portfolio managers, corporate analysts, and ESG specialists working in one of the largest active management institutions in Japan, all of whom are committed to applying their analytical abilities and insights to responsible investment.

Inclusive Discussions based on a Strong Organizational Platform

Our company’s fourth strength is our emphasis on having “exhaustive discussions” that incorporate diverse opinions under a strong organizational platform.

The Responsible Investment Council was established as a body to oversee discussions by the Responsible Investment Committee in real-time. It manages conflicts of interest with highly-independent outside directors and outside experts accounting for a majority of its members. In addition, the Responsible Investment Committee comprises members possessing abundant investment and research experience. The Committee held a total of 19 meetings in 2022. During discussions by the Committee about agenda proposals and ESG themes, matters can often be complicated. Members of the Responsible Investment Council also sit in on Committee meetings and actively participate in discussions without limiting themselves to only monitoring conflicts of interest.

Responsibility Investment Committee Meetings January – December 2021

- Regular meetings: 19 times
- Ad hoc meetings: 8 times

Responsibility Investment Council

- Regular meetings: 15 times
- Ad hoc meetings: 4 times
At Nomura Asset Management, we work globally to strengthen our ESG initiatives based on our global platform for responsible investment.

By utilizing this common platform, we are not only able to promote ESG initiatives at each office, but offices can also share detailed information with one another. Our ESG Statement is shared globally, and allows for a common understanding of the goals behind our ESG-related activities as well as ESG-related issues (refer to Pages 13-17).

For proxy voting (excluding Japanese equities), we generally decide to vote in favor of or opposition to an issue in accordance with our Global Basic Policy on Proxy Voting. However, if the portfolio managers and analysts possessing a deep understanding of local conditions determine it to be necessary, we may, upon deliberation, make a decision that differs from the basic policy on proxy voting. The final decision is then shared with all offices, and proxy voting is then carried out uniformly on a global basis (refer to Page 77).

In terms of integration, climate change analysis tools are used to evaluate the climate change risks and opportunities for portfolio companies and for each fund (refer to Pages 29-39), and in addition to sharing our ESG scores among all offices, ESG data from external sources and other data are incorporated and used to make investment decisions. The details of engagement with companies whose stocks our funds hold are shared with portfolio managers and utilized in discussions about whether to continue holding the stocks in question (refer to Pages 87-88).

* In March 2022, Nomura Asset Management UK was approved by the Financial Reporting Council (FRC) as a signatory to the UK Stewardship Code 2020.
While the global turmoil caused by the pandemic’s onset in 2020 is in the process of abating, we face prolonged turmoil of a different form due to Russia’s invasion of Ukraine.

In recent years, we have become more aware of various social issues facing society, including those many daily life issues triggered by the pandemic, regional or country-based issues, and those on a global scale. Moreover, in addition to our awareness, we also realize that immediate action is required to address these issues.

For example, during the pandemic, issues related to the distribution of vaccines to medium- and low-income nations became a point of focus. We are involved in an initiative related to the distribution of medicines that conducts ongoing engagement with investee companies, and we have observed a certain level of success in improving vaccine distribution to these countries. This once again highlighted the importance of engagement with investee companies.

As a responsible investor, we are working to address the global issue of climate change, both through investment in transition bonds*1 (bonds that finance the construction of new renewable energy facilities), as well as via engagement (constructive dialogue) with investee companies, which includes encouraging them to obtain approval from the SBT*2 initiative to achieve a net-zero goal. Our goal is to realize both social and economic value through our asset management business.

In order to realize this value, a proper understanding of ESG-related regulations is critical. Europe is the global leader in terms of sustainability-related regulations. In order to offer the best ESG products to our clients, we must keep a close watch on global ESG regulatory trends and be aligned with those levels.

In addition to having an investment office in the UK, as a Japanese asset management firm we are also certified by FRC*3 under the UK Stewardship Code. On top of this, our UK office manages impact funds, and offers them to customers in both Europe and Japan as ESG products. We are able to provide ESG products compliant with rigorous standards by sharing the knowledge aligned with global standards within the company.

Meanwhile, as a responsible investor, in addition to issues on a global scale, we must also take action to solve social issues set forth in the SDGs that are closely linked to our daily lives, including health and human rights issues. The core idea to solving these social issues is the investment chain (virtuous cycle of investment). As an asset management firm, we aim to realize a sustainable and prosperous society by connecting investors and companies through investment. Companies that generate economic profits are fully capable of contributing to a sustainable and prosperous society.

This is the core of our investment chain philosophy. Creating a virtuous cycle of sustainable investment is necessary in order to solve various social issues. In order to support this virtuous cycle, engagement (constructive dialogue) between asset management firms and investee companies is essential. Based on this kind of dialogue, we want to help companies realize what we view as desirable management and enhance their corporate value, as well as encourage them to undertake ESG/SDG-related initiatives.

When Nomura Group was founded more than 90 years ago, one of the founding principles was “To enrich the nation through the securities business.” This principle is proof of Nomura’s unwavering commitment to realize a more prosperous society, and it is present in Nomura Asset Management’s efforts to solve social issues and thereby realize a sustainable society.

As a responsible investor, we work to solve social issues facing the world, countries and regions.

We will realize both social and economic value through the asset management business.

We aim to realize a sustainable and prosperous society through the investment chain (virtuous cycle of investment).

Hiroyasu Koike
President & CEO
Nomura Asset Management Co., Ltd.
Realizing a desirable society through the investment chain

NOMURA ASSET MANAGEMENT

NAM’s vision for society

- Excerpt from Nomura Asset Management’s ESG Statement -

We seek to realize a sustainable, prosperous society in which the rich natural environment is preserved, diverse human capital is utilized, economic development is driven by technological innovation, human rights are respected, and well-being is promoted. It is a society in which ESG issues are addressed and the SDGs are achieved.

GOALS

1. Strengthening the Investment Chain
2. Realizing a Healthy Global Environment
3. Realization of a Society in which Human Rights are Respected
4. Corporate Value Improvement through Governance

1. Appropriate Initiatives on environmental/social issues
2. Value creation through efficient use of capital
3. Exercise of corporate governance functions
4. Appropriate information disclosure and dialogue with investors

1. Responsible Investment Council
2. Reporting
3. Funding, monitoring
4. Portfolio managers
5. Analysts
6. ESG specialists
7. Responsible Investment Committee
8. Oversight, verification, advice, etc.
9. Investment and research division
10. Realization of a Healthy Global Environment
11. Realization of a Society in which Human Rights are Respected
12. Corporate Value Improvement through Governance

ESG INTEGRATION

PROXY VOTING

ENGAGEMENT

Clients (individual investors, pension funds, etc.)

Prosperous society

ESG INTEGRATION

PORTFOLIO MANAGERS

ANALYSTS

ESG SPECIALISTS

INVESTMENT AND RESEARCH DIVISION

REALIZATION OF A SOCIETY IN WHICH HUMAN RIGHTS ARE RESPECTED

CORPORATE VALUE IMPROVEMENT THROUGH GOVERNANCE

STRENGTHENING THE INVESTMENT CHAIN

REALIZING A HEALTHY GLOBAL ENVIRONMENT

VALUE CREATION THROUGH EFFICIENT USE OF CAPITAL

EXERCISE OF CORPORATE GOVERNANCE FUNCTIONS

APPROPRIATE INITIATIVES ON ENVIRONMENTAL/SOCIAL ISSUES

APPROPRIATE INFORMATION DISCLOSURE AND DIALOGUE WITH INVESTORS

Responsible Investment Report 2022
### Key issues (materiality) targeting the realization of the investment chain

Nomura Asset Management announced its materiality in the Responsible Investment Report 2020. After engaging in deep internal discussions aimed at solving our materiality and based on advice from the Sustainability Advisory Board, in 2022 we established and announced KPIs and further promoted business operations with an emphasis on sustainability as an asset management firm. We will continue to ascertain our progress and accelerate our efforts aimed at achieving our goals, as we strive to realize a sustainable and prosperous society.

#### Materiality map

<table>
<thead>
<tr>
<th>Goal</th>
<th>Materiality</th>
<th>Objectives</th>
<th>Key initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strengthening the Investment Chain</td>
<td>Provision of excellent products and services that help clients build wealth</td>
<td>We will respond to clients’ various asset management needs, and provide excellent investment performance</td>
<td>In addition to traditional assets, expand investment in areas such as ESG and alternative investments, and further improve asset allocation capabilities</td>
</tr>
<tr>
<td>2. Realizing a Healthy Global Environment</td>
<td>Provision of financially and education economic and environment</td>
<td>We will promote the practical functional of corporate governance in order for portfolio companies to achieve their established corporate philosophies and management targets</td>
<td>Promotion of diversity and inclusion through engagement with portfolio companies</td>
</tr>
<tr>
<td>3. Realization of a Society in which Human Rights are Respected</td>
<td>Creation of various committees</td>
<td>We will promote DEI&amp;B (Diversity Equality Inclusion &amp; Belonging) within Nomura Asset Management, in order to continuously create added value by allowing diverse human resources to display their abilities and individuality</td>
<td>Development of awareness of employees’ health status and conduct medical health checks</td>
</tr>
<tr>
<td>4. Corporate Value Improvement through Governance</td>
<td>Effective management and client convenience through digitalization</td>
<td>We will utilize cutting-edge technologies to the maximum extent possible and provide clients with more investment opportunities and added value</td>
<td>Promotion of diversity and inclusion through engagement with portfolio companies</td>
</tr>
<tr>
<td>5. Support for regional revitalization</td>
<td>Promotion of financial and economic education</td>
<td>In order to familiarize potential customers with investment trusts, we will promote financial and economic education and work to expand the investor base</td>
<td>Development of awareness of employees’ health status and conduct medical health checks</td>
</tr>
<tr>
<td>6. Preservation of Natural Capital</td>
<td>Solving social problems through investment</td>
<td>We will work with regional financial institutions to create a strong movement for regional revitalization originating from regional financial institutions</td>
<td>Establishment of corporate training to improve employees’ awareness of ESG issues</td>
</tr>
<tr>
<td>7. Realization of ESG (Diversity Equality Inclusion &amp; Belonging)</td>
<td>Solving social problems through investment</td>
<td>We will promote DEI&amp;B within Nomura Asset Management, in order to continuously create added value by allowing diverse human resources to display their abilities and individuality</td>
<td>Continuous implementation of training and workshops to raise awareness of DEI&amp;S</td>
</tr>
<tr>
<td>8. Support for regional revitalization</td>
<td>Solving social problems through investment</td>
<td>We will work with regional financial institutions to create a strong movement for regional revitalization originating from regional financial institutions</td>
<td>Establishment of corporate training to improve employees’ awareness of ESG issues</td>
</tr>
<tr>
<td>9. Advance efforts to conserve natural capital</td>
<td>Solving social problems through investment</td>
<td>We will work with regional financial institutions to create a strong movement for regional revitalization originating from regional financial institutions</td>
<td>Establishment of corporate training to improve employees’ awareness of ESG issues</td>
</tr>
<tr>
<td>10. Realization of ESG (Diversity Equality Inclusion &amp; Belonging)</td>
<td>Solving social problems through investment</td>
<td>We will promote DEI&amp;B within Nomura Asset Management, in order to continuously create added value by allowing diverse human resources to display their abilities and individuality</td>
<td>Continuous implementation of training and workshops to raise awareness of DEI&amp;S</td>
</tr>
</tbody>
</table>

**Materiality selection process**

In order to realize the virtuous cycle of investment (investment chain) that we are targeting, we make a list of the issues we feel we should focus on based on the environment surrounding our company as well as our business activities.

We determine candidate issues for materiality through hearings with internal departments, while considering the degree of impact on our business activities and the amount of impact on society.

In light of Nomura Group’s Management Vision and our corporate principles, we select topics for materiality after repeated internal discussions on the importance and impact of candidate issues and the efforts to solve them.

We decide and announce our materiality following a suitability check by the Executive Management Committee. We review and adjust our materiality, as necessary, based on changes in the environment, progress in our businesses, reports to the Board of Directors, and advice from the Sustainability Advisory Board.

**Serving social problems through investment**

**STEP 1** List creation

**STEP 2** Analysis

**STEP 3** Selection

**STEP 4** Decision/ announcement

---

About Nomura Asset Management

Responsible Investment Report 2022

11

12
In both December 2021 and December 2022 we revised our ESG Statement which we originally formulated in March 2019. These revisions were made because the global economy and the circumstances surrounding ESG have been changing faster than expected, and due to the fact that we felt it was necessary to properly reflect our stance concerning stakeholder engagement and other matters into our ESG Statement.

Nomura Asset Management seeks to realize a sustainable, prosperous society in which the rich natural environment is preserved, human capital possessing diverse values are utilized, economic development is driven by technological innovation, human rights are respected, and well-being is promoted. It is a society in which ESG issues are addressed and the SDGs are achieved. In addition, we recognize that efforts to solve ESG issues in order to realize this kind of society are important for supporting a virtuous cycle in the investment chain. We believe that a critical factor for both sustainable corporate value improvement and higher investment returns is for a company to appropriately manage risks related to ESG issues, view solutions to ESG issues as new business opportunities, and properly incorporate them into management strategies. Furthermore, as a responsible investor, we encourage our portfolio companies to practice what we view as desirable management, while we ourselves will also continue to operate with a focus on ESG.

While the importance of each ESG issue differs depending on the specific characteristics of the business in question, we identify the following 6 issues as common ESG issues that are particularly important across many businesses.

- **Climate Change**
- **Human Rights**
- **Natural Capital**
- **Diversity Equity Inclusion & Belonging (DEI&B)**
- **Value Creation to Realize Well-Being Within Society**
- **Corporate governance**

**Core ESG Initiatives**

- **Climate Change**
  - The Paris Agreement, which was concluded in 2015, stipulates that efforts shall be made to limit the increase in the global average temperature to 1.5°C since before the Industrial Revolution based on scientific evidence. To achieve this goal, it is necessary to reach net-zero global greenhouse gas emissions by 2050. We believe that companies must address climate change issues from the perspective of both risk management and the pursuit of business opportunities in order to achieve sustainable improvement of corporate value.

- **Natural Capital**
  - Companies benefit from biodiversity through the utilization of forests, water sources, and other natural capital in their business activities. We believe that companies must exercise proper risk management in relation to activities that could negatively impact natural capital and biodiversity, as well as pursue business opportunities that solve social issues, such as the preservation of natural capital and biodiversity.

- **Corporate governance**

**High Priority ESG issues**

- **Climate Action 100+**
  - An investor initiative in which institutional investors collaborate (group engagement) to encourage the world’s largest corporate greenhouse gas emitters to disclose information related to climate change and respond accordingly.

- **PCAF (Partnership for Carbon Accounting Financials)**
  - An international initiative established in the Netherlands in 2015 to create a standard method for measuring and disclosing greenhouse gas emissions. The PCAF Japan Coalition was established in November 2021, and Nomura Asset Management has been a member since its establishment.

- **FAIRR (Farm Animal Investment Risk and Return)**
  - A livestock industry-related institutional investor initiative launched in 2015 by Jeremy Coller, the founder of Coller Capital (U.K.). The initiative educates people about livestock industry risks, including the impact on the environment, as well as food safety (antibiotics) issues.
About Nomura Asset Management

To help low- and middle-income countries who have limited access

Founded in 2003 by Dutch entrepreneur Wim Leereveld. The
realizing such gender diversity.

the importance of gender diversity within senior management and
management of portfolio companies, with the aim of highlighting

A group of asset owners and asset managers that engages in
issues represent important business opportunities for companies, and could lead to sustainable improvement of corporate value.

Well-being refers to a state in which all people can seek happiness and live healthy lives. Well-being in society is realized by

We support

Human Rights
Corporate business activities involve a large number of people including employees and local residents, which is even
broader when the supply chain is considered. Companies are expected to exercise proper risk management to ensure that
their activities do not infringe upon human rights. We believe that companies must exercise human rights due diligence and other forms of proper human rights risk management in order to achieve sustainable improvement of corporate value.

Diversity Equity Inclusion & Belonging (DEI&B)
In order to realize sustainable improvement in corporate value, we believe that it is necessary for companies’ human capital to be comprised of people with diverse values without regard to factors such as gender, nationality, race, or age, and for companies to create a corporate culture that provides equal opportunities to employees and that welcomes diversity and inclusion. In addition, we feel that it is critical for companies to foster a sense of unity under which senior management and employees share a sense of purpose to sustainably improve corporate value.

Well-Being
Well-being refers to a state in which all people can seek happiness and live healthy lives. Well-being in society is realized by solving social issues in a variety of fields. Specific examples include health and safety, education and intelligence, and regional revitalization. In our view, the development and provision of products and services that contribute to addressing these social issues represent important business opportunities for companies, and could lead to sustainable improvement of corporate value.

Diversity Equity Inclusion & Belonging (DEI&B)
A group of asset owners and asset managers that engages in constructive dialogue with the boards of directors and senior management of portfolio companies, with the aim of highlighting the importance of gender diversity within senior management and realizing such gender diversity.

Well-Being
Well-being refers to a state in which all people can seek happiness and live healthy lives. Well-being in society is realized by solving social issues in a variety of fields. Specific examples include health and safety, education and intelligence, and regional revitalization. In our view, the development and provision of products and services that contribute to addressing these social issues represent important business opportunities for companies, and could lead to sustainable improvement of corporate value.

Corporate governance
Corporate governance is a structure for transparent, fair, timely and decisive decision-making by companies. From this perspective, the board of directors is responsible for the supervision of management, while nominations, compensation, and audits are the means to ensure the board fulfills its role. We believe that companies must strengthen corporate governance so that their management can properly manage various risks including the ESG issues mentioned above, while pursuing business opportunities to achieve sustainable improvement of corporate value.

Non-binding action principles advocated by then UN Secretary-General, Kofi Annan, at the Davos Forum in 1999. It encourages businesses and groups worldwide to take actions in the areas of human rights, labor, the environment and preventing corruption.

Access to Medicine Index
Founded in 2003 by Dutch entrepreneur Wim Laarveld. The organization encourages the pharmaceutical industry to do more to help low- and middle-income countries who have limited access to medicine. Signatories support the foundation’s index.

Access to Nutrition Initiative
Founded in 2013 by Dutch businesswoman Inge Kauer. Using proprietary analytical tools, the Initiative evaluates the level of response by the food and beverage industry to the two global nutritional issues of overnutrition and undernutrition, and urges the food and beverage industry to improve the dietary habits of adults and children around the world.

Other ESG Related Initiatives

21世紀金融行動原則
Environment Programme – Finance Initiative
UNEP FI

UNEP FI is a partnership established between the United Nations Environment Program (UNEP) and financial institutions worldwide.

Since its establishment in 1992, UNEP FI has been cooperating with financial institutions and regulatory authorities to promote a shift to a financial system that integrates economic development with ESG considerations.
Our Activities

Stewardship Activities
Through our activities, including proxy voting and constructive dialogue (engagement), we encourage the management of portfolio companies to manage risks and pursue business opportunities that are associated with ESG issues and also to disclose information in accordance with relevant global initiatives.

Business Opportunities
We place particular focus on the realization of well-being within society when viewing business opportunities associated with ESG issues. We encourage portfolio companies to properly incorporate the realization of well-being within society into their management strategies and to quantify outcomes and disclose them along with the relevant targets.

Investment Decisions
We assess our portfolio companies’ initiatives to address ESG issues based on our own standards from the perspectives of both risks and opportunities and incorporate the results in our investment decisions. If we assess a company’s initiatives as insufficient, or if we determine that the issues cannot be solved through engagement, it may result in divestment or exclusion from our investment universe.

Monitoring
We conduct monitoring based on global initiatives, including the Task Force on Climate-related Financial Disclosures (TCFD), in order to ascertain the status of ESG issues in our investment portfolio. Specifically, we monitor greenhouse gas emissions and other factors.

Our Business Activities
We recognize that business activities that take into account social value creation are important elements for realizing a sustainable and prosperous society. We strive to contribute to asset formation by offering our investment universe.

Initiatives
We participate in international initiatives and actively embrace accepted standards and norms. Through these initiatives, we conduct engagement jointly with other institutional investors and share best practices by actively cooperating with a wide range of stakeholders.

Governance and Disclosure to Promote ESG
At Nomura Asset Management, important decisions on management execution including this Statement are made by the Executive Management Committee, which consists of senior executives, to whom the proper authority has been delegated by the board of directors. We have established the Investment Policy Committee and the Responsible Investment Committee as the highest decision-making bodies in investment decisions and responsible investment to address ESG issues within a proactive framework. We have also established the Conflict of Interest Management Policy as well as a Responsible Investment Council and a Fund Business Operation Council, which have oversight for our responsible investment activities and products to ensure their appropriateness and validity. In addition, in order to properly fulfill our accountability, we will actively work on information disclosure regarding the above-mentioned “our activities”.

Results of the 2021 PRI Assessment
With respect to our responsible investment efforts in January – December 2020, under the new assessment methodology we obtained the highest score of “Five Stars” for a total of six modules, including our overall policy and five (5) out of 10 direct modules.

Nomura Asset Management Co., Ltd. (NAM), the core company within the Investment Management Division of Nomura Group, received the highest rating of “Five Stars” in six Modules in the 2021 Principles for Responsible Investment assessment. This assessment involved NAM’s initiatives in 2020 spanning a total of 6 modules.

The Principles for Responsible Investment (PRI) were formulated in 2006 to encourage the incorporation of environmental, social, and governance (ESG) factors into the actual investment analyses and decision-making processes of investors. NAM became a PRI signatory in March 2011. The PRI secretariat assesses the implementation status of responsible investment on a five-star scale for each module based on reports that PRI signatories submit. NAM received the highest rating of “Five Stars” in Investment & Stewardship Policy, three modules for Direct Listed Equity, and two modules for Direct Fixed Income. The scores for each of these modules also greatly exceeded the respective median values.

2021 PRI Assessment results

<table>
<thead>
<tr>
<th>Module score</th>
<th>Module median</th>
<th>Star score</th>
<th>AUM coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active quantitative incorporation</td>
<td>100</td>
<td>65</td>
<td>★★★★★</td>
</tr>
<tr>
<td>Active fundamental</td>
<td>100</td>
<td>71</td>
<td>★★★★★</td>
</tr>
<tr>
<td>Passive</td>
<td>90</td>
<td>35</td>
<td>★★★★</td>
</tr>
<tr>
<td>Listed equity</td>
<td>89</td>
<td>61</td>
<td>★★★★</td>
</tr>
<tr>
<td>Active fundamental voting</td>
<td>89</td>
<td>54</td>
<td>★★★</td>
</tr>
<tr>
<td>Investment trusts</td>
<td>89</td>
<td>60</td>
<td>★★★★</td>
</tr>
<tr>
<td>Passive</td>
<td>89</td>
<td>57</td>
<td>★★★</td>
</tr>
<tr>
<td>Fixed income</td>
<td>SSA</td>
<td>92</td>
<td>50</td>
</tr>
<tr>
<td>Corporate</td>
<td>-</td>
<td>91</td>
<td>62</td>
</tr>
<tr>
<td>Hedge funds Long/short credit</td>
<td>-</td>
<td>0</td>
<td>29</td>
</tr>
<tr>
<td>Passive</td>
<td>-</td>
<td>67</td>
<td>57</td>
</tr>
<tr>
<td>Listed equity</td>
<td>Active</td>
<td>74</td>
<td>67</td>
</tr>
<tr>
<td>Passive</td>
<td>-</td>
<td>68</td>
<td>43</td>
</tr>
<tr>
<td>Active</td>
<td>-</td>
<td>75</td>
<td>57</td>
</tr>
</tbody>
</table>

*In the PRI Assessment Report, Nomura Asset Management was assessed on a total of 15 modules. Please refer to the reports listed below for more information on all assessments, including indirect modules.

