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.
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**
We select and model ESG factors that are material for credit investment based on a variety of research. In addition to this ESG factor model integration, qualitative evaluations by credit analysts are also considered within the investment process to improve the portfolio’s risk-adjusted return and sustainability.

Integrating ESG factors into the investment process is critical, as we believe financial performance and ESG efforts (non-financial information) are closely related and influence one another. We utilize proprietary ESG evaluations of portfolio companies when making investment decisions. In order to effectively incorporate ESG considerations and other non-financial information into the investment process to supplement the analysis of a company’s fundamentals (financial information used to evaluate a company), we conduct our own ESG assessment for both equity investing and fixed income investing. This integration of ESG factors into the investment process not only helps reduce downside risk, but is also an essential component to improve returns. ESG assessment is not limited to Japanese companies, as the scope also includes companies in developed countries in Europe and the Americas, as well as companies in Asia and emerging countries. In addition to global themes such as climate change and human rights, we assess specific material ESG considerations for individual industries and companies, and utilize information from multiple external sources to create our proprietary ESG scores. These ratings are made available to all portfolio managers for integration into the investment decision-making process.
Equity Integration

Equity Integration Approach

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

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

For "growth evaluation", the business impact of climate change, supply chain resilience, intellectual property, R&D capabilities and organizational strength, quality of human resources and diversity are among the sources of competitiveness that help differentiate a company from its peers. 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 sustainability of future profits based on whether or not the company is able to accumulate intangible assets, and to determine whether or not future profits will fluctuate sharply due to changes in the business environment. In other words, this "business risk evaluation" is looking at how to evaluate the discount rate when discounting future cash flows to the present value. To put it another way, the valuation of intangible assets is an important aspect of determining whether the valuation (relative price metric for the stock price) of the investment target company is too high or too low.

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

Our ESG evaluation framework is also applied to our global equities investment. In addition to global themes such as climate change and human rights, we assess specific material ESG considerations for individual industries and companies and utilize information from multiple external sources to create our proprietary ESG ratings. These ratings are made available to all portfolio managers for incorporation into the investment decision-making process. For example, at our Singapore Office, country specialists (CS) are assigned to cover each country in this diverse region, and the main source of added value is the bottom up research conducted by meeting with companies (2393 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.

![Diagram of ESG Integration](image-url)
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 various ESG factors into consideration (qualitative and quantitative decisions about ESG). When assessing a company as an investment target, managers of actively-managed portfolios must consistently ask “Is this a company that controls ESG risks and opportunities and can continue to grow in five or 10 years?” and manage the portfolio by examining 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 where we have chosen to invest in a different company in the same industry with the same investment grade, if that other company is actively working towards net zero. 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 on health promotion as ESG opportunities, and increase the weight of that stock in the portfolio.

Coordination with engagement activities is also an important element of ESG integration. The reaction of top management during engagement meetings and the status of milestone achievements are also important signals for managers evaluating “opportunities.” Therefore, many of our investment managers attend meetings with top executives, where they discuss ESG issues. By accumulating more experience and case studies of gathering information to make proper decisions on ESG-related risks and opportunities, performing ESG evaluations of individual companies, managing portfolios, and carrying out engagement, we are able to select strong companies that can continuously grow amid the rapid changes in society for our customers.

Portfolio Manager's ESG Viewpoint

<table>
<thead>
<tr>
<th>Business risks and opportunities</th>
<th>Geographic risks and opportunities</th>
<th>Growth of environmental/social solutions businesses</th>
<th>ESG track record</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current and future segment mix</td>
<td>Status of production and sales in regions with enhanced regulations</td>
<td>Profitability of environmental/social solutions businesses</td>
<td>Environmental performance (CO₂