On November 1, 2022, the Responsible Investment Committee revised items related to “1. Proper Efforts on Environmental and Social Issues” and “3. Adequate Performance of Corporate Governance Function” within the “Basic Policy for Responsible Investment.” The basic policy for responsible investment defines our concept and specific approaches to responsible investment, and includes details regarding the “appropriate management practices” expected of investee companies and the engagement and voting rights to achieve this.

In order for investee companies to enhance corporate value and achieve sustainable growth, stipulate the “Ideal Form of Business Management of Investee Companies” * and encourage investee companies to realize it. Stipulate “Basic Principles of Engagement” and “Global Proxy Voting Policy” and give encouragement to investee companies from a fair and consistent posture. Reflect the status of engagement in proxy voting.

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

Basic Principles of Engagement/ Global Proxy Voting Policy
https://global.nomura-am.co.jp/responsibility_investment/pdf/basic_policy.pdf

*Ideal Form of Business Management of Investee Companies
About Nomura Asset Management

Companies need to make important and efforts that portfolio a company to be accepted as a prerequisite for sustainable growth. We also see of business opportunities will lead of risk management and the pursuit social issues from the perspectives We believe that making proper

1. Basic Policy
   - Establishment of a basic policy regarding the company’s efforts on ESG issues
   - Establishment of a system to promote and oversee those efforts

2. Key Issues (Materiality):
   - Identification of key issues by the management
   - Responses to and disclosure of risks that are identified as key issues (e.g., data security, product liability, etc., as well as those listed in 3 through 7)
   - Disclosure of business opportunities that are identified as key issues

3. Climate Change:
   - Participation of business portfolio and promotion of technological innovation to respond to the climate change issue
   - Information disclosure based on the report published by the Task Force on Climate-related Financial Disclosures (TCFD), which is consistent with the Paris Agreement
   - Setting of a net zero target for medium- to long-term greenhouse gas (GHG) emissions
   - Approval of or commitment to science based targets (SBTs)
   - Measurement of GHG emissions and absorption including Scopes 1-3 under the international standards for the accounting and reporting of GHG emissions
   - End introduction of internal carbon pricing

4. Natural Capital:
   - Development of measures and goals for prevention of deforestation, marine pollution, or air pollution
   - Sustainable use of water resources, timber, or marine products
   - Reduction of waste, and promotion of recycling

5. Human Rights:
   - Development of a policy on human rights at investee companies that is consistent with international norms
   - Human rights due diligence or audits including supply chain
   - Effective action and relief mechanism
   - Disclosures of due diligence results

6. Diversity and Inclusion:
   - Setting a medium- to long-term target for the promotion of women among board members, senior executives, or managers
   - Personnel system to prevent employees from leaving employment due to a life event, creation of a corporate culture that embraces diversity and inclusion
   - Strategy to bring out the best of human resources with diverse values

7. Well-being:
   - Financial and marketing strategies that turn the resolution of social issues, such as health and safety, education and intelligence, and regional revitalization into business opportunities
   - Measurement and disclosure of progress toward the resolution of social issues and personal systems and employee engagement to realize well-being in the company
   - Cooperation with stakeholders, such as participation in initiatives that are related to the issues listed above

8. Adequate Performance of Corporate Governance Function
   - We believe that it is necessary for a company to have sufficiently functioning corporate governance as a prerequisite for value creation through the efficient utilization of capital and proper efforts on environmental and social issues. We believe that the appropriate corporate governance format to realize this is as shown on the right.

Value Creation through Capital Efficiency
NAM believes that in order for investee companies to enhance corporate value and achieve sustainable growth, it is necessary for investees to create value that exceeds the cost of capital over the medium to long term by utilizing capital efficiently under proper risk management and constructing a business portfolio that has a high growth potential and is efficient. To this end, we consider that the following efforts are particularly important:

1. To formulate a growth strategy and an investment plan to create value that exceeds the cost of capital and to conduct proper progress management;
2. To verify the business portfolio against the growth strategy and replace businesses in the portfolio as necessary;
3. To sell assets that do not contribute to the creation of value that exceeds the cost of capital and, in particular, to reduce cross-shareholdings;
4. To implement group governance to enable the optimal allocation of management resources, etc.;
5. To properly manage the risks associated with businesses, etc.;
6. To implement a capital structure and shareholder returns that reflect 1 through 5 above; and
7. To properly disclose information about 1 through 6 above.

The board consists of an adequate number of qualified and diverse members who have the ability and experience to supervise the execution of management and any conflict of interest with the management, controlling shareholder, or any other parties on behalf of shareholders and functions effectively.

The audit committee, audit and supervisory committee or the board of auditors consists of qualified members who are capable of auditing directors’ operations on behalf of shareholders and functions effectively.

Committees relating to nomination and compensation have been established, each of which consists of qualified and independent members and adequately fulfills the necessary roles and responsibilities in 4 and 5 below.

Standards and processes to determine whether the replacement of senior executives is required have been established, and a succession plan in case of such replacement has been formulated.

Compensation of senior executives is appropriate as their incentive and commitment for value creation through the efficient utilization of capital and proper efforts on environmental and social issues.

The board makes appropriate judgment in the best interest of minority shareholders on any transaction involving a conflict of interest or fight for control of the company.

In our view, as anti-takeover measures limit the rights of shareholders to buy and sell shares freely, they are unnecessary unless there is a risk that such a transaction or fight will significantly impair corporate value and the common interest of shareholders.

Corporate governance systems are in place to ensure sufficient internal control in terms of compliance and internal auditing.

Comply with laws and regulations, and properly respond to the Corporate Governance Code.

Adequate Information Disclosure and a Dialogue with Investors

NAM believes that companies need to uphold their accountability through timely and proper public disclosure of the matters stated in 1 through 3 above in order for us to precisely grasp the state of investee companies and that they also need to engage in dialogues actively with investors to properly reflect investors’ opinions in their business management.

If the companies have found to have engaged in any activity that is materially harmful to corporate value, we will request sufficient disclosure and explanations on investigations of cause, clarification of where responsibility lies, and the formulation and dissemination of effective recurrence countermeasures.
Towards Realizing a Monitoring Board

About Corporate Governance

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

The Corporate Governance (CG) Code defined CG as above and was launched in June 2015. At the time, many companies struggled to secure two independent outside directors, but today the majority of companies have more than one-third independent outside directors, and it is not uncommon for companies to have a majority of independent outside directors. In addition, more than 80% of companies did not have nomination and compensation committees, but today more than 80% of companies do. Since the CG Code defines CG as a “mechanism for decision-making”, the bolstering of these systems is an outcome of the CG Code. If the system (mechanism) is a formal requirement, the requirement for effectiveness is “transparency, fairness, promptness, and decisiveness.” For decision-making to be transparent, it is necessary to clarify who is responsible for decision-making. Specifically, it is a requirement that the management (especially chairperson and president), swift and decisive decision-making will be possible. As shown in the figure below, such decision-making can be organized along a PDCA cycle. While it is important for the management team to have the PDCA cycle function autonomously, especially at the “Check” stage, independent outside directors play a central role, adding an element of autonomous management supervision, which contributes to transparency and fairness. Traditionally, in Japan, a management board that emphasizes “Do” has been the mainstream, but we believe they should shift to being a monitoring board with “Check” as the main role. The CG Code stipulates that the roles and responsibilities of independent outside directors include “Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management,” so these can be said to be in alignment. Concerning a monitoring board, the delegation of authority tends to attract attention, but it should be understood as a mechanism that makes the PDCA function as a series of processes centered on “Check.”

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

Nomura Asset Management supports the transition to a monitoring board

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of independent outside directors</th>
<th>Ratio of independent outside directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>12.3% 38.6% 36.3% 8.2% 2.8% 1.8%</td>
<td>1.5% 14.6% 83.9%</td>
</tr>
<tr>
<td>2022</td>
<td>0.1% 0.7% 14.4% 37.8% 26.3% 20.7%</td>
<td>12.1% 80.4% 7.5%</td>
</tr>
</tbody>
</table>

Status of Nomination and Compensation Committees

<table>
<thead>
<tr>
<th>Year</th>
<th>either has been established</th>
<th>neither have been established</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>13.4%</td>
<td>86.6%</td>
</tr>
<tr>
<td>2022</td>
<td>86.6%</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

Nomura Asset Management supports the transition to a monitoring board

We expect companies to transit to this

Advisory board

- Management decision-making, advice to management team
  - Centered on inside directors (management team), but there are also a minority of outside directors

Management board

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

Monitoring board

- Main roles and responsibilities
- Member composition
  - Centered on outside directors

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

If we determine the company to have a monitoring board

- We will respect the board of directors’ supervisory function.
- We will ease standards related to executive compensation (becomes easier to vote in favor of proposals).
- We will ease business performance standards related to director appointments (same as above).

If not determined to be a monitoring board

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

The effectiveness of the supervisory function is what is important, and through proxy voting and engagement we urge companies to increase effectiveness. So as not to end up encouraging merely perfunctory transitions, our proxy voting standards include the following.

- Show the requirements for determining whether or not a board falls under the category of a monitoring board.
- If the board does fall under the category of a monitoring board, we will ease the requirements for voting in favor of company proposals related to business performance standards and some standards related to executive compensation.
- We will not oppose company proposals on the reasoning that the company’s board does not fall under the category of a monitoring board.
- Even if the board does not fall under the category of a monitoring board, we will ease the requirements for voting in favor of company proposals related to executive compensation for companies establishing compensation governance as an initiative aimed at transitioning to a monitoring board.
- If outside directors failed to fully fulfill their expected roles, we will vote against the re-election of outside directors.

The company does not hold strategic shareholdings in excess (for financial institutions: less than 25% of net assets; for non-financial companies: less than 10% of invested capital)

The company has increased the number of outside directors with management experience. There is no nomination or compensation committee chairperson and president, who are the top decision-makers, others

The company has not introduced a takeover defense plan

The ratio of women directors is at least 10%

A majority of the directors are outside directors

Has nomination committee and compensation committee with outside directors comprising a majority

Nomination and compensation committee chairpersons are outside directors

The company does not hold strategic shareholdings in excess (for financial institutions: less than 25% of net assets; for non-financial companies: less than 10% of invested capital)

The company has increased the number of outside directors with management experience. There is no nomination or compensation committee chairperson and president, who are the top decision-makers, others

The company has not introduced a takeover defense plan

The ratio of women directors is at least 10%

A majority of the directors are outside directors

Has nomination committee and compensation committee with outside directors comprising a majority

Nomination and compensation committee chairpersons are outside directors

The company does not hold strategic shareholdings in excess (for financial institutions: less than 25% of net assets; for non-financial companies: less than 10% of invested capital)
Progress in 2022 Towards Achieving our 2050 Net Zero Goal

2022 was a year in which we made progress on initiatives aimed at achieving our 2050 Net Zero Goal for greenhouse gas (“GHG”) emissions in three main areas.

First, our measurement and disclosure of investment portfolio emissions (“Financial Emissions”) were recognized as being disclosed in accordance with The Global GHG Accounting and Reporting Standard for the Financial Industry (“PCAF”), and our status was changed from “Committed” to “Disclosed.” The disclosures in this Responsible Investment Report 2022 are in accordance with the PCAF Standard for financed emissions for sovereign debt released in December 2022, and we have newly measured and disclosed financed emissions for our company-wide sovereign bond portfolio.

Second, we submitted our 2050 Net Zero Goal and 2030 Interim Target to the Net Zero Asset Managers Initiative (NZAM) and both were approved. In setting our 2030 Interim Target, we used the Science Based Targets initiative for Financial Institutions, which is a financial institution version of the Science Based Targets (SBT) and one of the methodologies recommended by NZAM, and established an SBT portfolio coverage ratio of 55% as our 2030 Interim Target. A 55% SBT portfolio coverage ratio refers to 55% (by weight) of the portfolio companies in our investment portfolio having attained SBT approval.

Third, in December 2022 we newly established the Net Zero Strategy Department within the Investment and Research Unit in order to achieve our 2050 Net Zero Goal with certainty. The Net Zero Strategy Department is discussed in detail in the following section.

Establishment of the Net Zero Strategy Department to Achieve the 2050 Net Zero Goal

On December 1, 2022, we established the Net Zero Strategy Department with the aim of securing our commitment to decarbonization and to steadily advancing our efforts aimed at achieving our 2050 Net Zero Goal. The mission of the Net Zero Strategy Department is to strategically utilize internal and external management resources to gather information and expertise related to net zero, as well as formulate and promote an effective action plan aimed at achieving our 2050 Net Zero Goal and 2030 Interim Target.

Specifically, the Net Zero Strategy Department will advance the following initiatives.

- Expand the asset classes for which we measure and disclose GHG emissions in our investment portfolios to include assets other than listed equities and corporate bonds.
- Strengthen the management of climate-related risks and opportunities by expanding the monitoring of carbon metrics, scenario analysis, transition/physical risk analysis, and climate-related opportunity metrics, among other metrics.
- Develop appropriate climate-related risk/ opportunity assessment methodologies to accelerate the provision of funds for decarbonizing society, and increase the level of sophistication of climate-related ESG integration.
- Utilize the above initiatives for climate-related stewardship activities and the development of decarbonization funds.
- Enhance the transparency of our efforts by strengthening climate-related disclosure based on TCFD (Task Force on Climate-related Financial Disclosures) recommendations and our NZAM commitment, and by proactively reporting to external evaluation organizations.
- Strengthen collaboration with climate-related initiatives and contribute to global efforts to achieve net zero.

Net Zero Strategy Department

In recent years, as countries around the world set net-zero targets based on the Paris Agreement, a rapidly growing number of companies are also setting their own net-zero targets. In addition, companies’ climate-related disclosures are being promoted in response to the TCFD recommendations, ISSB climate-related disclosure standards, and climate-related disclosure legislation in various countries. In particular, GHG emissions, which are a key metric in climate-related disclosures, have a carbon price attached to them through carbon taxes, emissions trading and other systems, which makes them easy to incorporate into quantitative corporate evaluations.

As the momentum for decarbonization increases around the world, asset managers like us are being strongly urged by clients and various other stakeholders to reduce their own GHG emissions, including the emissions of their investment portfolios, to net zero by 2050, and to carry out advanced levels of ESG integration and engagement in order to efficiently invest the funds necessary for decarbonization. In order to answer such requests, the Net Zero Strategy Department will strategically promote initiatives to achieve our net zero goal and contribute to the decarbonization of society.
Disclosure Based on the TCFD Recommendations

**Governance**

We recognize that climate-related risks and opportunities have important impacts on our business and our medium- to long-term management targets, and we have therefore established an appropriate governance. The data compiled by the Responsible Investment Department, along with other data compiled by the TCFD Secretariat including carbon metrics, scenario analyses, ESG scores and other climate-related risks and opportunities, are ultimately reported to the Board of Directors via the Executive Management Committee. The Board of Directors is then able to appropriately monitor our climate-related risks and opportunities.

The analytical data related to climate-related risks and opportunities compiled by the TCFD Secretariat are shared with portfolio managers and analysts. These data are then utilized in portfolio risk, engagement, and investment decision-making. These data are also regularly reported to the Responsible Investment Committee, which comprises officers in the Investment and Research Unit, where they are used to evaluate a portfolio's climate-related risks and opportunities. For example, at the Responsible Investment Committee meeting in March every year, the analytical data from the portfolio at the end of the previous year are reported, and in July, the important themes for climate change-related engagement are decided. Additionally, the chair of the Responsible Investment Committee reports the evaluation results to the Executive Management Committee, which allows members of senior management to utilize these reported details to make management decisions.

**Strategy**

We recognize a wide range of short-, medium- and long-term climate-related risks and opportunities. In terms of transition risks, we are closely watching carbon pricing, the transition of assets, and changes in consumer behavior and preferences. For physical risks, we are focusing on abnormal weather, which is increasing in recent years. Meanwhile, with respect to opportunities, we are paying close attention to products and services related to renewable energy and energy efficiency and conservation, electricity storage, hydrogen, ammonia, CCS, carbon recycling, as well as disaster prevention and mitigation. In addition, in line with our long-term strategy aiming to realize a decarbonized society, we are focusing on transition finance to support companies that are working to reduce GHG emissions. In principle, we do not divest from (and thereby lose the chance for engagement with) portfolio companies with high levels of GHG emissions. Instead, by continuing to hold on to such companies, we use engagement as a means to encourage these portfolio companies to take measures to combat climate change.

In addition to Institutional Shareholder Services (ISS) analysis methodolgy for climate-related risk and opportunities, we are carefully analyzing the impact of climate-related risks and opportunities on our business, strategy, financial plans, and portfolio. This includes our financial analysis and transition risk analysis using internal carbon price in our ESG scores for Japanese equities. Please refer to Page 32-33 for information on the scenario analysis we performed for our four-asset integrated portfolios.

**Risk Management**

When it comes to a portfolio company’s climate-related risks, instead of looking only at carbon metrics for the company alone, we believe it is important to discern and analyze carbon metrics throughout the entire life cycle of a company’s products and services as well as throughout the supply chain. Furthermore, we refer to GHG removal and avoided emissions, etc. in our analysis of climate-related risks. We manage portfolio risk using ISS’s analysis methods for transition risk and physical risk. In addition, we identify and manage portfolio companies’ transition risks and physical risks using our own corporate analysis and ESG scores, as well as through engagement.

Such risk management analysis outcomes are integrated into the comprehensive risk management process. As such, they are shared within the Investment and Research Unit, and are reported to both the Executive Management Committee and the Board of Directors, and monitored by the Responsible Investment Committee.

**Metrics and Targets**

In order to evaluate climate-related risks and opportunities in accordance with our own strategies and risk management process, we measure our four carbon metrics recommended by the TCFD (total carbon emissions, carbon footprint, carbon intensity, and weighted average carbon intensity) and perform scenario analysis, transition risk analysis and physical risk analysis for equities and corporate bonds portfolios.

To analyze total carbon emissions, we use Scope 1 and Scope 2 emissions disclosed by companies (if a company does not provide disclosure, we use ISS’s estimates) as well as GHG emissions from portfolio companies (Scope 1 and Scope 2 minus engagement with portfolio companies with high levels of GHG emissions). Instead, by continuing to hold on to such companies, we use engagement as a means to encourage these portfolio companies to take measures to combat climate change.

For carbon footprint, carbon intensity, and weighted average carbon intensity, we use only Scope 1 and Scope 2 emissions.

We have established a 2050 Net Zero Goal as well as a 2030 Interim Target. Under the 2050 Net Zero Goal, we will work to achieve net-zero GHG emissions both from our own business operations as well as for assets under management (four asset portfolios). Under the 2030 Interim Target, we will work to ensure that, by 2030, 30% of our investment portfolio assets are being approved by ISS. We will verify and report on our track record with regard to these targets in accordance with the methodology recognized and endorsed by NZAM.

Analysis of Carbon Metrics in Investment Portfolios

In this section, we analyze climate-related risks and opportunities for the four company-wide portfolios we manage: Japanese equities; global equities; Japanese bonds and global bonds. We perform analyses in accordance with assessment and disclosure methods including those set forth in The Global GHG Accounting and Reporting Standard for the Financial Industry published by the PCAF—which we are a member of, as well as data and analysis methods from ISS.

For equities benchmarks, we used TOP50 for Japanese equities and MSCI ACWI ex-Japan for global equities. For domestic bonds, we used NOMURA-BPI (overall) (only corporate bonds), while for global bonds we used the Bloomberg Barclays Global Aggregate Index (only corporate bonds). Bonds only included corporate bonds, and did not include sovereign or other public bonds.

The analysis revealed that the total carbon emissions (Scope 1 and Scope 2) of our Japanese equities portfolio are less than the total carbon emissions of portfolios of the same monetary amount and comprising the same stocks and weightings as the benchmarks. Also, for global equities, domestic bonds and global bonds, the emissions of our portfolios and the benchmarks were roughly the same.

In terms of the ratio of total carbon emissions accounted for by each industry, there is a high ratio from Energy, Materials and Utilities, as well as a relatively high ratios from Industrials depending on the asset class, and the same is true in the industry ratios for weighted average carbon intensity. Through engagement as well as cooperation with climate change-related initiatives, we will continue to encourage portfolio companies to undertake initiatives targeting a decarbonized society.
Scenario Analysis

1. Sustainable Development Scenario (SDS)
A scenario aligned with the goal of the Paris Agreement adopted at COP21 held in December 2015, which is to limit global warming to well below 2°C compared to pre-industrial levels and pursue efforts to limit warming to 1.5°C. Under this scenario, the earth’s temperature is projected to rise approximately 1.5°C by the end of this century.

2. Announced Pledges Scenario (APS)
A scenario which assumes that countries carry out the pledges they have made, including their Nationally Determined Contributions (“NDCs”) submitted under Article 4 of the Paris Agreement and their long-term net zero goals, both fully and on time. Under this scenario, the earth’s temperature is projected to rise approximately 2.1°C by the end of this century.

3. Stated Policies Scenario (STEPS)
A scenario which assumes that countries carry out policy initiatives their governments have already announced, on the assumption that countries will keep ambitions and goals of the policies they are currently implementing. Under this scenario, the earth’s temperature is expected to rise approximately 2.6°C by the end of this century.

For total carbon emissions of our four asset integrated portfolio, we used data from ISS, and performed scenario analyses based on the three scenarios in the World Energy Outlook 2021 issued by the International Energy Agency (IEA). For the total carbon emissions used in our scenario analyses, in light of the specific characteristics of transition risk in each sector, we used only Scope 1 emissions for the utilities companies, only Scope 3 emissions for fossil fuel-producing companies, and both Scope 1 and Scope 2 emissions for all other companies.

The scenario analysis confirmed that our four-asset integrated portfolio is likely to reach the total carbon emissions permitted in the SDS around 2043. This is evidence of the improvement in the investment portfolio since the end of 2021, when we found that the portfolio was likely to reach the total carbon emissions permitted in the Sustainable Development Scenario around 2040. We feel that the portfolio’s emissions were greatly impacted mainly in Japanese equities.

Total Carbon Emissions

Weighted Average Carbon Intensity and Ratio by Industry

Ratio of Total Carbon Emissions by Industry

Carbon Footprint

[CO2e/US$ million]
### Status of GHG Reductions by Portfolio Companies

As one of the methodologies for checking the progress made on the 2050 Net Zero Goal and the 2030 Interim Target for portfolio assets, NZAM, of which we are a signatory, recommends the Science Based Targets initiative for Financial Institutions (also referred to as “SBTi for FI”). Under the SBTi for FI, financial institutions will monitor the ratio of portfolio companies whose targets have been approved by SBTi (SBT portfolio coverage ratio) as well as the temperature ratings developed by the CDP and the WWF. We are utilizing ISS’s analytical tools to monitor GHG reduction targets of portfolio companies in the investment portfolio (including SBT approval).

### Status of Portfolio Companies’ GHG Reduction Targets in Four-Asset Integrated Portfolio

As of the end of 2022, the SBT portfolio coverage ratio for our four-asset integrated portfolio was 36.4%, which was higher than 27.0% in 2021. SBT commitments and SBT approvals of portfolio companies show that they have set GHG reduction targets based on scientific grounds, and this is objective proof of our investment portfolio’s move to decarbonize and an important stepping stone towards realizing a decarbonized society. Therefore, through engagement and other means, we will encourage portfolio companies to proactively commit to SBTs and obtain approval.

### Transition Risk Analysis

It is important to analyze climate-related transition risk in detail due to the fact that this risk is highly dependent on GHG emissions which have a relatively high correlation with both stock price performance and enterprise value. We feel it is key to analyze GHG emissions throughout the entire life cycle of a company’s products and services, and on a supplementary basis we use GHG emissions throughout the global supply chain as well as GHG absorption as disclosed by companies.

The specific transition risk analysis method involves using ISS data to analyze the power generation exposure and future GHG emissions (risk of stranded assets) on an energy generation basis in the portfolio, and the ratio of problematic resource development (shale oil/gas development and fracking, crude oil or gas drilling in the arctic, oil sands development, etc.), along with using the carbon risk rating, which is ISS’s proprietary transition risk assessment.

Furthermore, the environment score within our proprietary ESG score includes evaluations of climate-related transition risk, and we use internal carbon price to analyze its financial impact by transition and GHG emissions.

### Power Generation Exposure Analysis (Portfolio, Benchmark, SDS)

The graph below compares the power generation exposure of our portfolios, the benchmarks, and the SDS on a power generation volume basis. The SDS, based on IEA forecasts, shows the power generation exposure that is likely to limit the temperature increase in 2030 and 2050 to less than 1.5°C above pre-industrial levels. The power generation exposure of both our Japanese equities and Japanese bonds portfolios are almost the same as the benchmarks. Meanwhile, the ratio of fossil fuel power generation in our global equities and global bonds portfolios are lower than the benchmarks. Also, the fossil fuel power generation exposure in all asset classes are higher compared to the power generation exposure in 2030 and 2050 under the SDS.

By increasing the ratio of renewable energy in our portfolios through engagement with portfolio companies, we will strive to reduce the transition risk from fossil fuels, as well as reduce the total carbon emissions and weighted average carbon intensities of our portfolios.
Climate-related Risk and Opportunity Evaluation in our ESG Scores

Within environmental and climate change category of our own ESG scores for Japanese equities, in order to properly evaluate portfolio companies, we assess climate-related risks that reflect GHG absorption and conduct quantitative assessments of climate-related opportunities including avoided emissions and removals ("avoided emissions, etc.") by utilizing our internal carbon price.

Climate-related Risk Evaluations Using Internal Carbon Price and GHG Absorption

In the past, transition risk assessments were generally based on the amount of GHG emissions, but using internal carbon price and the amount of GHG absorption allows transition risk evaluations to reflect a company’s real situation more accurately.

From 2021, we use internal carbon price to analyze financial impact in the evaluation of climate-related transition risk in the environment score within our ESG score. For example, if a carbon tax or emissions trading system is introduced, a portfolio company’s GHG emissions become a cost. From the standpoint of the impact on enterprise value, a more accurate transition risk analysis can be performed if the ratio of this cost to shareholders’ equity or cash flow is analyzed. For GHG emissions, we used data disclosed by companies for Scope 1 and Scope 2 emissions. If a company does not provide disclosure, we use ISS’s estimates, and for Scope 3 emissions we used ISS’s estimates. In addition, internal carbon price used to replace GHG emissions with economic value is periodically reviewed referencing the market price (EUA in EU ETS, etc.), internal carbon price levels in portfolio companies, and reports from international organizations such as the World Bank. From 2022, we have included GHG absorption in the climate change category of the environmental score in our ESG score. Specifically, in the environmental score, we are deducting GHG absorption disclosed by a company from its GHG emissions in both: 1) our assessments of whether the company discloses its GHG emissions and the change in emissions over time; and 2) our financial impact analysis using internal carbon price. In our ESG score, in our definition of GHG absorption, we include: 1) the amount of GHG directly removed from the atmosphere, including by forests and CCS; 2) avoided emissions which contribute to a reduction in emissions, such as through a company’s technology, products, or initiatives; and 3) GHG emissions offset by carbon credits. We collect data on a company’s GHG absorption from its disclosed reports and other information, and build our own database.

Net-zero GHG emissions to mitigate climate change refers to the GHG emissions minus the amount of GHG absorption equaling zero. Consequently, it is necessary for a company to utilize the amount of GHG absorption to account for the emissions that remain after a company has done all it can to reduce its emissions. Due to the fact that a company’s actions to avoid and remove GHG emissions reduce its net GHG emissions and thereby can lower its climate-related risk, we feel that reflecting GHG absorption in a company’s ESG score is consistent from the standpoint of assessing enterprise value. GHG absorption deducted from a company’s GHG emissions can be up to maximum of 20% of ISS’s GHG emissions data (total of Scope 1, Scope 2 and Scope 3).

Data on such GHG absorption can be used as an impact metric in climate-related opportunity analyses as well as in impact investing. Given the fact that avoided emissions and carbon offsets are included in our definition of GHG absorption, we are not using the GHG absorption data in our 2050 Net Zero Goal or our 2030 Interim Target.

Quantitative Evaluations of Climate-related Opportunities Using Avoided Emissions and Internal Carbon Price

In 2023, we have started to quantitatively include avoided emissions, etc. in the opportunity evaluation category of the environmental score for Japanese equities. In this evaluation, we measure the ratio (impact) of the economic value, calculated by multiplying the amount of avoided emissions, etc. disclosed by the company by the internal carbon price that we use when evaluating companies, to the company’s operating profit. There is a positive correlation between a company’s avoided emissions, etc. and the amount of net sales and other business metrics, and we believe that this is one optimal metric to evaluate climate-related opportunities that will lead to both a reduction in society’s overall emissions as well as an increase in enterprise value. An increasing number of companies are disclosing their avoided emissions, etc., so through this new quantitative evaluation of climate-related opportunities we hope to encourage companies to disclose their avoided emissions, etc. and make further efforts to achieve net zero, as well as promote related dialogue.

Physical Risk Analysis

In recent years, hurricanes, cyclones, heavy rains, floods, heat waves, forest fires, and droughts, which are thought to be impacted by climate change, are frequently occurring around the world. The impact of these events on the businesses and assets held by portfolio companies can no longer be ignored, and analyzing physical risks is becoming increasingly important. In analyzing the physical risks of portfolio companies, in addition to ISS’s risk analysis and physical risk score by industry and region, we utilize the portfolio’s Value at Risk (potential negative impact of physical risk on the value of a portfolio) calculated as the potential value lost through 2050 due to damage incurred by the business assets owned by portfolio companies from abnormal weather stemming from climate change. For Japanese companies, if necessary, we use disclosure materials and company websites to research the regions of offices, factories, and important owned assets, and we also check hazard maps and other materials published by local governments in order to supplement our analysis of physical risk.

Physical Risk Analysis by Sector and Region

We utilize ISS data to analyze physical risks by industry and region. The graph below shows the percentage of Value at Risk related to physical risk in each sector through 2050 for our Japanese equities, global equities, Japanese bonds, and global bonds portfolios. The higher the ratio, the greater the potential negative impact of physical risk on the value of companies in that industry. We calculate the Value at Risk of each portfolio, but it is used internally and not disclosed in this report.

Value at Risk by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value at Risk (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>0.9%</td>
</tr>
<tr>
<td>Matter</td>
<td>0.6%</td>
</tr>
<tr>
<td>Industrials</td>
<td>0.2%</td>
</tr>
<tr>
<td>Consumer Discretion</td>
<td>0.1%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>0.0%</td>
</tr>
<tr>
<td>Health Care</td>
<td>0.0%</td>
</tr>
<tr>
<td>Financials</td>
<td>0.0%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>0.0%</td>
</tr>
<tr>
<td>Communication Services</td>
<td>0.0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Portfolio Value at Risk (%)

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Value at Risk (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAM’s Japanese equities portfolio</td>
<td>2.1%</td>
</tr>
<tr>
<td>NAM’s global equities portfolio</td>
<td>0.9%</td>
</tr>
<tr>
<td>NAM’s Japanese bonds portfolio</td>
<td>2.7%</td>
</tr>
<tr>
<td>NAM’s global bonds portfolio</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Climate Change-Related Engagement with Portfolio Companies

Through engagement with portfolio companies, we are advancing the following initiatives in order to reduce climate-related risk in our portfolios and promote investment in climate-related opportunities.

- Active involvement in climate change countermeasures, cooperation with other investors and stakeholders, and sharing of best practices through climate-related initiatives we have joined, such as PRI, TCFD, Climate Action 100+, NZAM and PCAF.
- Enhance climate change-related ESG integration, including climate-related risk/opportunity analysis for the investment portfolio.
- Develop financial analysis/corporate valuation methods using internal carbon price and GHG absorption.
- Develop climate change-related financial products that contribute to realizing a decarbonized society consistent with our 2050 Net Zero Goal and 2030 Interim Target.
- Enhance the transparency of our efforts towards climate change through TCFD disclosure in our Responsible Investment Report.

Please refer to Page 63, 71 for actual examples of climate change-related engagement.

The Physical Risk By Region

The below map shows the physical risk by region for our four asset integrated portfolio. Along with the ratio by industry, and regional allocations. These analyses enable us to identify sectors and regions with relatively high physical risk.

Climate-related financial disclosure based on the TCFD Recommendations including scenario analysis and GHG reduction targets
- Disclose Scope 3 and GHG absorption that enable GHG emissions to be assessed in the life cycle of products and services and throughout the supply chain, encourage GHG reductions by suppliers, customers and other business partners.
- Introduction of internal carbon price and disclosure of price level by portfolio companies.
- Incorporate climate change countermeasures and external evaluations related to climate change into KPI for executive compensation.
- Obtain approval of science-based targets (SBT) or commit to them.
- Respond to CDP questionnaires, join initiatives such as RE100/EP100/EV100, etc.
- Obtain verification and assurance of GHG emissions and GHG absorption data.

Analysis of Sovereign Debt Portfolio Emissions (Financed Emissions)

In December 2022, the Second Edition of the PCAF’s The Global GHG Accounting and Reporting Standard for the Finance Industry was released. In this Second Edition, the sovereign debt asset class was added to the methodologies for measuring and disclosing GHG emissions for investment and loan portfolios. Following the release of the new Standard, we measured the emissions of our investment portfolios for both domestic and overseas sovereign debt held as of December 31, 2022.

The methodology for measuring sovereign debt portfolio emissions is different from the methodology for measuring portfolio emissions for listed equities and corporate bonds. Specifically, the definitions for emission scopes and the computation of investment ratios (attribution factor) used in measurements are different. Regarding supply chain emissions for countries, which form the base for measurements, Scope 1 is defined as the domestic GHG emissions from sources located within the country territory. Scope 2 is defined as energy-related imported emissions, and Scope 3 is defined as GHG emissions attributable to non-energy imports from another country.

In addition to these, financial institutions are being urged to measure consumption-based emissions. In computing the attribution factor, which is the ratio of investment in the investee, unlike the ratio of the amount invested to EVIC which is used for measuring GHG emissions for listed equities and corporate bond portfolios, in measuring the sovereign debt portfolio emissions, the ratio of the invested amount (exposure to sovereign bond) to PPP (Purchase Power Parity)-adjusted GDP is used.

For measuring Scope 1 emissions, we mainly use GHG data (Annex 1 countries) from the UNFCCC (United Nations Framework Convention on Climate Change), while for measuring Scope 2 and Scope 3 emissions we mainly use the OECD’s CO2 and we measure consumption emissions using CO2 data only. The UNFCCC’s Scope 1 data for non-Annex 1 countries contains considerable variation in the timing of each country’s most recent data, so these data have not been reflected in the measurement results noted on the graphs, but we are separately monitoring the measurement results for non-Annex 1 countries, including the most recent data that we can capture, and these data are included in the notes as reference data.

Our sovereign bond portfolio includes large amounts of U.S. and Japanese sovereign bonds, and thus our sovereign bond portfolio’s emissions are greatly impacted by the emissions of these countries. Data for emerging countries are not yet sufficiently released, and for the current measurements there are areas that we cannot completely supplement. However, if data accessibility further improves going forward, it will enable us to improve the quality of the data we disclose. The role that any one country should play in the decarbonization of society is becoming more important. We will continue to proactively advocate for the realization of a decarbonized society by monitoring the financed emissions of our sovereign bond portfolio and through engagement.

Sovereign debt portfolio emissions

Book value of amount invested

\[ \sum \left( \frac{\text{Book value of amount invested}}{\text{PPP-adjusted GDP}} \times \frac{\text{GHG or CO2 emissions}}{\text{Scoping factor}} \right) \]

Sovereign debt portfolio Production emissions intensity

\[ \frac{\text{Book value of amount invested}}{\text{Book value of portfolio}} \times \frac{\text{Production emissions}}{\text{PPP-adjusted GDP}} \]

Sovereign debt portfolio Consumption emissions intensity

\[ \frac{\text{Book value of amount invested}}{\text{Book value of portfolio}} \times \frac{\text{Consumption emissions}}{\text{Population}} \]

Definition of scopes and consumption emissions for measuring sovereign debt portfolio emissions

- **Scope 1**: Domestic GHG emissions from sources located within the country territory
- **Scope 2**: GHG emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling which is imported from another territory
- **Scope 3**: Emissions attributable to nonenergy imports as a result of activities taking place within the country territory

Consumption emissions

GHG emissions on a consumption basis within the country (scope 1 + scope 2 + scope 3 – exported emissions)
Cooperation with Climate Change-related Initiatives

In March 2019, we pledged our support for the TCFD, and starting with our Responsible Investment Report 2019 we have been providing disclosure in line with the TCFD Recommendations, and also offering detailed disclosure and reports on GHG emissions monitoring for individual funds, covering our company-wide Japanese equities, global equities, Japanese bonds, and global bonds portfolios. We have also been a member of the TCFD Consortium since its establishment in May 2019, and we are a member of the GIG Supporters, a group of investors that utilize the Green Investment Guidance formulated by the TCFD Consortium in October 2019 to engage with portfolio companies and actively encourage them to support the TCFD, disclose climate-related financial data, and integrate climate-related risks and opportunities into their management strategies. The TCFD Consortium released the amended Green Investment Guidance 2.0 in October 2021. While utilizing the Green Investment Guidance, we actively encourage investee companies to endorse the TCFD, disclose climate-related financial information, and integrate climate-related risks and opportunities into their management strategies through engagement. Furthermore, in December 2019, we joined Climate Action100+, and through this initiative we collaborate with other institutional investors to encourage portfolio companies to take action to combat climate change, while we also joined NZAM and PCAF in August 2021.

In June 2015, Nomura Holdings, representing all of Nomura Group, became a signatory of the CDP. With this, Asset Management became one of the CDP’s signatories, but in November 2021 we became a signatory on a standalone basis. We are responsible for the responses to the asset manager on Nomura Holdings’ CDP questionnaire.

Furthermore, in September 2022, Nomura Holdings, in collaboration with 6 leading companies (Nomura Holdings, Inc. being the chair) and 73 member companies, established the “GX Business Working Group” as a part of the GX (Green Transformation) League’s important initiative to develop rules for market creation. For the realization of a carbon neutral society, the GX Business Working Group aims to establish an appropriate framework to properly evaluate companies’ opportunities and their contribution to climate change (emission reductions based on the products and services they provide to the market). In addition, through the discussion with leaders and members of the working group, the GX Business Working Group intends to develop a guideline and take initiative on climate-related opportunities. As a member of Nomura Group, Nomura Asset Management will proactively contribute to the GX Business Working Group’s activities and discussions.
Initiatives on Human Rights

Nomura Group has prescribed the respect for human rights in the Nomura Group Code of Conduct, and is a signatory of the UN Global Compact based on its respect for the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO International Labour Standards, and the UN-Guiding Principles on Business and Human Rights.

As legal and regulatory frameworks related to human rights become more robust in countries around the world, human rights issues have become an important factor in investment activity.

For companies, countries, and various types of projects, goods and services are delivered to users and end consumers after procurement, production and transport of materials. As this value chain crosses national borders and intersects with differing regulations and practices, there is a risk of human rights issues that cannot be seen from the surface.

Once a human rights issue arises, it can adversely affect the community, the company’s employees, and business partners, and leads to a loss of trust from its customers. This is because reputation risk, such as the deterioration of a company’s image in society, increases, and the company may have to pay a large cost (cost and time to restore its reputation) to resolve the human rights issue.

In addition, if the problem remains unsolved over a long period of time, the adverse impact on the company’s corporate value itself will grow.

Our mission is to protect the assets our clients entrust with us from risks related to human rights issues by raising awareness of such human rights issues among our investee companies and having them proactively advance relevant initiatives.

We carefully assess human rights risks for our portfolio stocks and use human rights risk assessments in our initiatives.

We also regularly research companies that have been flagged for involvement in human rights issues based on the outcomes of investigations by human rights NGOs or by international organizations.

This research centers on sectors with complicated supply chains and sectors that produce products with historically large human rights risks in production or raw material procurement. This group of sectors includes sectors related to food/agriculture products, automobiles, ICT, apparel, and resource-related sectors.

Nomura Asset Management’s Human Rights Risk Monitoring Process

Nomura Asset Management broadly and continuously monitors the human rights risks of companies in our investment universe, as we seek to reduce the risk of human rights infringements at the investment portfolio level.

We research whether the companies in our investment universe have been involved in actual human rights-related misconduct and, if so, we examine the level of damage resulting from such conduct. We also check whether or not companies have formulated human rights policies that conform to international standards as well as research the status of a company’s human rights due diligence and mechanisms for handling grievances.

In addition, we also regularly research companies that have been flagged for involvement in human rights issues based on the outcomes of investigations by human rights NGOs or by international organizations.

This research centers on sectors with complicated supply chains and sectors that produce products with historically large human rights risks in production or raw material procurement. This group of sectors includes sectors related to food/agriculture products, automobiles, ICT, apparel, and resource-related sectors.

Human Rights Risk Management at the Portfolio Level

ESG specialists examine human rights risks (the survey items mentioned in the section about the human rights monitoring process) at the portfolio level throughout the year, based on the human rights risk monitoring data for each stock researched annually.

We carry out engagement if we hold a company judged as having high human rights risk in our investment universe.

We carry out engagement if we hold a company judged as having high human rights risk in our investment universe. The corporate analyst responsible for that stock, ESG specialists, and ESG engagement managers hold discussions with the company about risk factors (such as an inadequate management system or insufficient disclosures of information), and formulate an action plan to make improvements.

For companies that are considered high risk in terms of human rights risks but are continuing to work on solving problems, we monitor the progress of their efforts through periodic engagement.

Also, after a certain period of engagement, those companies which we can expect improvement will be unflagged as human rights high-risk companies, and will be subject to normal monitoring.

In corporate transactions, where human rights risk assessment has become the norm in recent years, we believe that companies that have established strong processes for human rights risk management will see a reduction in human rights risk not only in business with existing customers, but also in business with new customers.

We also think this will result in more positive evaluations of the products and services the company offers as well as an increase in business opportunities.

We believe that by repeating this human rights risk management at the portfolio level, we can gain a deep understanding of social risks carried by companies in our investment universe and reflect this in our investment decisions on companies. We feel that this will also advance our ESG integration related to human rights risk.

As an asset manager aiming to eliminate human rights violations, we will actively carry out engagement in order to have investee companies establish human rights management systems in fields where efforts have been slow.

### Human Rights Risk Monitoring of companies (based on individual companies)

<table>
<thead>
<tr>
<th>Human rights risk monitoring of companies</th>
<th>Engagement (human rights high-risk companies)</th>
<th>Integration into investment (investment decision-making)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human rights-related policies (child labor, forced labor, etc.)</td>
<td>Formulation of human rights policies</td>
<td>Stay</td>
</tr>
<tr>
<td>Check the status of compliance with international human rights laws and mechanisms</td>
<td>Implementation and disclosure of human rights policies</td>
<td>Do not sell</td>
</tr>
<tr>
<td>Human rights risk management systems (monitoring, relief systems, self-assessment, etc.)</td>
<td>Action annual assessment</td>
<td>Continue hold</td>
</tr>
<tr>
<td>Implementation of human rights due diligence</td>
<td>Investigations of misconduct related to human rights violation</td>
<td></td>
</tr>
</tbody>
</table>

### Human Rights Due Diligence and its results

Our ESG specialists and ESG investment managers determine potential human rights risk levels for companies in our investment universe based on corporate disclosures, NGO reports and media information.

Our assessment focuses on the following six main issues: 1) Whether the company has a human rights policy that conforms to international standards; 2) Whether the company is performing human rights due diligence; 3) Whether the company is conducting surveys of suppliers; 4) Whether the company discloses the results of supplier surveys; 5) Whether on-site investigations of suppliers are performed; and 6) Whether there are corrective measures and a contact for whistleblowing in place.

If we cannot confirm in the disclosure that adequate human rights management is being implemented, or if a scandal is discovered, the company will be subject to engagement, and we will demand improvements through periodic engagement.

Human rights due diligence in 2022 also targeted large-cap stocks in sectors with a high level of human rights risk.

The majority of Japanese companies we assessed had already formulated human rights policies conforming to international norms, while approximately 87% of the companies are carrying out human rights due diligence. These mark an improvement in companies’ efforts.

Although a large number of companies conduct human rights surveys of suppliers and disclose the results of those surveys, only around 60% of companies are carrying out on-site investigations of suppliers, so we expect further improvement.

### Sectors with high risk of human rights issues

<table>
<thead>
<tr>
<th>Sectors with high risk of human rights issues</th>
<th>Food/ agriculture products</th>
<th>Automobiles</th>
<th>ICT</th>
<th>Apparel</th>
<th>Resource related</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food/ agriculture products</td>
<td>Food</td>
<td>Dairy goods</td>
<td>Food retail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automobiles</td>
<td>Finished cars</td>
<td>Automobile parts</td>
<td>Test</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICT</td>
<td>Electric products</td>
<td>Electronic components</td>
<td>Semiconductors</td>
<td>Manufacturing equipment</td>
<td></td>
</tr>
<tr>
<td>Apparel</td>
<td>Textiles</td>
<td>Shoes</td>
<td>Clothing retail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resource related</td>
<td>Mining/Petroleum</td>
<td>Steel</td>
<td>Trading company</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Status of human rights initiatives and disclosure

<table>
<thead>
<tr>
<th>Status of human rights initiatives and disclosure</th>
<th>Food/ agriculture products</th>
<th>Automobiles</th>
<th>ICT</th>
<th>Apparel</th>
<th>Resource related</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surveys of suppliers</td>
<td>Yes</td>
<td>93%</td>
<td>13%</td>
<td>Yes</td>
<td>87%</td>
</tr>
<tr>
<td>Disclosure of supplier survey results</td>
<td>Yes</td>
<td>70%</td>
<td>30%</td>
<td>Yes</td>
<td>79%</td>
</tr>
<tr>
<td>On-site audits of suppliers</td>
<td>Yes</td>
<td>90%</td>
<td>Yes</td>
<td>61%</td>
<td>39%</td>
</tr>
<tr>
<td>Consultation contacts for suppliers to use</td>
<td>Yes</td>
<td>21%</td>
<td>Yes</td>
<td>79%</td>
<td>7%</td>
</tr>
</tbody>
</table>

As an asset manager aiming to eliminate human rights violations, we will actively carry out engagement in order to have investee companies establish human rights management systems in fields where efforts have been slow.
Human Rights Engagement

Having direct dialogue with portfolio companies about human rights issues and urging them to make improvements for such problems is one of our responsibilities as an asset management firm.

The topic of human rights is an important engagement theme for both the Japanese and overseas companies we invest in. Risks related to human rights issues can be managed to some extent by establishing a management system. However, industries and companies with complex supply chains and operations in areas with political instability and unstable human rights policies can pose unforeseen risks to businesses. In recent years, there have been cases both among Western and Japanese companies of being suspected of involvement in production activities in areas where there are suspicions of child labor or forced labor in the development of a global business or supply chain development, as well as companies deciding to withdraw from a business due to influence from a heavy-handed government regime.

Even for human rights issues occurring in these various regions, we strive to engage from a neutral standpoint, obtain all relevant information, and reflect the findings in our investment decisions.

Especially in the case of human rights issues where it is difficult to grasp accurate information and make judgments due to different claims by all of the involved stakeholders, we encourage the company we are engaging with to improve relationships based on dialogue with stakeholders and to provide information to investors on a continual basis.

Example of Japanese Equity Engagement (Milestone Management)

Human Rights Risks

Need to work on protecting the community’s culture, rebuilding the relationship and managing human rights risks

Period of engagement

Australian material company

The incident was the result of our excessive focus on the legal process, our lack of attention to the feelings of people in the community, our insufficient systems for responsibility and reporting on cultural heritage, and the lack of communication during the COVID-19 pandemic. We have already improved our organizational and accountability systems, and are operating with an emphasis on cultural heritage. In addition to grasping accurate information on cultural heritage throughout the company, we are providing more useful and easy-to-understand data to mine development and planning departments and other teams throughout the company. We have integrated comprehensive risk assessment of cultural heritage into the strategy decision-making process.

We created a department dedicated to communities and social performances. In light of changes in expectations from stakeholders and other factors, we are in the process of formulating new standards while incorporating opinions received from outside consultants. The new standards avoid ambiguous language and define requirements more clearly.

We are also bolstering cultural awareness training in order to deepen employees’ understanding and their awareness of cultural heritage.

We are engaged in open communication with indigenous groups with the aim of improving relationships. We have started to jointly design projects with indigenous groups, so we have begun incorporating their input into our decision-making. We have received positive feedback from indigenous groups, including with respect to the process of revisiting the development of Aboriginal heritage areas.

We will increase the number of employees and senior management members that belong to indigenous groups in order to increase their involvement in business decision-making as well as to foster a culture of inclusivity and mutual respect.

overview

Company (individual): ViacomCBS

Project: Aboriginal Heritage Area

Corporate department: Human Resources

Performance: G2000

The period is the number of months from the start of interviews to December 2022.
Initiatives and Partnerships to Protect Natural Capital and Biodiversity

At the United Nations Biodiversity Conference (COP15) held in Montreal in December 2022, the global community adopted the Kunming-Montreal Global Biodiversity Framework, a new set of global biodiversity goals to be achieved by 2030. This Global Biodiversity Framework features 23 action targets to be completed by 2030 in order to achieve the shared vision of living in harmony with nature by 2050. These targets include: effective conservation and management of at least 30% of the world’s lands and oceans (30 by 30); reducing the risk posed by both excess nutrients lost to the environment as well as pesticides and chemicals; and ensuring the sustainable management of areas used for agriculture, aquaculture, fisheries and forestry. The COP15 agreement also includes financial support to be provided by developed countries to developing countries.

Healthy biodiversity is essential for the advancement of society, and there are high expectations on financial institutions to play a role in preventing biodiversity loss and in preserving and restoring natural capital. Nomura Asset Management recognizes the importance of issues related to natural capital in its ESG Statement, participates in international initiatives as both an institutional investor and a company itself, and collaborates with other asset managers to promote initiatives aimed at protecting natural capital.

At COP15, together with PRI signatories, we endorsed an investor statement calling on governments to adopt the Global Biodiversity Framework and collaborate to address climate change and biodiversity protection and restoration. In terms of other global initiatives, we leverage our collaboration with Farm Animal Investment Risk and Return (FAIRR) to engage with food-related companies, and we engage with palm oil companies and the companies in their supply chains through initiatives to end deforestation.

Nomura Asset Management carries out engagement on many individual topics related to biodiversity. We are encouraging food-related companies to transition to a sustainable global food system, including the management of natural capital such as land and water, and the reduction of food waste. In addition, for clean technology companies related to electric vehicles and solar or wind power generation facilities, we continue to support the promotion of a circular economy through the procurement of sustainable raw materials (including by suppliers), increasing the rate of recycling, and keeping waste out of landfills.

Furthermore, we carry out engagement with respect to water management for multi-industry companies operating in Brazil’s Tietê River Basin and in South Africa’s Vaal River Basin. More specifically, we are encouraging the formulation of business strategies targeting the enforcement of appropriate strategies and countermeasures on water resources.

In our collaborative engagement with Sustainalytics, we carry out engagement on many individual topics related to biodiversity. We are encouraging food-related companies to transition to a sustainable global food system, including the management of natural capital such as land and water, and the reduction of food waste. In addition, for clean technology companies related to electric vehicles and solar or wind power generation facilities, we continue to support the promotion of a circular economy through the procurement of sustainable raw materials (including by suppliers), increasing the rate of recycling, and keeping waste out of landfills.

In our collaboration with Sustainalytics, we carry out engagement on many individual topics related to biodiversity. We are encouraging food-related companies to transition to a sustainable global food system, including the management of natural capital such as land and water, and the reduction of food waste. In addition, for clean technology companies related to electric vehicles and solar or wind power generation facilities, we continue to support the promotion of a circular economy through the procurement of sustainable raw materials (including by suppliers), increasing the rate of recycling, and keeping waste out of landfills.

Furthermore, we carry out engagement with respect to water management for multi-industry companies operating in Brazil’s Tietê River Basin and in South Africa’s Vaal River Basin. More specifically, we are encouraging the formulation of business strategies targeting the enforcement of appropriate strategies and countermeasures on water resources.
Nomura Asset Management’s Biodiversity Monitoring and Risk Management Process

The loss of biodiversity not only affects the environment, it also has a tremendous negative impact on the economy and people’s health. In order for companies to raise their level of sustainability, they must protect biodiversity and work on sustainable use, including understanding their level of dependence on nature for business continuity and the impact of their company’s operations and its supply chain on nature.

If biodiversity-related issues become apparent not only in a portfolio company, but in that company’s supply chain, there can be a significant impact on corporate value through, for example, higher raw material procurement costs, or reputational risks, such as deterioration of corporate image.

In this way, a company that can manage biodiversity risk and link the protection of the environment and natural capital to its business strategy will see an improvement in the value, we continuously monitor a wide range of biodiversity through, for example, higher raw material procurement costs, or reputational risks, such as deterioration of corporate image.

To help companies increase their long-term corporate value, we continuously monitor a wide range of biodiversity risks for the stocks in our investment universe, and we aim to reduce biodiversity risk at the investment portfolio level. 

The bar graph below shows the results of measuring forestry risk in our domestic equity portfolios using CDP forests rating data. The analysis shows that 16.5% (on a market capitalization basis) of our portfolio stocks are subject to a rating, with a high level of exposure to forestry risk in the consumer discretionary sector and the consumer staples sector (Figure 1).

We also analyze which commodities these sectors’ forestry risks are actually caused by, and utilize this information (Table 1).

For monitoring the risk of individual stocks, ESG specialists and company analysts work in collaboration to utilize information disclosed by companies, media reports, external databases, and other sources of information to regularly research natural capital-related information and waste-related information on stocks in our investment universe (Table 2).

Issues covered by this research include water resources, waste volume, disclosures related to the protection of forest and soil resources, disclosures related to the protection of river and marine resources, and relation to high-biodiversity-risk commodities.

We check whether or not companies are undertaking initiatives towards sustainable production and procurement, especially companies where sales are highly dependent on commodities which have a large impact on biodiversity, such as companies in the consumer staples, consumer discretionary, and materials sectors. For example, we look at the status of procurement of commodities that have been certified by third parties, including the Roundtable on Sustainable Palm Oil (RSPO) and the Forest Stewardship Council (FSC).

Based on such monitoring data, portfolio managers, ESG specialists, company analysts, and ESG investment managers work together to engage with portfolio companies with the objective of managing biodiversity risk.

Through periodic dialogue, we encourage companies to recognize biodiversity risks, take proactive measures, and disclose information, and we then monitor progress on these efforts.

<table>
<thead>
<tr>
<th>Table 1 Examples of Biodiversity Risk Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forestry commodities exposure by sector</strong></td>
</tr>
<tr>
<td>Wood products</td>
</tr>
<tr>
<td>Pulp</td>
</tr>
<tr>
<td>Livestock products</td>
</tr>
<tr>
<td>Soybeans</td>
</tr>
<tr>
<td>Palm oil</td>
</tr>
<tr>
<td>Cocoa</td>
</tr>
<tr>
<td>Coffee</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2 Natural capital risk monitoring for stocks (on an individual stock basis)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water resources</strong></td>
</tr>
<tr>
<td>Disclosures regarding forest/soil resource protection</td>
</tr>
<tr>
<td>Disclosures regarding river and marine resource protection</td>
</tr>
<tr>
<td>Disclosures concerning pollution forest/soil, river, marine, air</td>
</tr>
</tbody>
</table>

Engagement period

No companies in the world have formed a significant business opportunity, but we have studied examples of failures. Rather than expecting price increases, we would like to focus on reducing costs to generate profits. Ocean areas where aquaculture is possible are decreasing, and marine aquaculture cannot keep up with demand. Salmon’s efficient terms of the amount of feed required to achieve gains in edible meat.

We are discussing SBT internally, but it is difficult. We first want to make progress on our efforts through Scope 3.

Going forward, we will strive for “responsible aquaculture” by achieving stable production, while reducing the impact aquaculture has on the surrounding environment.
Changes can also be seen in the philosophy regarding the fiduciary duty that asset managers are required to fulfill. For example, looking at stewardship responsibilities, thus far the so-called “double code” (Stewardship Code and Corporate Governance Code) has been the underlying premise. Responsibility for a company’s sustainability, and the sustainability of society connected to it, lies with the company, and the Corporate Governance Code was established as the code of conduct covering the company’s board of directors, which has the responsibility to oversee the company’s sustainability posture. The Stewardship Code was established as a code of conduct for institutional investors to follow when examining a company’s board of directors, but the main objective of the Stewardship Code was to enhance corporate value, and in form it was decoupled from societal sustainability.

In the UK Stewardship Code, which was revised in 2020, the benefits to the ultimate beneficiaries were amended to also include sustainable environmental, social and economic benefits.

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Introduction of the UK Stewardship Code 2020

It is a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases by 2050 and where economic growth is decoupled from resource use. It also aims to protect, conserve and enhance the EU’s natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. At the same time, this transition must be just and inclusive.

An excerpt from the introduction in the European Green Deal

In the investment chain approach, there are ultimate beneficiaries behind investors, which include individuals as well as overall society, so it is made clear that they are closely connected to investors. However, in the approach embraced by the 2020 revised version of the UK Stewardship Code, this has changed, and institutional investors also have a responsibility to society and individuals which are both connected to companies and investors. Behind these changes, there has been a strong push around the world for the concept of “a vision for society” when it comes to investment. For example, in December 2019 the “European Green Deal” (the European Commission’s 2050 climate neutrality goal) was launched. In its introduction, the European Green Deal advocates for a new growth strategy that aims to transform the EU into a fair and prosperous society, with a resource-efficient and competitive economy where there are no net emissions of greenhouse gases by 2050 and where economic growth is decoupled from resource use. The European Commission announced an investment plan totaling 1 trillion euros over 10 years in order to realize the goals of the European Green Deal.

Sustainable Finance and ESG Product Governance

Sustainable Finance Trends

With the global expansion of ESG investing and sustainable finance in recent years, countries around the world are tightening regulations related to ESG investments. As investors’ interest in ESG increases year by year, investment behavior that is presented as environmentally and socially conscious despite lacking substance (commonly referred to as “ESG washing”) is being spotted and called out. In particular, Europe is leading the movement toward tightening regulations related to ESG investments. As a major example of this is the SFDR (Sustainable Finance Disclosure Regulation) that the European Commission put into effect in March 2021.

The SFDR is a disclosure rule that defines “sustainability” according to certain criteria and requires the disclosure of supporting information to demonstrate the extent to which a financial product takes sustainability into consideration. Within the SFDR, regulations are being introduced to encourage disclosure and regular reporting not only on an individual product basis but also on a company-wide basis, and asset managers’ stance on sustainability is being robustly questioned.

Originally, the EU in 2018 announced a 10-point action plan to achieve sustainable growth, and the European Green Deal comprised a part of that. Regulations, including the SFDR, have been bolstered to create investment flows to transform society as a whole. If we think of the current ESG regulations as mere tools for regulatory compliance and fail to recognize the grand goal behind them, we may lose the trust of customers and society who will view our efforts as “unintentional” investment.

This movement has also expanded to countries and regions outside of Europe. For example, in the ASEAN region, an initiative called the Corporate Governance Scorecard was launched in 2011 with the aim of reforming corporate governance in each country. Since 2017, these countries have been steadily bolstering their environmental and social initiatives, such as creating standards for green bonds and social bonds, formulating a roadmap for sustainable capital markets, and establishing an ASEAN Taxonomy for sustainable finance. Japan also announced a green growth strategy in December 2020. Indeed, countries throughout the world are now advancing various initiatives to attract investment funds into their own country with the purpose of building a sustainable society. We have entered an era of competition for capturing sustainable investment funds.
Our ESG Product Governance Initiatives

To earn and keep our clients’ trust, we believe we must be able to comply with global ESG regulations and provide high-quality investment products with accountability. For that reason, we not only manage ESG investment quality, but also continuously engage in ESG product governance initiatives, including those related to information disclosure. Our ESG investments are not limited to investments we manage internally, but also includes funds managed by third-party asset managers, and we are bolstering our governance efforts targeting these funds as well. (Please refer to “Overall ESG Product Governance System for the Investment Side” on Page 52 for more information on our overall product governance structure).

Our ESG Committee is the body responsible for quality control for ESG investments for which we make investment decisions internally. In addition to checking the ESG processes of Japan-domiciled funds, when it comes to overseas-domiciled funds (funds compliant with the European Commission’s UCITS Directive), the ESG Committee is responsible for complying with the SFDR and other overseas regulations, sorting out the issues regarding ESG investment policies to ensure such compliance and identifying matters to disclose, among other issues. In addition, for our Europe-domiciled funds, we have established a Responsible Investment Oversight Committee (RIOC) in our UK European office to strengthen supervisory functions in Europe, including dealing with local regulatory authorities.

Meanwhile, the ESG Investment Process Evaluation Meeting, which evaluates ESG investments by third-party asset managers, regularly monitors and evaluates the internal structures, engagement policies, ESG investment processes and other aspects of these third-party asset management firms. In addition, we are revising our prospectuses and reports to provide more details about our methodologies for utilizing ESG, and we have bolstered disclosure by describing how ESG considerations have contributed to the growth of trust assets and which ESG issues have been assessed as being of high importance. In individual disclosure reports, we include information about the investment philosophy and framework, engagement, ESG officers and other matters, as we work to make ESG more accessible to our customers. In order to fulfill our fiduciary responsibility, when using a third-party asset manager we believe we should check and understand that asset manager’s investment system, investment strategy, investment performance, and other specifics in the same way as we do for investments we manage internally, at an appropriate frequency and level of depth. In addition, in order to conduct more in-depth corporate research and analysis, we believe we should properly verify ESG evaluators and data providers in order to ensure the accuracy and quality of ESG evaluations and individual data. Therefore, in the same way as for in-house investments, we are improving the quality of funds by performing due diligence on, and enhancing disclosure about, funds managed by third-party asset managers and funds based on indices provided by ESG index providers. (Please refer to Pages 53-54 for more information about ESG index providers, and refer to Pages 55-56 for more information about third-party asset managers.)

ESG investing is transitioning to an era in which investments will be stringenty selected. We will continue to monitor ESG-related regulations and developments, pursue true ESG investment, and continue to enhance our information disclosure to help investors make investment decisions.

In August 2022 we clarified the above system-related initiatives as well as our definition of ESG funds. Currently, among ESG investment techniques, we define “ESG funds” to be those funds that actively utilize ESG integration, engagement/proxy voting, and that actively utilize other sustainable strategies.

Reference: Please refer to the following link on our website for more information about our main ESG funds. https://www.nomura-am.co.jp/special/egs stratégie/egslineup.html
Nomura Asset Management is working to expand ESG investment solutions by providing individual and institutional investors with funds that track ESG indices. We are also endeavoring to improve the quality of these ESG index funds by reviewing the ESG profiles of the adopted benchmark indices and bolstering communication with index providers.

### Reasons for Selecting ESG Indices

In selecting ESG indices, we examine whether an index’s methodology aligns with solving the particular ESG issues that index seeks to address, whether the index will provide an effective solution for beneficiaries, as well as compare it to similar indices to determine if it is superior to them. In addition to qualitative considerations, we also look at quantitative assessments of the ESG profiles of ESG indices prior to selecting them.

<table>
<thead>
<tr>
<th>ESG Index</th>
<th>Reasons for Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE4Good Developed 100 Index</td>
<td>In 2004, when the Nomura Global SRI 100 and the Nomura World ESG Equity Index Fund (for defined contribution pension plans) were established, corporate social responsibility (CSR) was already a social requirement that international companies could no longer ignore. Under these circumstances, these funds were established with the aim of bringing about a virtuous cycle in which companies and society develop synergistically by focusing investments in companies that actively engage in CSR, making it Japan's first SRI-type global index fund.</td>
</tr>
<tr>
<td>Nomura Enterprise Value Allocation Index</td>
<td>Nomura Asset Management has developed new indices and financial products in collaboration with Nomura Securities in response to the growing demand for investment in companies that place an emphasis on shareholder returns and ROE. The Nomura Enterprise Value Allocation Index invests in companies that are highly profitable and have appropriate shareholder return policies. We have decided to commercialize an ETF that we can promote to a wide range of investors, including both individuals and institutions, based on our belief that this index can provide returns exceeding the TOPX index over the medium- to long-term.</td>
</tr>
<tr>
<td>MSCI Japan Empowering Women (WIN) Select Index</td>
<td>We collaborated with MSCI (which has a strong presence in ESG-related indices) to consider developing new indices and financial products amid growing interest in promoting women’s active participation in the workplace within Japan, as represented by the enactment in 2016 of the Act on Promotion of Women’s Participation and Advancement in the Workplace. We believe the index will continue to properly incorporate the issues that companies should consider from an ESG perspective, both in response to the changing times and based on communications with us.</td>
</tr>
<tr>
<td>S&amp;P 500 ESG Index</td>
<td>We looked into developing financial products that address the strong demand in Japan for investing both in U.S. stocks as well as in ESG. Based on the S&amp;P 500 index, which is a popular index of U.S. equities, the S&amp;P 500 ESG Index was expected to improve ESG characteristics without significantly changing the risk-return profile, and we determined that if it would be the index most accepted by investors. We therefore decided to create an investment product based on this index. By also listing the S&amp;P 500 (Unhedged) ETF and S&amp;P500 (Hedged) ETF along with the above ETF, we determined that we would be able to promote these ETFs to investors as a series of S&amp;P500-linked ETFs.</td>
</tr>
</tbody>
</table>

### Communication with ESG Index Providers

We regularly communicate with ESG index providers regarding matters such as whether their ESG indices are maintaining methodologies aligned with addressing ESG issues, as well as whether they are appropriately reflecting market structural changes in their indices. In addition, in response to consultations about ESG indices, we communicate our opinions, request improvements, or urge them to enhance index quality, as needed.

### Due Diligence on ESG Index Providers

We regularly interview index providers to check on matters including the status of their efforts to ensure index quality and secure the transparency of ESG evaluations. Based on the results of these interviews, we evaluate index providers in cooperation with the Investment Department, the Responsible Investment Department and other relevant departments, and report the results to the ESG Committee. Through the evaluation of ESG providers, we learn about the relative strengths and issues for each provider. Also, we consult with the index providers and request improvements, as necessary.

---

**Check ESG index quality**
- Compare and study candidate indices
- Check performance/ESG profile
- Establish/listing criteria
- Due diligence on index provider’s philosophy and efforts with respect to ESG index

**About Nomura Asset Management**

Nomura Asset Management Co., Ltd. is a financial services company that provides a wide range of asset management services, including investment management, fund management, and institutional asset management. The company is a subsidiary of The Nomura Group, which is a leading financial services provider in Japan and one of the largest global financial institutions. Nomura Asset Management is committed to delivering innovative and sustainable investment solutions that meet the changing needs of its clients.
Governance of Third-Party Asset Managers’ ESG Products Overview and Qualitative Assessment of Third-Party Funds

At Nomura Asset Management, we collaborate with third-party asset managers both in Japan and overseas to provide investors in Japan with third-party funds in a wide range of asset classes. The Advisory Fund Management Department and other departments specializing in third-party investment are responsible for managing third-party funds. The Advisory Fund Management Department, which primarily handles traditional assets, collaborates with more than 100 asset management firms to provide third-party funds (total assets totaling approximately ¥6 trillion as of December 31, 2022) to investors. These assets are broadly diversified in different asset classes, including equities, fixed income, and FOFs (funds of funds).

In 2018, we added questions about ESG (responsible investment) to our annual qualitative evaluations of third-party funds. As of December 2022, 11 of the third-party funds we offer are ESG funds. We conduct ESG-specific qualitative evaluations of ESG funds. If an evaluation reveals a serious issue in the management of an ESG fund, we will ask the third-party asset management firm to improve its management in the same way as we would for any other third-party funds. Qualitative evaluations of ESG funds are led by the Advisory Fund Management Department, which is responsible for managing third-party funds, and starting from 2022 the Advisory Fund Management Department has been strengthening collaboration with the Responsible Investment Department and other ESG-related departments as part of an effort to build a framework under which a wide range of relevant internal parties participate in evaluating third-party funds, as part of our progress on bolstering our evaluation system.

The evaluations are performed based on the seven investment styles identified by the Global Sustainable Investment Alliance (GSAI). These are: corporate engagement and shareholder action, ESG integration, negative screening, positive screening, norms-based screening, sustainable-themed investment and impact investing. From 2022, among the ESG efforts subject to evaluation, we added third-party asset managers’ response to climate change and other ESG issues as well as cooperation with various initiatives. The ESG fund evaluations we carried out in 2022 confirmed that all ESG funds are being appropriately managed. It is particularly noteworthy that we found that each fund is proactively addressing the issue of climate change.

From 2023 onward, disclosure rules related to ESG investment in countries around the world are expected to become more stringent, while ESG investment methodologies will become more rigorous and advanced. We will closely monitor the situation surrounding ESG investment and incorporate any necessary assessment items as we work to improve and expand our evaluations of third-party managed ESG funds as we maintain and improve the quality of ESG funds.

ESG Evaluations of Third-Party Funds

In 2018, we added questions about ESG (responsible investment) to our annual qualitative evaluations of third-party funds, and began monitoring ESG, including engagement activities and proxy voting processes. From 2021 onwards, with the aim of confirming the extent of ESG integration into the investment process, we have added questions about ESG research systems, specific investment processes, and other related matters as a part of enhancing assessments.

In addition, based on the importance of ESG issues as well as our fiduciary duty, in 2021 we began monitoring the funds that fall under our definition of “ESG funds” under a framework separate from our annual qualitative assessments of third-party funds. We define ESG funds as funds that actively utilize ESG integration, engagement/proxy voting, and other sustainable strategies. As of December 2022, 11 of the third-party funds we offer are ESG funds.

Management of Third-Party Funds

Quality Evaluation Process for ESG Funds

We conduct ESG-specific qualitative evaluations of ESG funds. If an evaluation reveals a serious issue in the management of an ESG fund, we will ask the third-party asset management firm to improve its management in the same way as we would for any other third-party funds. Qualitative evaluations of ESG funds are led by the Advisory Fund Management Department, which is responsible for managing third-party funds, and starting from 2022 the Advisory Fund Management Department has been strengthening collaboration with the Responsible Investment Department and other ESG-related departments as part of an effort to build a framework under which a wide range of relevant internal parties participate in evaluating third-party funds, as part of our progress on bolstering our evaluation system.

The evaluations are performed based on the seven investment styles identified by the Global Sustainable Investment Alliance (GSAI). These are: corporate engagement and shareholder action, ESG integration, negative screening, positive screening, norms-based screening, sustainable-themed investment and impact investing. From 2022, among the ESG efforts subject to evaluation, we added third-party asset managers’ response to climate change and other ESG issues as well as cooperation with various initiatives. The ESG fund evaluations we carried out in 2022 confirmed that all ESG funds are being appropriately managed. It is particularly noteworthy that we found that each fund is proactively addressing the issue of climate change.

From 2023 onward, disclosure rules related to ESG investment in countries around the world are expected to become more stringent, while ESG investment methodologies will become more rigorous and advanced. We will closely monitor the situation surrounding ESG investment and incorporate any necessary assessment items as we work to improve and expand our evaluations of third-party managed ESG funds as we maintain and improve the quality of ESG funds.

ESG Evaluations of Third-Party Funds

In 2018, we added questions about ESG (responsible investment) to our annual qualitative evaluations of third-party funds, and began monitoring ESG, including engagement activities and proxy voting processes. From 2021 onwards, with the aim of confirming the extent of ESG integration into the investment process, we have added questions about ESG research systems, specific investment processes, and other related matters as a part of enhancing assessments.

In addition, based on the importance of ESG issues as well as our fiduciary duty, in 2021 we began monitoring the funds that fall under our definition of “ESG funds” under a framework separate from our annual qualitative assessments of third-party funds. We define ESG funds as funds that actively utilize ESG integration, engagement/proxy voting, and other sustainable strategies. As of December 2022, 11 of the third-party funds we offer are ESG funds.
We engage in constructive dialogue with companies to promote their continued value creation and sustainable growth.

Our Idea of Constructive Dialogue with Portfolio Companies

We have established a basic policy for engagement as part of our responsible investment policy formulated by the Responsible Investment Committee, the highest decision-making body for responsible investment.

We believe that engagement, or constructive dialogue with portfolio companies, starts with a thorough understanding of the target company and its business environment as well as its future. We also view engagement as one of the most powerful means to fulfill our stewardship responsibility.

Basic stance on engagement

Engage in dialogue with a cordial and constructive attitude

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

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

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

The Responsible Investment Committee decides the Basic Policy on Responsible Investment in Management as well as the priority topics for engagement, and the Investment and Research Division carries out engagement activities in accordance with the committee’s decisions. Analysts in the Corporate Research Department and ESG specialists in the Responsible Investment Department are directly in charge of engagement, but the Engagement Department established in November 2021 supervises overall engagement activities. Investment managers, who also belong to the Engagement Department, communicate engagement expectations to portfolio companies, ascertain each company’s situation, and incorporate their findings into investment decisions. In engagement with individual companies, we establish clear goals and utilize milestone management, aiming to achieve goals over the course of three years. Our process involves managing PDCA over two stages – the basic policy and priority topics, as well as individual engagement.

Engagement policy and priority topics

We organize Japanese companies’ issues as noted to the right. In accordance with this, the Responsible Investment Committee determines the priority engagement topics each year in July. On Pages 63-65, we introduce some examples (see box below) of engagement aligned with the priority topics set in July 2021. Please refer to Page 66 for a discussion about the most recent priority topics.

Priority topics (decided in July 2021)

1. Rational explanation of financial strategy
2. Integrate Business Strategy and Sustainability
3. Redefine the Board of Directors
4. Strengthen commitment to capital efficiency
5. Reduction of cross-shareholdings
6. Climate Change
7. Natural Capital
8. Diversity
9. Human Rights Risks
10. Disclosure of Materiality and Risk Information

Engagement Results

Total number of engagement topics (total number of meetings)

<table>
<thead>
<tr>
<th>Priority Topic</th>
<th>Number of Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business strategy</td>
<td>39</td>
</tr>
<tr>
<td>Financial strategy</td>
<td>36</td>
</tr>
<tr>
<td>ESG-related meetings</td>
<td>1,686</td>
</tr>
<tr>
<td>Environmental</td>
<td>196</td>
</tr>
<tr>
<td>Social</td>
<td>343</td>
</tr>
<tr>
<td>Governance</td>
<td>174</td>
</tr>
<tr>
<td>Proxy voting-related</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>2,424</td>
</tr>
</tbody>
</table>

Status of Milestone Management (as of December 31, 2022)

- Communicate issues to portfolio company: 266
- Company shares a recognition of the issues: 314
- Company has implemented countermeasures: 126
- Company implements countermeasures: 24
- Completion: 204

In 2022, we carried out engagement across 2,424 topics. Currently, we are managing milestones for a total of 934 topics. Of these, 204 topics are already at “Step 5: Conclusion.”
Engagement on Priority Topics

Rational Explanation of Financial Strategy

Glass and Ceramics Products

Period 21 months

Completion: May 2022
Interviewee: Representative Director and President, NAM

Goal

A clear explanation about their approach to new businesses (especially concerning investment disciplines, progress management)

Most recently

Overview

NAM’s concerns

The company is working to transform its business structure in response to automobile electrification to tackle climate change issues. They are continuing to invest in new businesses, but they keep posting losses. Their explanation to investors about cash flow allocation is inadequate.

Most recently

We conveyed the concerns about investments in new businesses, and encouraged the company to recalculate its cash allocation. In 2022, the company announced a share buyback. The company held a business briefing to dispel the concerns about new businesses.

Integrate Business Strategy and Sustainability

Real Estate

Period 14 months

Completion: Nov. 2022
Interviewee: Head of Corporate Communications Department

Goal

Promote businesses that sustainably show contributions to the environment

Most recently

Overview

NAM’s concerns

Their information disclosure about climate change lags behind their industry peers, but there is nothing about their environmental efforts that are inferior to industry peers. They should reconsider their business model and appeal to investors as a distinctive real estate company.

Most recently

We discussed our environmental effort almost every day. Though technological innovations in decarbonization seem to be occurring in the construction industry, our discussion has not reached to the point where we can narrow down our business.

Redefine the Board of Directors

Retail

Period 3 months

Completion: April 2022
Interviewee: Senior Executive Officer, others

Goal

Outside directors chair the Nomination/Compensation Committee, or all outside directors serve on the Nomination/Compensation Committee.

Most recently

Overview

NAM’s concerns

The company president is the chair of the Nomination/Compensation Committee, and these committees have only been convened a few times. Some of the outside directors are not committee members, and only give advice. There is a lack of awareness with respect to separating oversight and execution of decision-making.

Most recently

The outside directors were mainly just providing advice, and the senior management team’s awareness regarding separating oversight from execution was weak. We thought that improvements would take time due to the fact that a change in thinking was necessary, but the company took action to address the faster than expected, and placed all outside directors on the Nomination/Compensation Committee.

Strengthen commitment to capital efficiency

Machinery

Period 29 months

Completion: June 2022
Interviewee: Director and Senior Managing Executive Officer

Goal

Executive compensation with capital efficiency metrics as KPI

Most recently

Overview

NAM’s concerns

ROE was struggling to grow as profit growth was not keeping up with sales growth and the balance sheet was balloonizing. Executive compensation was not linked to capital efficiency, and we were concerned about the commitment to improving ROE.

Most recently

The company initially took a cautious approach to revising executive compensation, but made improvements in steps, such as introducing stock-based compensation. In the end, the company adopted earnings performance-linked compensation with ROE as the KPI.
We are focusing on your human rights risk, due to the nature of your business, but your information disclosure is inadequate. Specifically noted than in the previous year, and there was progress towards climate change issues. We have completed engagement asking the company to strengthen its initiatives related to overall ESG risks as well as to enhance its disclosure. In terms of the next step, there will be a focus on individual ESG risks, but the company’s efforts on human rights risk are lagging, though this is important given the specific nature of its business.

The company has designated palm oil, paper, sugar crops, coffee beans, beef, soybeans, and other items as priority raw ingredients, and has disclosed a policy to advance sustainable procurement. In 2022, there were more looking initiatives.

Regarding biodiversity, the company has designated palm oil, paper, sugar crops, coffee beans, beef, soybeans, and other items as priority raw ingredients, and has disclosed a policy to advance sustainable procurement. In 2022, there were more specific actions.

The company has started working on traceability of lumber procurement, and has otherwise carried out some forward-looking initiatives.
Engagement on Priority Topics

Diversity

Electrical Equipment

Period: 27 months

Completion: Feb. 2022 4 interviews

Interviewee: Representative Director and President, others

Most recently

Goal

Establish a medium- to long-term target regarding promoting the active participation of women (the ratio of women managers, etc.)

Overview

The company’s efforts on ESG issues are focused on the environment and governance, while its efforts on social issues are lagging. In particular, the company has not even established a target regarding promoting the active participation of women.

NAM’s concerns

The company has disclosed a target for the ratio of women managers. This accompanies a specific plan to target and develop talented women, and the plan has been found to be effective.

Company

Very little progress has been made with qualitative expressions.

NAM: We appreciate your efforts regarding the environment, including your formulation of a vision, but your initiatives on social issues, such as promoting the active participation of women, are insufficient.

Company

That is tough to hear. Regarding promoting the active participation of women, we do not want to do anything other than leveling the playing field.

Despite the improvement in risk management disclosure, your handling of sustainability risk is unclear.

Company

We are organizing it with qualitative expressions. We will provide disclosure going forward.

We are organizing it with qualitative expressions. We will provide disclosure going forward.

We appreciate your efforts regarding the environment, including your formulation of a vision, but your initiatives on social issues, such as promoting the active participation of women, are insufficient.

Social

Human Rights Risks

As companies to formulate human rights policies and perform human rights due diligence as demanded by the publics both in Japan and overseas.

Review of Priority Topics

[July 2022]

Integrate Business Strategy and Sustainability

Demand explanations of business strategies that integrate sustainability. This includes disclosure of information related to materiality and risks. This integrates “Disclosure of Materiality and Risk Information.”

Environmental

Climate Change

Companies are expected to set GHG reduction targets, obtain SBT certification, disclose Scope 3 emissions and amount of coal absorption, etc.

Environmental

Natural Capital

Demand efforts to address biodiversity and water risk.

Social

Human Capital Possessing Diverse Values

Demand that companies utilize human capital Possessing Diverse Values. (as of Dec. 2022)

Milestone management status

(3.7%)

3.7%

10.8%

0.3%

2.7%

32.6%

13.6%

15.9%

13.6%

32.6%

15.9%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%

15.6%

13.2%
Engagement by Analysts

The chemicals industry is responsible for a large amount of GHG emissions, and the effort to become carbon neutral is an urgent issue. Meanwhile, there are also many products that contribute to GHG emission reductions, making it an industry that is also indispensable for achieving carbon neutrality in the world. In addition, chemicals products are basic materials supplied to various related industries. As a result, the chemicals industry possesses many product groups, ranging from general-use products to specialty products, and it is sometimes seen as being subject to conglomerate discounts in the stock market.

We have been talking with companies in the chemicals industry about the need for business portfolio reforms that contribute to both GHG emission reductions and profitability improvements. It should be noted here that the chemicals industry builds both upstream and downstream supply chains in the manufacturing process, and an energy balance is maintained, so it is not easy to separate and take out only specific products. Discussions with companies can sometimes be tough, but rather than seeking only short-term results, it is important to evaluate and understand companies’ medium- to long-term strategies.

The engagement activities that we have been working on are starting to yield results. Company A has a low-profit business with high GHG emissions. For several years, we have been talking with the company’s management team and discussing the need for reforms to its business structure to improve profitability and achieve carbon neutrality. Meanwhile, the business at issue was closely intertwined with the raw materials and by-products of other products, making it difficult to withdraw from this business. However, the company solved the problem by collaborating with other companies and decided to withdraw from the business. Business portfolio reforms targeting carbon neutrality are picking up speed.

While Company B possesses growth businesses, it faces difficulties in reducing CO₂ emissions in 2050 and has zero emissions in 2030 by promoting energy-saving and reforming the business portfolio. However, raw materials and by-products are interrelated in the product manufacturing process, so structural reforms will take some time.

Example of engagement in the chemicals industry

<table>
<thead>
<tr>
<th>Chemicals industry issues and engagement</th>
<th>Company A</th>
<th>Company B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efforts are needed to reform the business portfolio aiming for carbon neutrality, and we asked the company to formulate measures to address this and explain them.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company has been refocusing its business portfolio, centered on new-purpose products, but in order to encourage further efforts we asked the company to strengthen its commitment to capital efficiency.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Making progress on talks with related parties inside and outside the organization with the aim of building the problematic business. We will work towards carbon neutrality.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Announced that it will completely withdraw from the problematic business with large CO₂ emissions, and will stop production in the first half of 2025. Significant progress in the effort targeting carbon neutrality.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Measuring the Effects of Engagement Activities

The details of engagement activities with companies by institutional investors like us are generally not widely disclosed, and the effectiveness of these activities is not always clear. The Innovation Lab is utilizing the accumulated data from our past engagement activities with portfolio companies to quantitatively measure and analyze the effects of engagement activities.

Specifically, we used a fixed-effects model1 to verify post-engagement changes in governance structures and the financial performance of companies that we engaged with from FY2016 to FY2021. We found that there was statistical significance for the following six items with respect to the companies that we engaged with.

Analysis-related issues include the difficulty of extracting the effects of our engagement activities alone, as well as data bias, such as the fact that companies with poor governance systems are more likely to be targets for engagement in the first place. Going forward, in addition to addressing these issues, we want to continue to accumulate data and measure effectiveness, and work with the Engagement Department and others to contribute to improving engagement activities. Our analysis and verification process was supervised by Professor Yumiko Miwa of Meiji University, who provided us with beneficial comments.

CEO Engagement

We view CEO engagement as one of the valuable tools in dialogue with portfolio companies. We have already engaged in dialogue with CEOs of more than 10 companies, and the details of these dialogues are posted on our website. This is an important means for us to communicate to the outside about the many engagement activities that we are working on. This CEO engagement focuses on the issues facing portfolio companies from the perspective of institutional investors as well as our efforts to improve corporate value, with the aim of having CEOs earn and exchange opinions with one another and hold more in-depth discussions. We believe that discussions among company leaders will allow everyone to share opportunities to rediscover new value and competitiveness of Japanese companies centered on ESG. Also, in addition to receiving opinions regarding our engagement activities during dialogue, we believe that receiving feedback about the details we disclose will allow us to further deepen and enhance our engagement activities.

Reference: https://global.nomura-am.co.jp/responsibility-investment-investors/features/hpbank_panasonic.html

---

1 The fixed-effects model is an analytical technique that enables the identification of the effects of engagement by accounting for trends common to all companies, such as the adoption of the Corporate Governance Code, as well as the heterogeneity of companies.
**Global Equity Engagement**

We continue to enhance our engagement activities for global equities as well. Companies are facing many global ESG issues, and collaboration with overseas investment teams is essential not only for engagement with overseas companies but also for engagement with Japanese companies. Because global equities encompass a large number of target countries and companies, we are leveraging the expertise of our investment teams around the globe, as well as utilizing outside resources, to optimize our engagement activities.

In 2022 our overseas offices conducted engagement on a total of 772 topics (the total number of engagements was 323). We divide engagement topics into a total of six topics: Business strategy, Financial strategy; Environmental; social, Corporate governance; and Disclosure/Dialogue. The investment managers and analysts in each office decide the engagement topics and carry out engagement with companies.

Our engagement partner overseas is Sustainalytics, and we either conduct collaborative engagement with Sustainalytics or fully outsource engagement to Sustainalytics (Refer to Page 72). In addition, we also make use of collaborative initiatives such as the Access to Medicine Foundation to carry out engagement alongside other asset management firms on specific topics (For details, please refer to Pages 73-74).

**Example of Engagement by Overseas Offices**

Our Science Based Targets Initiative (SBTi) project was originally launched at the end of 2021 and targeted specifically holdings in our Global Sustainable Equity (GSE) portfolio.

Throughout the course of 2022, the team continued extensively engaging with companies and gradually expanded the scope of the project to cover all OKTBL holdings (OK to buy list). We believe this was the next natural step in assisting our own commitment as a company to the Net Zero Asset Managers (NZAM)-initiative. As part of this commitment, Nomura Asset Management, have set an interim 2030 target of 55% of total AUM to be managed in line with net zero and to have set Science Based Targets.

During Q422, we continued to push those companies that have not yet committed to having their GHG emission reduction targets validated by the SBTI, and are delighted with the initial progress we are seeing on some of our engagements. As an example, we want to provide an update on one of our SBTI milestone engagements with a US electric utility company. After an extensive engagement with them and despite the methodological challenges they were facing, the company announced in November 2022 their near-term target commitment, which we are very pleased with. Their initial hesitation about the feasibility of such a commitment was due to lack of control over power supply as a pure play network operator, as according to the SBTI's methodology for validation, if a company’s Scope 3 emissions are more than 40% of their total emissions, a reduction of Scope 3 should be included in the overall reduction target. As an energy transmission and distribution business, power supply falls in the company’s Scope 3 emissions. However, through conversations with the company and putting them in touch with the CDP, they were encouraged to hire external consultants who successfully assisted them in committing. We believe this is a great example of engagement for positive impact and as a next step we plan to work with both this company and others on our holdings list (through our intercompany collaboration project) to assist them on their journeys as well.

**Engagements with Global Equities**

<table>
<thead>
<tr>
<th>Total number of engagement topics by overseas offices</th>
<th>772 topics (323 meetings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagements by Sustainalytics* (2021)</td>
<td>461</td>
</tr>
<tr>
<td>2022</td>
<td>461</td>
</tr>
</tbody>
</table>

**Global Equity Milestone Management**

In our global equity engagement as well, we share our awareness of ESG issues with companies, set specific goals, and carry out milestone management until the goals are achieved. In addition to the engagement and milestone management that we conduct on our own, we also perform milestone management for collaborative engagement with Sustainalytics. As with milestone management for Japanese companies, milestones are divided into five stages with an engagement period of three years. By establishing clear goals and having a set timeline, and then evaluating the engagement process, we are able to effectively implement POCA (Plan, Do, Check, Act). The ESG issues focused on during engagement and the goals established vary greatly depending on the companies.

**Examples of Milestone Management**

<table>
<thead>
<tr>
<th>Examples of Milestone Management (Refer to Page 55)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement by Nomura Asset Management offices</td>
</tr>
<tr>
<td>US Electric Utilities company</td>
</tr>
<tr>
<td>Communicate issues to portfolio company</td>
</tr>
<tr>
<td>Company formulates countermeasure</td>
</tr>
<tr>
<td>Company shares a recognition of the issues</td>
</tr>
<tr>
<td>Company implements countermeasure</td>
</tr>
<tr>
<td>Conclusion</td>
</tr>
</tbody>
</table>

**Performance review Milestone management (Keep record/progress evaluation)**

**Status of Global Equity Milestone Management (as of December 31, 2022)**

In 2022, we carried out engagement across 722 topics. Currently, we are managing milestones for a total of 198 topics (148 companies). Of these, 18 topics are already at “Step 5: Conclusion.”

---

*Target universe: MSCI ACWI ex Japan*
### Examples of Global Equity Engagement (Milestone Management)

**US consumer staple company A**

**Overview**
- **Priority Topics:** Protection of natural capital, elimination of deforestation in the supply chain.
- **NAM’s Concerns:** Monitoring system and traceability in the supply chain, initiatives to prevent deforestation.
- **Goal:** Respond to instances of deforestation occurring in the supply chain, and curb future deforestation.

**Initially**
- **NAM** asked us to explain our procurement policy, relevant governance system, and supply chain monitoring system.
- **Company A** said our suppliers are requested to adopt “No Deforestation, No Peat, No Exploitation (NPEN)” policies and to establish greenhouse monitoring systems. Our 10 Palm ESG staffers are in charge of monitoring this process. We confirmed that 100% of our palm oil was certified by the RSPO, as of July 2021.

**Most recently**
- **NAM** asked if deforestation discovered via satellite images is confirmed in parts of our supply chain following an investigation by an NPPO specializing in commodities research, and we will work to notify this.
- **Company A** confirmed in parts of our supply chain following an investigation by a NPO specializing in commodities research, and we are paying an RSPO premium (costs have increased).

---

**US utility company B**

**Overview**
- **Priority Topics:** Commitment to setting/validating SBTs.
- **NAM’s Concerns:** The company has GHG reduction targets and a goal for net zero by 2050, but these have not been validated by the SBTi.
- **Goal:** Commitment to attain SBT validation.

**Initially**
- **NAM** asked us to explain why the company has not received SBT validation, given that we had shared that costs for validation are limited and validation offers advantages.
- **Company B** explained that we were not proactive about getting our SBT validation, given that we had shared that costs for validation are limited and validation offers advantages.
- **NAM** also asked us to explain why the company has not received SBT validation, given that we had shared that costs for validation are limited and validation offers advantages.
- **Company B** explained that we were not proactive about getting our SBT validation, given that we had shared that costs for validation are limited and validation offers advantages.

**Most recently**
- **NAM** asked us to explain why the company has not received SBT validation, given that we had shared that costs for validation are limited and validation offers advantages.
- **Company B** explained that we were not proactive about getting our SBT validation, given that we had shared that costs for validation are limited and validation offers advantages.

---

### Engagement by Sustainalytics

In global equity engagement, Nomura Asset Management’s overseas offices also actively engage portfolio companies. Due to the broad scope of coverage for global equities, we partner with Sustainalytics to carry out collaborative engagement with and support to engagement to Sustainalytics. Sustainalytics provides Global Standards Engagement, in which companies are selected for engagement based on violations of international norms such as the United Nations’ Global Compact, Material Risk Engagement covering companies with critical ESG risks, and Thematic Engagement, which focuses on solutions to specific topics, such as local water and responsible cleantech from a global perspective.

#### Global Standards Engagement

**Engagement Policy**
- Encourage companies to resolve severe incidents as well as build a strategy aimed at preventing future occurrences and improving ESG practices.

**Target companies**
- Companies that severely or systematically violate the United Nations’ Global Compact or other international norms.

#### Material Risk Engagement

**Engagement Policy**
- Encourage companies with financially material ESG issues to construct strategies to manage ESG risks and opportunities with the aim of increasing long-term corporate value.

**Target companies**
- Companies with particularly high ESG risk in their industry.

#### Thematic Engagement

**Engagement related to Feeding the future**

**Engagement Policy**
- Encourage companies to engage in sustainable food systems, including healthy, local foods, reducing food waste, and responding to changing consumer trends.

**Target companies**
- Agriculture, agrochemical, and food retail companies.

---

**Engagement related to Responsible cleantech**

**Engagement Policy**
- Encourage companies to adopt a multi-dimensional strategy that incorporates structural root causes, rigorous monitoring, and a continuous improvement approach to address the key risks of modern slavery.

**Target companies**
- Companies in apparel and construction industries.

---

**Engagement related to Tomorrow’s Board**

**Engagement Policy**
- Encourage companies to define meaningful SDG strategies that align with their business plans, with a view to influencing these companies to produce positive outcomes in line with the 2030 SDG agenda.

**Target companies**
- Consumer goods, financial, and information and communications technology companies.
Cooperation with Initiatives

Commitment to no-deforestation together with other financial institutions

In 2022, the satellite-based collaborative engagement towards zero deforestation marked its second full year of engaging with and holding companies across various industries to account for deforestation events occurring in their vast supply chains. Nomura Asset Management UK is proud to continue to participate in this project by being the lead/co-lead investor on dialogues with the companies that were engaged. As in many of the team’s other dialogues, the need for an industry-wide collective effort was flagged given the scale of the issues at hand.

NAM UK also actively participated in follow-up dialogues with other companies. These included a US household products business, a French personal products company, and a French food & staples retailing business. These interactions were the second or third engagements with these companies, which allowed us to discuss new areas as well as the monitoring and traceability efforts within the company’s supply chains. The team was delighted to see that the company demonstrated sufficient monitoring and supply chain traceability efforts. NAM UK also collaborated extensively with companies involved in deforestation cases linked to their supply chains. This reaffirms the investor group’s belief that engaging with company specific evidence, provided by our satellite-monitoring partner, can be an effective tool to drive change. NAM UK looks forward to continuing this journey and supporting both peer investors and businesses on their path to zero deforestation.

Commitment to access to medicine

The team have continued to work closely with Access to Medicine (ATM) and our peer signatories to the initiative over the year. Nomura Asset Management continued its role as the co-lead investor for a large UK pharmaceutical that is a leader within the vaccine space and also engaged extensively with companies involved in supporting access to COVID treatment. As the co-lead for the Access to Medicine (ATM) investor engagement initiative with the UK pharmaceutical investors we hosted a group call with the company across both areas of improvement identified by ATM and also our own expectations. This included for example improving impact reporting and aligning C-level management with access outcomes. The call was productive and we felt the company was very engaged and open to debating where our views differed taking on board in particular the need for better impact data to support the sustainable investment community in making better decisions.

In the first half of the year we continued our engagement for impact with companies involved in COVID vaccine development and manufacturing, following up the public letter to the industry that we signed alongside a number of our responsible investment peers, with individual engagements with the companies. We participated in collaborative engagement calls with companies to seek to put pressure on them to take a more sustainable approach to supporting access and strongly push our views around company responsibility to support access, reporting on impact and aligning management with outcomes. In the second half of the year the team ramped up its efforts further, and worked with peers to develop letters to the companies pushing for management remuneration to be tied to access outcomes and highlighting both best practices and potential routes for the companies to introduce appropriate management remuneration targets. These letters were sent directly to the companies and were made public in order to maximize the pressure on the companies to put forward and improve social impact. Meetings were also held with some of the companies and included engaging with for example remuneration committees to discuss our proposals.

In December 2022 in Tokyo in conjunction with the publication of the Access to Medicine Index 2022 the Access to Medicine Index Investor Event was held to discuss key findings from the Access to Medicine Index and best practices for access to medicines. Representatives from the Access to Medicine Foundation, investors, pharmaceutical companies, academic experts, etc. gathered, and from our company, an ESG specialist in Tokyo participated.
The Outline of Proxy Voting System to Manage Conflicts of Interest

Basic Corporate Governance Structure

In proxy voting, we focus on the corporate governance of portfolio companies. The basic structure of corporate governance is that directors and auditors are elected at a shareholders’ meeting, and directors (the board of directors) and auditors supervise senior management through nominations, compensation matters, and audits. Accordingly, the following three aspects are particularly important in proxy voting: the election of directors (nomination), executive compensation (compensation), and the election of auditors (audit). In addition, the appropriation of surplus is important when it comes to Japanese companies because Japanese companies are often criticized for retaining a large amount of cash and deposits and being unwilling to return profits to shareholders through dividends and share buybacks.

Moreover, proposals submitted by shareholders have also been increasing in recent years. Due to differences in legal systems, it is easier to make shareholder proposals in Japan than in Europe and the United States, and these proposals can often have a direct impact on the management of companies. Accordingly, these proposals must be considered carefully.

We regard proxy voting as part of our engagement with portfolio companies, and we make judgments on proposals by all portfolio companies in accordance with our own proxy voting guidelines.

The four points noted in above are the unique aspects of our proxy voting.

System to Manage Conflicts of Interest

Members of the Responsible Investment Committee, the highest decision-making body, include, in principle, only persons involved in investment and research decision making, while people in a position with a conflict of interest or people with the possibility of acting on behalf of such persons are excluded. In addition, under the Audit and Supervisory Committee, we have established a Responsible Investment Council comprising only the Chief Conflict Officer and persons in independent positions in our company, including independent outside directors. This Responsible Investment Council monitors the Responsible Investment Committee’s decisions as well as its overall management. This council monitors stewardship activities, especially proxy voting involving conflicts of interest, to make sure that decisions are made that do not adversely affect the interests of clients as a result of conflicts of interest.

As required, the Responsible Investment Council recommends improvements to the Executive Management Committee and/or the Responsible Investment Committee, and reports on this to the Board of Directors and the Audit and Supervisory Committee. Furthermore, members of the Responsible Investment Council attend Responsible Investment Committee meetings, and are able to immediately state their opinions.

Nomura Asset Management’s System to Manage Conflicts of Interest

1. Systematic and ongoing efforts to influence companies
   Along with engagement, we aim to realize desirable management styles.

2. Effective and robust process
   Thorough discussions by the Responsible Investment Committee + real-time monitoring of conflicts of interest by the Responsible Investment Council.

3. High level of accountability
   We disclose the reasons for voting in favor of or against all proposals. We give detailed reasons for proposals requiring special explanation.

4. Standards that go beyond simply listing conditions for opposition
   We have clearly stated our stance of supporting a transition to monitoring boards through our proxy voting standards.

Promoting the transition to monitoring boards through disciplined proxy voting
Proxy Voting Process for Japanese Equities

The proxy voting process is as shown in the figure below. The process for proposals that can be judged in accordance with the proxy voting guidelines (proposals that do not require qualitative judgment) is different than the process for other proposals (that do require qualitative judgment).

<table>
<thead>
<tr>
<th>Members as of December 2021</th>
<th>Role</th>
<th>Process of formulating proxy voting guidelines</th>
<th>Qualitative judgment necessary</th>
<th>Qualitative judgment not necessary</th>
<th>Qualitative judgment is necessary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secretariat Responsible Investment Department</td>
<td>Preparation of proposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Responsible Investment Committee

Five people involved in decision-making for investment and research (The Responsible Investment Council members participate in Responsible Investment Committee meetings)

Holds deliberations and makes decisions based on the secretariat’s proposals Makes revisions to the secretariat’s proposals as required

Responsible Investment Council

One (1) Chief Conflict Officer Outside directors: 2 Outside experts: 1

Reviews from the perspective of conflicts of interest Advises the Executive Management and/or the Responsible Investment Committee to make improvements as required and reports to the Board of Directors and the Audit and Supervisory Committee

Proxy Voting Process for Global Equities

For proxy voting (excluding Japanese equities), we generally decide to vote for or against a proposal in accordance with our Global Basic Policy on Proxy Voting. However, if the investment managers and analysts possessing a deep understanding of local conditions determine it to be necessary, we may, upon deliberation, make a decision that differs from the basic policy on proxy voting. The final decision is then shared with all offices, and proxy voting is then carried out uniformly on a global basis.

Changes in Results of Exercise of Voting Rights for Japanese Companies (calendar year)

The ratio of votes against is shown in the chart below. See details on the right.

Proposals on company organizational structure

Our ratio of votes against proposals increased in 2022. The main reason for this was that we raised the ratio of outside directors that we are asking companies with a controlling shareholder to have on the board, in January 2022 we reintroduced a business performance standard, and in November 2022 we adopted a standard of voting against proposals if there are no female directors.

Proposals on executive compensation

Our ratio of votes against proposals declined in 2022. The main reason for this was the improvement in compensation governance that continued from the previous fiscal year.

Proposals on capital policies (excluding proposals on articles of incorporation)

Our ratio of votes against proposals increased in 2022. The main reason is that from June 2021 we reinstated our standard for appropriations of surplus. In addition, the number of proposals related to organizational restructuring and other capital policies decreased from the previous fiscal year, but the ratio of proposals we voted against increased. Please also refer to examples of reasons for voting for or against proposals on Pages 81-82.

Proposals on articles of incorporation

1) In the previous fiscal year, we voted against 83 proposals related to the election and dismissal of accounting auditors, and two other proposals. We voted against 5% of these proposals, respectively.
2) Measures to protect the minority shareholder’s rights, including proposals related to corporate governance, including the approval of major transactions, merger and acquisition proposals, etc.
3) Proposals on other capital policies excluding changes in capital structure

Appropriation of surplus

Organizational restructuring

Introduction, update and abolition of takeover defense measures

Proposals on other capital policies

* In addition to the above, in 2022 we voted on B1 proposals related to the election and removal of directors, and for other proposals. We voted against 9% and 50% of these proposals, respectively.

Changes in voting results by company and proposal category

Global Basic Policy for Proxy Voting

Considering local circumstances, make decision different from the policy if necessary

Globally-uniform proxy voting

<table>
<thead>
<tr>
<th>Proposal category</th>
<th>Total</th>
<th>Company proposals</th>
<th>Shareholders’ proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>18,534</td>
<td>2,327</td>
<td>16,207</td>
</tr>
<tr>
<td>Votes for</td>
<td>18,083</td>
<td>2,034</td>
<td>16,049</td>
</tr>
<tr>
<td>Votes against</td>
<td>510</td>
<td>263</td>
<td>247</td>
</tr>
<tr>
<td>Ratio of votes against</td>
<td>11.2%</td>
<td>13.2%</td>
<td>9.8%</td>
</tr>
</tbody>
</table>
Overview of Proxy Voting Standards for Japanese Companies

Here, we explain our Proxy Voting Standards for Japanese Companies (the “Proxy Voting Standards”). Please refer to our website for details. In addition, for companies and sectors particularly impacted by COVID-19, and for which we thus determined that it would not be appropriate to apply business performance standards (notable below), we made judgments flexibly based on considerations of the individual circumstances of the company and/or sector.

Proxy Voting Guidelines Structure

<table>
<thead>
<tr>
<th>Global Basic Policy</th>
<th>Proxy Voting Standards for Japanese companies</th>
<th>Application to Japanese companies</th>
</tr>
</thead>
</table>

Proxy Voting Standards for Japanese companies

- **Proxy Voting Standards for Japanese companies**
  - Number of outside directors
    - If a portfolio company has not made adequate efforts and improvements are not expected despite the fact that during engagement we pointed out efforts to realize desirable management were insufficient and urgent action.
    - If a company with a cross-shareholding structure with financial assets is lending money to the parent company.
    - If minority shareholders’ interests are not protected in M&A, etc.
  - Effectiveness of outside directors
    - Attendance at board meetings is less than 75%.
    - When it is clear that they have not fulfilled their expected roles, such as the selection and dismissal of senior management or the supervision of conflicts of interest between the company and its management, controlling shareholders, etc.
  - Appropriate compensation governance
    - If there is a proposal concerning executive officer compensation or executive officer retirement bonuses above a certain level for a company that does not have compensation governance.
    - The stock compensation is designed so as to encourage the management team to achieve short-term or long-term management targets.
    - The persons to whom the stock compensation is given are not appropriate.
  - Effective utilization of financial assets
    - Financial assets are not effectively utilized.
    - Shareholder returns (dividends and share buybacks) are not appropriate.

**Important notes for the Proxy Voting Standards for Japanese Companies**

- **Proxy Voting Guidelines for Japanese Companies**
  - Proxy Voting Standards for Japanese companies
    - Number of outside directors
      - If there are no female directors.
    - Effectiveness of outside directors
      - If cross-shareholdings with financial assets are particularly large.
    - Appropriate compensation governance
      - If the comparison value threshold from 25th percentile in industry to 33rd percentile in industry.
    - Effective utilization of financial assets
      - If the company is financially-sound and a large amount of net financial assets and the ROE level is low. We judge the company to be “not effectively utilizing financial assets.”

Changes to Proxy Voting Standards for Japanese Companies

<table>
<thead>
<tr>
<th>Month/Year of Decision</th>
<th>Proposal Category</th>
<th>Key Point</th>
<th>Key Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2016, Director election</td>
<td>Executive compensation</td>
<td>New (ROE threshold = 3%, take management improvement efforts into consideration)</td>
<td></td>
</tr>
<tr>
<td>March 2017, Director election</td>
<td>Executive compensation</td>
<td>Raised ROE threshold from 3% to 5%</td>
<td></td>
</tr>
<tr>
<td>December 2017</td>
<td>Business performance standard based on ROE</td>
<td>New (Applied to companies with committees at the time)</td>
<td></td>
</tr>
<tr>
<td>January 2019, Director election</td>
<td>Number of outside directors</td>
<td>New (Minimum of 3 (outside directors if there is a director who can act as a committee chair)</td>
<td></td>
</tr>
<tr>
<td>April 2019</td>
<td>New (No Report) indicated ROE of 8% (August 2016)</td>
<td>New (introduced business performance standard based on ROE (January 2019)</td>
<td></td>
</tr>
</tbody>
</table>

References

https://global.nomura-am.co.jp/responsibility-investment/vote.html

Responsibility Investment Report 2022
Proxy Voting

Responsible Investment Report 2022

Disclosure of Proxy Voting Results (Reasons for voting for or against proposals)

Since the October – December 2019 quarter, we have been disclosing the reasons that we voted for or against all proposals, and we have been providing detailed explanations of the reasons for those proposals we feel require special explanation. This is an effort to further increase visibility with respect to appropriate proxy voting.

Here, we introduce some specific examples of disclosure with respect to proposals we feel require special explanation.

Proposals made voting decisions on that differ from our proxy voting standards

We sometimes make decisions that differ from our proxy voting standards based on engagement with a company.

Proposals determined to require special accountability

In addition to proposals related to M&A and capital policy, there were proposals asking companies to increase board diversity.

Proposals involving the possibility of a conflict of interest

We give detailed explanations for proposals of group affiliates, including our parent company Nomura Holdings as well as for discussions related to matters involving group affiliates. Here, we discuss proposals in which Nomura Securities, a group affiliate, was involved in acquisitions or organizational restructurings as a financial advisor and third-party assessor.

Climate change-related proposals submitted by shareholders

A proposal to amend the articles of incorporation was submitted to a number of companies asking them to address the issue of climate change. The issue of climate change is one of the environmental and social issues that we believe to be particularly important for the sustainable improvement of corporate value, and there have been multiple cases in the past in which we voted in favor of similar proposals after deliberating on them individually. However, we have a policy of voting against proposals in the following cases, and there were no proposals that we could vote in favor of this time.

1. If it contains content that may impose specific restrictions on the execution of business
2. When there is a possibility of restricting the execution of business due to excessively detailed content
3. When the proposing shareholder has not fulfilled its accountability with respect to the reasons for the proposal
4. In addition, some of the proposing shareholders indicated that they would like the proposal to be judged on as a recommendation to the company, rather than as a change to the articles of incorporation. Our policy is to fully consider the impact if the proposal were to be passed, and although we will flexibly judge the appropriateness of specifying a company’s response to environmental and social issues in the articles of incorporation, we do not believe it is appropriate to deliberate on this as a recommendation.

We have detailed place mentioning individual company names.

GSM Type | Proposer | Proposal classification | Voting result | Reason for voting result
---|---|---|---|---
Ordinary GSM | Company | Director election/ dismissal | Voted for | Although ROE is struggling and does not meet our standard, we voted for the proposal, taking into consideration the fact that the deterioration in financial indicators such as ROE has been limited better than other companies in the same industry in Japan and overseas.
Ordinary GSM | Company | Director election/ dismissal | Voted against | A proposal for the election of a newly elected candidate belonging to a major shareholder of the company. Although this candidate satisfies our standards, there are concerns that the current board of directors is too sensitive to the wishes of certain shareholders and that diverse options are not being valued. Therefore, we voted against the proposal, determining that there was a possibility that the election of this candidate would exacerbate these concerns.
Ordinary GSM | Company | Shareholder | Voted for | This was a proposal requesting the election of an outside director. The proponent’s assertion pointing out the slump in capital efficiency was reasonable to a certain extent, and more so we considered that a proposal to make efforts to improve the financial structure of the company is reasonable. Therefore, we voted in favor of the proposal.
Ordinary GSM | Shareholder | Director election/ dismissal | Voted against | Improper information disclosure was identified. We judged that our standards regarding the duties as a director were not satisfied, and voted against the proposal in accordance with our standards.
Ordinary GSM | Shareholder | Appropriation of surplus | Voted against | This was a proposal seeking additional shareholder returns. We judged that the proposing shareholder had not fulfilled its accountability for the proposal in accordance with our standards.
Ordinary GSM | Shareholder | Appropriation of surplus | Voted for | This was a proposal seeking additional shareholder returns. We judged that the proposing shareholder had not fulfilled its accountability for the proposal in accordance with our standards.
Ordinary GSM | Company | Organizational restructuring-related | Voted against | This was a proposal requesting the amendment of the articles of incorporation, so we voted against the proposal in accordance with our standards.
Special GSM | Company | Proposal related to other capital policy | Voted against | This was a proposal regarding the third-party allotment of common stock. In addition to the purchase of treasury stock, this proposal aimed to reduce the share ownership ratio of a certain major shareholder, and we judged that the board of directors had not fulfilled its accountability for protecting the interests of minority shareholders, so we voted against the proposal in accordance with our standards.
Special GSM | Company | Proposal related to articles of incorporation | Voted against | This was a proposal seeking at least one male director and at least one female director. Judging that it would contribute to the improvement of gender diversity on the board of directors, we voted in favor of the proposal in accordance with our standards.

GSM Type | Proposer | Proposal classification | Voting result | Reason for proxy voting result
---|---|---|---|---
Ordinary GSM | Shareholder | Proposals related to articles of incorporation | Voted against | This was a proposal to change the articles of incorporation regarding disclosure efforts to address the problem of climate change. Although we agree with the importance of climate change issues with respect to medium- to long-term corporate value, the proposal included content that could impose specific restrictions on business activity and that it would not be appropriate to include such content in the articles of incorporation, so we voted against the proposal in accordance with our standards.
Ordinary GSM | Shareholder | Proposals related to articles of incorporation | Voted against | This was a proposal to change the articles of incorporation regarding disclosure efforts to address the problem of climate change. Although we agree with the importance of climate change issues with respect to medium- to long-term corporate value, we determined that it would not be appropriate to include such content in the articles of incorporation, so we voted against the proposal in accordance with our standards.
Ordinary GSM | Shareholder | Proposals related to articles of incorporation | Voted against | This was a proposal to amend the articles of incorporation regarding disclosure related to the problem of climate change. We judged that the proposal was not fulfilling its accountability because there was no specific indication of the company’s risks and business opportunities arising from climate change issues, so we voted against the proposal in accordance with our standards.
Ordinary GSM | Company | Proposal related to other capital policy | Voted for | This was a proposal to squeeze out shareholders who did not participate in the tender offer by the parent company. We voted in favor of the proposal in accordance with our standards, taking into consideration the fact that efforts to protect the interests of minority shareholders were confirmed and that the economic terms were reasonable.
Special GSM | Company | Proposal related to other capital policy | Voted against | This was a proposal regarding a share exchange. If it went through, the company would become a listed subsidiary of a major shareholder, which raised concerns about the conflict of interest with minority shareholders and the potential for conflicts of interest with another shareholder on the board. Therefore, we voted against the proposal in accordance with our standards.

We have detailed place mentioning individual company names.
Proxy Voting FAQ

Can engagement have an impact on proxy voting?

We carry out engagement and proxy voting so that portfolio companies implement desirable management (including efforts on ESG issues)\(^1\), and to encourage them to improve corporate value and realize sustainable growth. We reflect the opinions of portfolio companies and information about portfolio companies obtained through engagement in our revisions of our proxy voting standards. Additionally, we take the information we attain through engagement into consideration to make highly-effective decisions when actually carrying out proxy voting. In addition, following this most recent revision, we may vote against a director election proposal if, despite our indicating through engagement to a portfolio company that its efforts to realize desirable management are inadequate and we urging the portfolio company to take corresponding action over the medium to long term, the portfolio company has not taken adequate steps and improvement is not expected.

Relationship between engagement and proxy voting

Formulation of proxy voting standards

Information and opinions obtained through engagement are valuable for formulating proxy voting standards.

Example: Through engagement, we found that some Japanese companies are making progress on enhancing the function of supervising senior management both in form and substance. Based on this, we decided that the time had come to introduce voting standards that would support the transition to a monitoring board.

Reflect efforts towards realizing desirable management

We may vote against director election proposals if efforts to realize desirable management (including initiatives targeting ESG issues)\(^2\) are inadequate.

Decisions that differ from our proxy voting standards

Our decisions may differ from the proxy voting standards if we can identify actions targeting improvement, or in cases of circumstances we did not anticipate at the time the proxy voting standards were formulated.

Example: For stock compensation that did not satisfy our standards, we voted in favor of a proposal due to the fact that, through engagement, we found that the payment to senior management did satisfy our standards, and although it did not satisfy our standards, we confirmed the need for the payment to employees.

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

Proposals concerning the election of directors are the most common type of proposal, and therefore have a large impact on our opposition ratio. Taking into consideration the continuity of the board of directors\(^3\), we limit director election proposals to candidates holding the responsibility for individual matters. This is why our opposition ratio looks relatively low (see chart below). Our opposition ratio for proposals to elect directors is 7% (April-June 2022), but the percentage of companies for which we opposed one or more candidates within a proposal was 40% (same period), which is not a particularly low level. On the other hand, since the number of proposals is low, the overall impact is small, but our opposition ratio appears to be relatively high with respect to proposals related to executive compensation or capital policy. The effectiveness of corporate governance comes into question particularly for proposals related to M&A and financing, so we carefully discuss those issues, including the impact that a rejection of the proposal would have, and we vote against the proposal if we decide that it will not contribute to the interests of minority shareholders.

Furthermore, we aim to achieve desirable corporate governance and improve corporate value by working on portfolio companies through a combination of proxy voting and engagement. We position proxy voting as one of the means.

Guideline for Director Election Proposals

<table>
<thead>
<tr>
<th>Applicable to reason(^4) for opposition</th>
<th>Person(s) subject to opposition</th>
<th>All candidates</th>
<th>If proposal we opposed is rejected</th>
<th>Board of Directors meetings cannot be held due to absence of directors</th>
<th>Board of Directors meetings can be held with other directors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Under the Companies Act, a minimum of three directors is necessary in order to hold a Board of Directors meeting.  
\(^2\) Shortage of outside directors, low ROE, etc.

What about proxy voting with respect to group affiliates?

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

Annual Schedule of a Proxy Voting Representative

June, followed by March and May, are the months in which the largest numbers of Japanese companies hold their general shareholders’ meetings. We exercise our voting rights for about 1,600 portfolio companies in June alone, and more than 1,900 portfolio companies in these three months. Below, we discuss the approximate annual schedule for proxy voting, focusing on this period with a high concentration of shareholders’ meetings.

Revisions to Proxy Voting Guidelines

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

Engagement in anticipation of the general shareholders’ meeting.

February – May

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

Engagement to strengthen corporate governance

All year, particularly November – March

We explain our proxy voting guidelines and let portfolio companies explain to us how they are working to strengthen their corporate governance, and we then talk with them about their efforts.

Disclosure of proxy voting results

January/April/July/October

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

**Fix Income Investment**

Nomura Asset Management recognizes risks and opportunities, and incorporates them into the investment process using different methods for each strategy based on our own ESG assessments.

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. We utilize proprietary ESG evaluations of portfolio companies when making investment decisions. In order to effectively incorporate ESG considerations and other nonfinancial 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 flows 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. We consider these factors to be materialized 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. If 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.

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. In addition 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 (2939 meetings in 2022). 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 are 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 environmental and social 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 its constituent 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 or trading stocks, our portfolio managers make investment decisions after both referencing a variety of ESG data and information within the company as well as holding internal discussions.

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, 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 when 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. Moreover, in addition to improving our ESG governance score, we also sometimes evaluate the provision of sporting goods to promote people’s health and a company’s stance on building an ecosystem centered around ESG. ESG opportunities, the impact on our portfolio management. Our investment teams manage portfolios that consist of environmental/social solutions businesses for future investments/asset management. In another way, the valuation of intangible assets is an important aspect of determining whether the valuation is too high or too low.

Portfolio Manager’s ESG Viewpoint

<table>
<thead>
<tr>
<th>Business risks and opportunities</th>
<th>Current and future segment mix</th>
<th>Assessment of M&amp;A strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic risks and opportunities</td>
<td>Status of production and sales in regions with enhanced regulations</td>
<td>Changes in the supply chain structure</td>
</tr>
<tr>
<td>Growth of environmental/social solutions businesses</td>
<td>Profitability of environmental/social solutions businesses</td>
<td>Growth targets</td>
</tr>
<tr>
<td>ESG track record</td>
<td>Environmental performance (CO, emissions, stranded asset exposures, eco-friendly procurement rate, etc.)</td>
<td>Assessment of R&amp;D</td>
</tr>
<tr>
<td>Social performance (employee turnover rate, diversity, safety indicators, actions on human rights, etc.)</td>
<td>Governance (governance structure, compensation, misconduct/scandals, etc.)</td>
<td></td>
</tr>
</tbody>
</table>
ESG Score Revisions

Since our portfolio companies are improving their ESG-related disclosures and their actual initiatives, we revise the ESG scores for Japanese equities on a regular basis, thereby raising the effectiveness of company evaluations using ESG scores. In the 2021 revisions, we started financial analyses using carbon pricing, and in the 2022 revision we included the amount of GHG absorption (the total of GHG removals, avoided emissions, and offsets using carbon credits) in the evaluation. Furthermore, in the 2023 revision, we are taking it a step further by estimating the economic value of the GHG removals and avoided emissions, and reflecting this in the climate change charge assessment.

In addition, we are reviewing some of the other environmental, social, and governance evaluation items, taking into consideration changes in regulations, etc., based on the current situation of Japanese companies attaining sufficient engagement and proxy voting.

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.

New ESG Scoring Framework

<table>
<thead>
<tr>
<th>Main category</th>
<th>Sub-category</th>
<th>Sub-items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>E1: Environmental strategy, senior management’s initiative</td>
<td>opportunities</td>
</tr>
<tr>
<td></td>
<td>E2: climate change</td>
<td></td>
</tr>
<tr>
<td></td>
<td>E3: natural capital, other environmental issues</td>
<td></td>
</tr>
<tr>
<td>Social</td>
<td>E1: Social strategy, senior management’s initiatives</td>
<td>opportunities</td>
</tr>
<tr>
<td>Governance</td>
<td>E1: Working environment, human capital</td>
<td>opportunities</td>
</tr>
<tr>
<td></td>
<td>E2: Human rights, other social issues</td>
<td></td>
</tr>
<tr>
<td></td>
<td>E3: Top management evaluation of senior management</td>
<td>opportunities</td>
</tr>
<tr>
<td></td>
<td>E4: Evaluation of board of directors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>E5: Other governance items</td>
<td></td>
</tr>
</tbody>
</table>

SDGs 25% of total

For “Environmental” 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 evaluate the emphasis 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 succession 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 approach a company’s stance vis-a-vis working on future opportunities. We evaluate whether a company considers solutions to SDGs 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 figures to be able to contribute to SDGs goals, and look at whether or not a company has excellent human and technological resources to differentiate itself from industry peers.

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 evaluate the emphasis 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 succession 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 approach a company’s stance vis-a-vis working on future opportunities. We evaluate whether a company considers solutions to SDGs 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 figures to be able to contribute to SDGs goals, and look at whether or not a company has excellent human and technological resources to differentiate itself from industry peers.

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...
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. We feel it is important for our 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 KPIs and targets that generate impact, as well as proactively support business activities aimed at achieving them.

Impact investment is generally defined as an 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 to bring about environmental and social improvements.

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 impact on the environment and society. Proactive impact investing and accompanying engagement activities create outputs and outcomes from the business activities of portfolio companies, generate 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

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, equity, inclusion and belonging, as well as value creation to realize well-being within society) as important 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, and social responsibility (for example, access to financial services and drinking water). We then establish indicators (KPI) to measure the degree of improvement for each established impact goal. For example, for the impact goal “Eliminate Communicable Disease,” 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 in which to invest in that area. Companies included in the investment universe are linked with the 17 goals of the SDGs, and more detailed CPIs (Company Performance Indicators) are then set. Carrying out detailed and continuous monitoring of the established CPIs 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 efforts to address 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 impact that addresses social issues while also pursuing economic returns.

Our impact investment fund is constructed based on the so-called “outside-in” concept, whereby these kinds of social issues are applied to portfolio companies, and this concept is shared within our domestic and overseas impact investment strategies. In addition, we believe that publicly disclosing these initiatives in our Impact Report and sharing them with our stakeholders is essential in order to generate impact and address social issues.
<table>
<thead>
<tr>
<th>Impact Goal</th>
<th>%</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigate Climate Change</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Eliminate Communicable Disease</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Global Access to Clean Drinking Water</td>
<td>8%</td>
<td>5</td>
</tr>
<tr>
<td>Mitigate Natural Capital Depletion</td>
<td>13%</td>
<td>8</td>
</tr>
<tr>
<td>Global Access to Basic Financial Services</td>
<td>3%</td>
<td>2</td>
</tr>
<tr>
<td>Mitigate the Obesity Epidemic</td>
<td>3%</td>
<td>2</td>
</tr>
<tr>
<td>Other Sustainability</td>
<td>32%</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

Meanwhile, due to the growth of sustainable investing, it has become challenging to understand the outcomes achieved through investment. To better understand these outcomes going forward, we believe that “impact awareness” will be important. Impact awareness is defined as understanding both the impact that a company has on stakeholders through its products and services (or the business of the company as a whole) and the impact that asset management firms have on a company through engagement activities (dialogue with companies). We believe that asset management firms have an important role to play in first fully understanding efforts on both fronts, and then communicating these efforts to investors in an easy-to-understand manner. To help with this, we publish an Impact Report about our initiatives under this strategy and share this report with our stakeholders.

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.

The Global Sustainable Equity strategy’s portfolio companies have achieved the following environmental and social impacts through their business activities (FY2021).

### Engagement for Impact

<table>
<thead>
<tr>
<th>Impact Goal</th>
<th>%</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigate Climate Change</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Eliminate Communicable Disease</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Global Access to Clean Drinking Water</td>
<td>8%</td>
<td>5</td>
</tr>
<tr>
<td>Mitigate Natural Capital Depletion</td>
<td>13%</td>
<td>8</td>
</tr>
<tr>
<td>Global Access to Basic Financial Services</td>
<td>3%</td>
<td>2</td>
</tr>
<tr>
<td>Mitigate the Obesity Epidemic</td>
<td>3%</td>
<td>2</td>
</tr>
<tr>
<td>Other Sustainability</td>
<td>32%</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

### GSE individual company’s CPI

**Headquartered in the US, this is the world’s largest wind power generation company. It is also expanding its solar power generation business, and renewable energy alone accounts for more than 30% of its power generation. Including nuclear power, more than 50% of the electricity it generates is carbon-free.**

Contributes to GHG emission reductions through ongoing investment in clean energy

**Supplied 70TWh of carbon-free renewable energy**

### 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 (FY2021).

- **Mitigate Climate Change**
  - Contributed to 351.1 million tons of CO₂ emission reductions through the provision of services to customers
  - Supplied 70TWh of renewable energy

- **Mitigate Natural Capital Depletion**
  - Reduced the use of 185,000 tons of raw material consumption

- **Eliminate Communicable Disease/ Mitigate the Obesity Epidemic**
  - Provided obesity-related treatment (heart disease, diabetes) to 106.6 million patients in 2021

- **Financial Inclusion**
  - Support that includes providing access to financial services
  - 28.3 million people in Kenya are using mobile payments
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 to address social issues through their core businesses. In the long-term holding of shares of companies engaged in business activities with an eye towards addressing social issues.

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 NAM’s proprietary ESG scoring, 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.

We are achieving this strategy investing in companies that, in NAM’s proprietary ESG scoring, 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.
In April 2022, NAM’s Singapore office began managing the Asia Sustainable Equity Strategy (ASE) portfolio based on its impact investing philosophy. This fund invests in companies, primarily those in Asia, that have an overall positive impact.

Approximately one-half of the world’s population lives in Asia, and Asia is both an important manufacturing hub as well as an indispensable region in global supply chains.

As ESG investing and impact investing receive attention globally, focusing on companies’ activities to solve social problems in Asia, where growth is expected going forward, represents an important investment opportunity. In addition, we believe that this will generate positive impact over the long term, and thereby contribute significantly to solving social challenges.

In addition, the impact goals for portfolio companies in order to achieve the goal of solving such social issues are tied to the Sustainable Development Goals (SDGs).

ESG Investing in Asia and ASE’s Approach

To achieve our sustainable investment goals, our impact investing approach involves making investments in sustainable companies that contribute to, or are deemed to contribute to, addressing social or environmental problems.

We focus on maximizing the impact on all stakeholders (the environment, customers, suppliers, employees, society and investors) when making investment decisions. The positive impact of a company is relevant to a wide range of stakeholders and has both financial and non-financial dimensions. We are confident that we can achieve our impact goals by collaborating with multiple stakeholders to address the many challenges facing society.

Given the fact that Asia is a manufacturing hub and a key region in global supply chains, social issues related to the environment are a top priority sustainability theme for the region. For example, China alone accounts for one-third of global greenhouse gas emissions. At the same time, it means that there are many areas where we can contribute to addressing social issues while also capturing new business opportunities, such as the expansion of renewable energy and water treatment initiatives.

In addition, as Asia is home to nearly half of the world’s population, social responsibility, which is one of our impact goals, is also an important theme in achieving well-being in our society. Companies that adopt best practices and focus on improving social issues in areas such as providing a comfortable working environment, improving labor practices, promoting diversity and inclusion, and respecting human rights deliver positive changes that help address social issues and also represent important investment opportunities. The reality is that around 1.4 billion adults worldwide are still unbanked, and a significant proportion of the unbanked population resides in Asia, making financial inclusion (access to basic financial services) one of the key impact goals for us to achieve. In order to improve financial access for the unbanked, it is necessary to build platforms such as micro-lending and mobile banking (providing financial services such as small loans and savings at brick-and-mortar locations or online), and upgrade the infrastructure to enable comprehensive financial services, and we believe that there is significant room for growth for companies aiming to solve social issues in this area.

However, ESG initiatives by companies in Asia (excluding Japan), including the disclosure of related information and the details of the initiatives themselves, are inadequate compared to those in developed countries, and the level varies greatly depending on the country and company. Given the diversity of the Asian market, our Singapore office employs a country-specific approach to portfolio management using country specialists, enabling us to conduct detailed and differentiated analysis of ESG factors and portfolio stocks.

To incorporate these stocks into their portfolios, our country specialists conduct research focusing on their respective areas of expertise, based on an understanding of country-specific dynamics, including ESG issues. We believe that a country-centric, bottom-up approach to research and investment, combined with our ongoing engagement with companies, will help raise ESG awareness and responsibility among Asian companies.

We conducted 19 engagements with this strategy’s portfolio companies over the course of the year.

Impact by Asia Sustainable Equity Strategy (ASE) portfolio companies

In Asia Sustainable Equity Strategy (ASE) portfolio companies provide impact through their business activities on environmental and social issues as discussed below. (2021)

**Mitigate Climate Change**

- Contributed to the reduction of 54.96 million tons of CO₂ by selling products with strong environmental performance
- Sold approximately 3 million kWh, which strongly curb greenhouse gas emissions
- Energy generation output by Wind power and Solar power generation equipment
- Supplied 142GWh of renewable energy

**Mitigate Natural Capital Depletion**

- Contributed to the recycling of 97 million tons of water through water treatment facilities (anaerobic treatment, sedimentation treatment, disinfection, etc.)
- Supplied 142GWh of renewable energy

**Global unbanked adult population (% by country, 2021)**

- Bangladesh 4.1%
- China 9.5%
- Egypt, Arab Rep. 3.8%
- India 16.7%
- Indonesia 7.1%
- Nigeria 4.8%
- Pakistan 8.3%
- Rest of the world 46.2%
A comprehensive approach towards a future in which climate investments are aligned with the Paris Agreement

In recent years, bond investors have been taking climate and carbon risks into consideration much more than before. However, traditional approaches to integrating GHG emissions data are facing limitations. Not only must integration effectively identify risks arising in the transition to a low-carbon society, it must evolve to enable cooperation with bond issuers in terms of allocation of capital and other matters. While divesting from high-carbon-emitting sectors theoretically increases the funding costs of such companies, it reduces exposure to carbon emissions in investment portfolios. In practice, however, divesting or excluding such sectors from the investment universe simply shifts ownership of those GHG emissions from one investor to another, and divesting investors also lose the right to engage with issuers in such industries. A carbon emissions footprint analysis helps in quantifying and managing the carbon risk of a portfolio. However, historical emissions data on its own is a backwards-looking indicator. Investors relying on GHG emissions alone will miss transition opportunities in issuers with credible decarbonization plans. Low-carbon investment strategies can offer “virtual” portfolio decarbonization, but cannot indicate the extent to which investments are actually aligned to 1.5°C or Well Below 2°C scenarios.

The innovative nature of net-zero portfolio alignment metrics in fixed income investment

At NAM, we believe highly-granular, comprehensive, and forward-looking metrics are necessary to align credit portfolios with the actual climate change targets sought by the Paris Agreement. Recently, new methodologies for investors to more accurately assess a company’s decarbonization prospects, the Implied Temperature Rise (ITR*) and the Net Zero Alignment, have been devised. The ITR model aggregates a large amount of data related to climate change disclosed by companies and converts the data into a metric shown as a temperature score in units of temperature, thereby making it easier to intuitively understand how well aligned companies are with the climate targets of the Paris Agreement. With the ITR model, various settings can give different results, but standardization of the model analysis is expected to improve the results. With data demonstrating alignment with net-zero targets and ITR models, investors can obtain a more comprehensive framework and data. In addition, investors can both incorporate these in conventional corporate analyses in a consistent manner, as well as use them to make capital allocation decisions that do not conflict with climate targets aligned with the real world. In this way, compared to prior GHG emissions, the measure of the ambition and credibility of a company’s net-zero plan becomes a forward-looking indicator of investment appeal. It is also a beneficial theme for investors to incorporate into engagement activities targeting issuers.

The concept of net-zero alignment is based on science-based, time-bound pathways to reduce the net increase in global GHG emissions to zero. In order to make these pathways, which aim to reduce emissions on a global scale, comprehensively aligned with the Paris Agreement target of limiting global warming to well below 2°C, and preferably to 1.5°C by 2050, individual carbon emissions targets at the country, industrial sector and company level are integrated into the pathways. Initiatives like SBTi** provide a scientifically rigorous verification of companies’ net-zero goals. Current carbon emissions trajectories and ambitious net-zero commitments can be compared to a company’s sectoral carbon budget***, tracked over time, and measured against industry peers. Directly comparing the results to the Paris Agreement targets leads to more intuitive and refined assessments of the level of alignment of a company’s net-zero targets.

*1 A tool that converts current and future GHG emissions from companies into estimates of global temperature rise considering each company’s emissions reduction targets.

*2 An initiative that encourages companies to set reduction targets aligned with scientific knowledge, with the goal of limiting the increase in global average temperature due to climate change to 1.5°C above pre-industrial levels.

*3 The upper limit of cumulative GHG emissions (past emissions + future emissions) if seeking to limit temperature rise to a certain level.

From concept to a megatrend that can be invested in

In addition to scope 1, 2 and 3 GHG emissions data, a key piece of information for assessing climate alignment is an issuer’s commitment and plan to achieve net-zero. Policymakers, bond issuers and investors have made net-zero commitments a central imperative for setting, managing and tracking progress towards GHG reduction targets. This has led to an exponential increase in planning and target-setting to reach net-zero since the Paris Agreement was signed in 2015. At the end of 2022, over 160 countries representing 91% of global GHG emissions and over 4,000 companies accounting for more than one-third of global stock market capitalization have either submitted or committed to net-zero targets. In addition, more than 300 global investors, including NAM, are participating in the Net Zero Asset Managers initiative (NZAM), which supports investments consistent with net-zero emissions by 2050. Together, these investors manage assets totaling US$9 trillion.

However, the Emissions Gap Report 2022 published by the United Nations Environment Program (UNEP) states that even with the most recent commitments to net-zero targets, temperatures will rise by 2.4°C to 2.6°C by 2100. This is a temperature rise that far exceeds the Paris target of limiting the worst impacts of climate change. Credit investors like us are being asked to meet this challenge by allocating capital to bond issuers with net-zero targets and plans aligned with the Paris Agreement.
Global Net-Zero Bond Product

Our Global Net Zero Bond Product employs an ESG investment strategy with a particular focus on climate change mitigation among all of the environmental areas. We select and invest in bonds based on considerations of our own in-house fixed income ESG score and from the perspective of net zero efforts to achieve net-zero GHG emissions by balancing the amount of GHGs emitted into the atmosphere and the amount of GHGs removed from the atmosphere, effectively resulting in zero GHG emissions. For this product, as a part of impact investing we emphasize generating impacts that will result in the resolution of social issues and the monitoring and disclosure of these impacts. Specifically, we utilize a “temperature score” which is a monitoring metric that includes the efforts by issuers to achieve net-zero goals. The “temperature score” we use in our fixed income ESG strategy is assessed based on the extent to which individual companies can achieve the emissions reductions required to achieve the targets set by the Paris Agreement. If the global average temperature rise in 2050 can be kept below 2°C above pre-industrial levels, the emissions will be balanced through efforts by companies to carry out business activities that contribute to mitigating climate change.

We also seek sustainable asset growth by evaluating the investment attractiveness of individual bonds. We invest in bonds we select from among hard currency-denominated corporate bonds with a BBB or higher rating at the time of investment, taking net zero*1 and ESG*2 into consideration. The “temperature score” we use in our fixed income ESG strategy is assessed based on the extent to which individual companies can achieve the emissions reductions required to achieve the targets set by the Paris Agreement. If the global average temperature rise in 2050 can be kept below 2°C above pre-industrial levels, the issuer’s temperature score will be calculated as below 2°C. Under this strategy, investee bonds are selected so as to keep the average temperature score of the entire portfolio below 2°C. We believe that we can make an impact to mitigate climate change by providing the investment capital (through bond investing) necessary for companies to carry out business activities that contribute to mitigating climate change. This product is being adopted as a strategy for investing in corporate bonds denominated in developed country currencies in NAM’s ESG Balance Fund.

Investment Process

By investing in bonds, we seek to realize a net-zero society and mitigate climate change while pursuing investment returns. Aiming to keep the average temperature score of the portfolio below 2°C, we promote the realization of a net-zero society through investments in green bonds and companies transitioning to decarbonization, while we also seek sustainable asset growth by evaluating the investment attractiveness of individual bonds. We invest in bonds: we select from among hard currency-denominated corporate bonds with a BBB or higher rating at the time of investment, taking net zero*1 and ESG*2 into consideration. We determine investee bonds based on consideration of factors including qualitative assessments including ESG initiatives, creditworthiness, yield level, etc. and quantitative assessments including ESG scores.

ESG score

Net-zero perspective

ESG evaluation

From the perspective of fixed income investment, we aim to reduce individual risks by quantitatively calculating the ESG score of each issuer and excluding those issuers with comparatively low scores. We select bonds with a focus on climate change mitigation, invest in green bonds, etc., and companies that will decarbonize*.3 We select bonds based on efforts to achieve net zero emissions by balancing GHG emissions and absorption. We determine investee bonds based on consideration of factors including qualitative assessments including ESG initiatives, creditworthiness, yield level, etc. and quantitative assessments including ESG scores.

As a public utility, this company focuses on wind power generation in the renewable energy field, especially offshore wind power generation, and is a leading company in this area. The company is expected to contribute to the reduction of GHGs by supplying renewable energy. In addition to aligning with the policy needs of European countries to move away from fossil fuels and advance renewable energy, this business is also attracting increasing attention from the perspective of the energy security issue in Europe.

In the past, the company used a lot of coal and oil, but in 2017 it announced that it would concentrate on the green energy business. It has continued to issue green bonds in the renewable energy field, especially offshore wind power generation in the renewable energy field, especially offshore wind power generation, and is a leading company in this area. The company is expected to contribute to the reduction of GHGs by supplying renewable energy. In addition to aligning with the policy needs of European countries to move away from fossil fuels and advance renewable energy, this business is also attracting increasing attention from the perspective of the energy security issue in Europe.

Creating Impact through Green Bond Investment

Being able to invest in green bonds is an appealing aspect unique to fixed income investing. Three key characteristics of green bonds include that the use of proceeds is limited to green projects, the management of procured funds, and ensuring transparency through reporting after the bond issuance. As environmental issues attract attention as social problems, the issuance of green bonds has been increasing in many regions. Because the use of bond proceeds is limited to projects expected to benefit the environment, such as measures to counter global warming, investments in green bonds have a high affinity with impact investing. We believe that investing in green bonds allows us to make a significant contribution to solving social issues such as improving the environment. Under the Global Net Zero Bond Strategy, through actively investing in green bonds, we will promote efforts to curb GHG emissions through investment, and we can more directly create impact to address the global issue of mitigating climate change.

Example of reducing GHGs with green bonds

Revealing fossil fuels with wind power through investment in the project is estimated to reduce CO2 emissions by 551,000 tons in 2021.
Global ESG Balance Fund Product

Our Global ESG Balance Product engages in diversified investment in three assets: fixed income, equities, and REITs, and we integrate our own ESG methodology in the investment process for all three assets. We affirm our proprietary ESG score model specifically for fixed income, and use this score in our assessments of issuers. Our ESG developed countries corporate bond Product and ESG emerging country sovereign Bond Product, which both utilize this fixed income ESG score, are included in our ESG Balance Fund Product’s fixed income portion.

Investment Highlights

The fixed income portion, which makes up half of the fund, 70% invested in USD-denominated corporate bonds issued by companies in developed countries and 30% invested in USD-denominated sovereign bonds issued by emerging countries. In each investment process, we exclude issuers that score in the bottom 30% based on the ESG scoring of the companies and countries in terms of their efforts to address environmental issues (negative screening). In addition to financial analysis and fundamentals analysis, we also conduct an ESG analysis, including on efforts to address environmental issues such as reducing GHGs and conserving water resources (ESG integration). By investing in bonds issued by companies and governments with high ESG assessments, we aim to generate stable investment returns from sustainable growth.

Example of Using ESG Evaluation in Developed Country Corporate Bonds

This company is an automaker that boasts high name recognition and a strong global brand. Starting with Germany, the company does business all over the world, including in European countries, North America, and Asia, and has solidified its brand. The company is now actively working to address environmental issues, such as investing in electric vehicle technology and using clean energy in its manufacturing processes.

PV panels. Through these activities, the company has set a goal of reducing the amount of CO₂ emitted per vehicle 50% by 2030 compared to 2020. By gaining an advantage over its competitors through the rapid transformation of its business structure in response to environmental regulations, the company is expected to maintain and expand its market share and business base over the medium to long term.

ESG Emerging country sovereign Bonds Product

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 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.

In this context, ESG evaluation is an absolutely essential element in considering downside risk of a sovereign issuer. 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 credit evaluations.

Example of Using ESG Evaluation in Emerging Markets

The Republic of Chile is a country located along the Pacific Ocean coastline in South America. The country is long and narrow, oriented in a north-south direction, and contains both a desert region in the north and glaciers in the south, making it a country with large differences in climate depending on the region of the country. Because the country has a variety of climatic zones, it is working on renewable energy projects taking advantage of the prevailing westerly winds, wind power generation becomes more popular.

Taking advantage of these strengths, the Republic of Chile announced a “Green Hydrogen National Strategy” in 2020 regarding initiatives related to green hydrogen generated from renewable energy and announced a number of goals, including: 1. Increase hydrogen electrolysis capacity to 5 gigawatts; 2. Establish the world’s lowest cost green hydrogen production system by 2030; and 3. Derive one of the world’s top three hydrogen exporters by 2040. We believe that environmental measures such as the development and diversification of new sources of electric power and the development of the green hydrogen business will contribute to improving the country’s long-term creditworthiness.
Fixed Income Engagement

Our Fixed Income Group engages with issuers in our investable universe, and hold dialogues with a particular emphasis on perspectives unique to fixed income investment. Financing aiming to address climate change has high affinity with bond issuances, enabling fixed income investors to seize potential opportunities. However, bond investment requires the certainty of repayment at face value, hence a strong focus to manage downside risk is also necessary. Our Fixed Income Group’s engagement focuses not only to capture future opportunities, but also to discuss potential risk factors that could have a particular serious impact on the creditworthiness of issuers, as well as on new downside risks such as cybersecurity risks.

For example, there are labeled bond issuances where green buildings (buildings with a low environmental impact) are aimed as the main use of the proceeds. While on the other hand, there may be issuances that fund large-scale projects which contributes to establishing a clean transportation system through the development of a new railway network system.

In our engagement, we take into account the regional characteristics of the issuer as well as the scale and impact of the funds being raised, and hold discussions with an emphasis on creating strong and lasting impacts which further advances the decarbonization of the economy.

In the fall of 2022, we conducted direct engagement with around 20 supra-nationals and government agencies that visited Japan. Because the missions and mandates of each issuer differ considerably, details of the dialogue varied among issuers, but we mainly discussed themes including governance quality, strategic coherence and potential impacts.

Also, in regards to cybersecurity risk which is a new downside risk factor, we had discussed the possibility of cybersecurity risks materializing, and their impact based on objective data, pointing out to the possibility that governance risk for the issuer may also be high in cases where the vulnerability of systems, etc. to cyberattacks are presumed to be high.

Many of the issuers recognized that the discussion upon these new type of risks was something they had not anticipated. The reaction to the discussion was overall positive in many cases, and we carried out additional engagement with some of the issuers.

For our fixed income engagements, we will continue with a strong focus on identifying new downside risk factors, alongside existing risk factors.

Engagement with Sovereigns, Government agencies, and Supranational organizations.

Recently, we have been actively holding direct dialogues (engagements) not only with companies that issue corporate bonds, but also with sovereigns, government agencies, and supranational organizations. In our engagement on green bonds and other labeled bonds, while considering the unique characteristics of each issuer, we compare frameworks, use of proceeds, and the impact etc. with similar issuers. We engage in constructive discussions with issuers based on our own research.

Our engagement not only encompasses Japanese government agencies, but also with other sovereigns and public institutions overseas. One example is an engagement we carried out with a sovereign issuer in the Oceania region prior to its green bond issuance. In our preliminary research, we compare factors such as the difference between green bond frameworks of sovereigns and the actual or expected use of the labeled bond proceeds etc. For green bonds, the relative impact on the environment etc., can vary greatly depending on the intentions of the project and actual allocation of proceeds.

Engagement with Transition Bond Issuers

In corporate credit investment, one of the important process is reflecting the issuer’s efforts on ESG issues into the fundamentals evaluation. In particular, for companies where decarbonization is part of its materiality, consistency with the scale of investment and the financial strategy to achieving net-zero by 2050 and interim targets is an important point to monitor as a part of credit analysis. This is also one of the engagement themes that the fixed income group focuses on during its engagement with issuers.

When engaging with an issuer on their green bond issuance, the discussions are mainly upon the use of proceeds, which finances a wide range of environmentally-friendly projects, such as green buildings and solar projects etc. Albeit the fact that in some cases where the issuer’s finance and ESG people are sitting at the same table, we tend to observe they often discuss ESG issues and financial strategy separately.

In contrast, the use of proceeds from transition bonds is generally limited to the issuer’s medium- to long-term decarbonization investments. For this reason, during individual engagement prior to the bond issuance, ESG issues and financial strategies tend to be discussed in an integrated manner, and the details of these discussions is extremely useful in fundamentals analysis.

We also participate in tours of cutting edge facilities which aims to play a vital role in achieving the net-zero goals of transition bond issuer. By actually visiting facilities from the perspective of an ESG credit analyst, and having direct dialogues with on-site personnel, we are able to better understand and evaluate whether the issuers’ transition efforts towards decarbonization are feasible. These types of communication with transition bond issuers, will enable us to properly incorporate a company’s efforts to address ESG issues into our fundamentals evaluation, which is directly linked to our investment portfolio.

Japanese companies are leading the world when it comes to issuing transition bonds. As a global investor, our Fixed Income Group, including our overseas offices, holds individual meetings with overseas issuers regarding the need for transition and related initiatives.

In addition, diversification of financing methods is extremely important with Japanese companies expanding their overseas business operations.

In fact, we believe that the potential demand for transition bonds supporting decarbonization is extremely high overseas as well, and we believe there is also significant room for Japanese issuers to issue bonds overseas.

The growth of the transition bond market overseas will likely provide a major boost not only to Japanese companies but also to Asian companies building decarbonized economies.

These discussions through engagements by the Fixed Income Group is essential in the development and growth of the ESG bond market.

About transition bonds

Transition bonds are bonds that aim to support a gradual transition to a decarbonized economy. In order to achieve carbon neutrality, it is necessary to support not only green finance such as promotion of renewable energy, but also efforts by companies to reduce their GHG emissions in line with their long-term strategies. It is challenging for hard-to-abate industries to decarbonize in a single leap, thus supporting the transition to decarbonization is the key. Such efforts include for example, switching from heavy oil and coal to LNG and adopting highly-efficient combustion methods for LNG.

Engagement by investors is crucial in ensuring issuers take meaningful actions, and avoid them taking actions that look good on the surface.
Messages from the Responsible Investment Council

Member composition
The Responsible Investment Council comprises only the Chief Conflict Officer and persons in independent positions in Nomura Asset Management, including independent outside directors. Currently, the Responsible Investment Council has four members: one Chief Conflict Officer; two independent outside directors; and one outside expert.

Positioning
The Responsible Investment Council is positioned under the Audit and Supervisory Committee. As necessary, the Responsible Investment Council recommends improvements to the Executive Management Committee and/or the Responsible Investment Committee, and reports such recommendations to the Board of Directors and the Audit and Supervisory Committee (Refer to “System to Manage Conflicts of Interest” on Page 62).

Meetings held
Since its establishment in September 2016, the Responsible Investment Council has met a total of 46 times through December 31, 2022. The Responsible Investment Committee is attended by the members of the Responsible Investment Council, who promptly provide their opinions.

About the Responsible Investment Council
The Responsible Investment Council verifies the appropriateness and validity of stewardship activities, including the formulation of proxy voting guidelines, proxy voting decisions, the formulation of engagement policies and engagement activities, thereby aiming to prevent adverse impacts on clients’ interests due to conflicts of interest or other issues.

Organizational Structure for Responsible Investment

- Dialogue with portfolio companies
- Integration into investment decisions
- Proxy voting
- Collaborative/public activities

Main activities
- Reports on activities, proposals of issues, etc.
- Formulation of guidelines, supervision, evaluation, etc.
- Investment and research division

April 1973 Certified as an attorney (Dai-Ichi Tokyo Bar Association)
January 1977 Partner, Nishimura, Kōjima & Tomozuru
January 1977 Harvard Law School (LL.M.)
January 2011 Of Counsel, Anderson/Müller & Tomozuru (present post)
June 2018 Outside Director, Nomura Asset Management Co., Ltd. (present post)

Akiko Kimura
Outside director
Appointed in 2016

“Our position as a company itself, Nomura Asset Management will play a role in solving ESG issues, undeterred by any headwinds.”

Members of the Responsible Investment Council attend Responsible Investment Committee meetings, and when the Committee deliberates on proxy voting on general shareholders meeting proposals involving Nomura Group companies, they adhere to the “customers-first principle” and make decisions that are in the best interest of our clients. Recently, when it comes to portfolio companies’ M&A-related proposals, conflicts of interest between the rich and poor shareholders are often the topic of deliberations. As transaction structures become increasingly complex, there are a growing number of cases requiring difficult judgments.

ESG has become an important theme in our engagement with portfolio companies and in proxy voting, and is significantly impacting conventional asset management thinking. The business objective of an asset management firm is to invest as efficiently as possible and provide the largest returns possible to investors, and this objective remains unchanged today. Currently, however, asset management firms are also taking on the role of urging their portfolio companies to increase their corporate value by addressing ESG issues. The sharp rise in energy prices since last year has become a headwind for addressing ESG issues.

However, if companies continue to only pursue profits, they will destroy the natural environment, widen the gap between the rich and poor, and even threaten the earth’s survival. In this context, we hope that Nomura Asset Management will be undeterred by such headwinds and continue to push forward with addressing ESG issues.

April 1977 Professor, School of Commerce, Meiji University (current)
April 1996 Full-time Assistant, School of Commerce, Meiji University (current)
April 2002 Professor, School of Business, University of Michigan (current)
April 2006 Visiting Professor, School of Business, University of Michigan (current)
April 2020 Member, Executive Committee, National Federation of Mutual Aid Associations for Municipal Personnel (current)
June 2022 Outside Director, Pigeon Corporation (current)

Yumiko Miwa
Outside director
Appointed in 2020

“Water resources and biodiversity, and social issues including diversity, human rights and well-being of society have become increasingly important in investment decision-making and engagement. In recent years, in addition to climate change, environmental issues such as biodiversity and water resources, and social issues including diversity, human rights and well-being of society have become important. Companies are being urged to identify risks and business opportunities in these areas, and to go a step further by practicing sustainability management taking geopolitical risks into consideration.

Nomura Asset Management is proactively working on these kinds of ESG issues, including revising the key engagement themes in July 2022. As a responsible investor, I would like to see Nomura Asset Management become an industry leader for social change.”

Ryōji Maeda
Outside director
Appointed in 2021

“This year marks my second year as a member of the Responsible Investment Council, and I attended the June Responsible Investment Committee meeting for the first time where we deliberated on general shareholders’ meeting proposals. Our main responsibility is to manage conflicts of interest, and with respect to proposals involving Group affiliates, we confirmed that the Committee is appropriately identifying areas in which conflicts of interest could arise and making judgments rigorously in accordance with our proxy voting standards. In addition, the details of shareholder proposals related to environmental and social issues are becoming increasingly diverse, and we confirmed that the Committee’s judgments are based on an understanding of portfolio companies’ situations through engagement and other means, and are made following sufficient discussion. Regarding our proxy voting standards, which we revised in November 2022, key debates were the growing interest in gender diversity and efforts to address cross-shareholdings, and the standards were quickly revised after considering societal demands, the situation at portfolio companies, and other factors.

With increasing numbers of requests for companies to disclose sustainability information, it is important to further strengthen cooperation within the entire Research and Investment Unit in order to accurately grasp the situation of portfolio companies. I hope that further enhancing the structure for systematically carrying out stewardship activities, led by the Engagement Department, will result in a higher level of investment quality. In addition, I hope that as a company itself, Nomura Asset Management will work with the Sustainability Development Department established in April 2022 to address sustainability issues.

April 2002 Professor, School of Commerce, Meiji University (current)
April 2006 Visiting Professor, School of Business, University of Michigan (current)
April 2020 Member, Executive Committee, National Federation of Mutual Aid Associations for Municipal Personnel (current)
June 2022 Outside Director, Pigeon Corporation (current)

ESG Integration

Responsible Investment Report 2022

As a responsible investor, I expect Nomura Asset Management to become an industry leader for social change.”

Yasuyuki Sato
Outside director
Appointed in 2016

“With geopolitical risks into consideration.
Nomura Asset Management is proactively working on these kinds of ESG issues, including revising the key engagement themes in July 2022. As a responsible investor, I would like to see Nomura Asset Management become an industry leader for social change.”
Results of Self-Evaluation of 2022 Stewardship Activities

We actively engaged in stewardship activities in order to encourage portfolio companies to increase their corporate value and promote sustainable growth, and to increase medium- to long-term investment returns for clients and beneficiaries.

To further enhance our activities, we performed a self-evaluation of our stewardship activities in 2022 (January to December), the results of which are in this section. This self-evaluation corresponds to the self-evaluation required by Guideline 7-4 of the Japan Stewardship Code revision on March 24, 2020.

Results of Self-Evaluation of 2022 Stewardship Activities

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

Questionnaire Overview

<table>
<thead>
<tr>
<th>Target</th>
<th>The following people responded according to the questions.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Responsible Investment Committee*1 members – 5</td>
</tr>
<tr>
<td></td>
<td>Responsible Investment Committee Secretariat members – 7</td>
</tr>
<tr>
<td></td>
<td>Responsible Investment Council*2 members – 4</td>
</tr>
</tbody>
</table>

| Questionnaire timing | January-December 2022 |

| Period covered     | January-December 2022 |

| Response format | Signed (not anonymous) |
|                | Multiple choice (4 choices) |
|                | Write comments freely |

<table>
<thead>
<tr>
<th>Questionnaire</th>
<th>Total of 14 questions: Addressing each of the principles of Japan’s Stewardship Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1</td>
<td>(Formulate and publicly disclose policy) 2 questions</td>
</tr>
<tr>
<td>Principle 2</td>
<td>(Manage conflicts of interest) 3 questions</td>
</tr>
<tr>
<td>Principle 3</td>
<td>(Monitor investee companies) 1 question</td>
</tr>
<tr>
<td>Principle 4</td>
<td>(Engagement) 3 questions</td>
</tr>
<tr>
<td>Principle 5</td>
<td>(Proxy voting) 3 questions</td>
</tr>
<tr>
<td>Principle 6</td>
<td>(Report to clients and beneficiaries) 1 question</td>
</tr>
<tr>
<td>Principle 7</td>
<td>(Skills for stewardship activities) 1 question</td>
</tr>
</tbody>
</table>

Future Actions

Among our stewardship activities in 2022, the following were brought up as particularly effective initiatives.

- The deliberation process and output related to the basic policy for responsible investment management.
- Robust deliberations and management of conflicts of interest at Responsible Investment Council meetings.
- Progress on bolstering systems with the creation of the Engagement Department.
- Process for discussions about proxy voting, details of revisions to proxy voting standards.
- Disclosure related to Responsible Investment Report and proxy voting results, etc.

More than 90% of respondents indicated that stewardship activities in our company were appropriate.

The Responsible Investment Committee held discussions based on the results of the questionnaire and comments received, and the final assessment was we were generally able to carry out appropriate stewardship activities, including our response to the points identified in the previous year as areas to be strengthened.

- Consider a policy to increase the diversity of the Responsible Investment Committee in order to incorporate diverse opinions into discussions.
- Increase the awareness and level of understanding of the Basic Policy for Responsible Investment, which was revised in December 2021, within the Investment and Research Unit, which is responsible for stewardship activities.
- Establish an implementation system for stewardship activities, centering on the Engagement Department created in November 2021.

The Responsible Investment Committee will deepen discussions on the points that need to be enhanced as identified through this self-evaluation, and work to further improve stewardship activities.

- Continuing from the previous year, consider strategies to increase the diversity of the Responsible Investment Committee.
- Further enhance engagement by cultivating new ESG issues and elaborating processes, etc., and bolster information disclosure.
- Endeavor to revise forward-looking proxy voting standards based on domestic and international trends.

1) Comprises members from the investment and research functions.
2) Comprises one Chief Conflict Officer, two independent outside directors and one outside expert.
Nomura Asset Management's ESG Communication Activities

Nomura Asset Management is also focusing on delivering information related to ESG. Namely, employees give presentations and participate in seminars to help people gain a better understanding of ESG.

Moreover, by participating in efforts to establish standards for ESG reporting, we convey the importance of ESG.

In particular, in 2022, the tightening of ESG investment-related regulations sped up in many countries, and asset management firms are now being strongly urged to both comply with regulations and be accountable to end investors.

At the same time, the roles and responsibilities of institutional investors are also undergoing significant changes.

In short, there is growing demand for "investment with spirit," which involves proactively addressing these ESG issues, complying with regulations and being accountable. This has led us to address these issues, with the aim of becoming a sustainable financial institution.

In this way, our aim is to continue to comply with the different regulations of each country.

First, we must respond to the changing needs of end investors.

Right now, there is a clear and growing movement to aspire for sustainable investment. This investment is also aimed at creating a more ideal society.

This sustainable investment movement has been growing in stages. It began with Stage 1.0, which emphasized economic value, and then transitioned to Stage 2.0, which aimed to achieve both economic value and environmental and social value in a balanced manner.

Sustainable investment is now in the process of advancing to Stage 3.0, in which more emphasis is placed on environmental and social value. This does not mean that economic value is neglected, but rather, investment now aims to achieve greater social value while securing economic value.

We must respond to these new investor needs.

Second, countries around the world are now adopting ESG regulations in order to attract sustainable investment. If we do not comply with ESG regulations, our asset management business will suffer. At the same time, we will lose the confidence of end investors.

We must establish advanced ESG product governance in compliance with these regulations.

To this end, it is critical to stay in compliance with the most rigorous standards. In our view, this will allow us to ultimately remain in compliance with the different regulations of each country.

Third, we must further foster the spirit of ESG within Nomura Asset Management. Going forward, we will need to continue to comply with a wide range of ESG regulations and client guidelines.

While doing this, we must not forget why these regulations and guidelines exist in the first place.

If we forget what we are aiming for and fail to invest with spirit, our compliance efforts will end up being merely procedural, which will diminish our value in the eyes of end investors.

If our investment lacks spirit, we will certainly find it difficult to survive going forward.

Sustainable investment is also an issue that is directly linked to our national interest. If Japanese companies and asset management firms are left behind in this global trend, it means that Japan will not be able to attract risk money, which will result in the decline of Japan as a whole.

To prevent this from happening, we must be sensitive to the demands of end investors and society, and change ourselves as needed.

As we move forward, Nomura Asset Management will continue striving to be a sustainable asset management company.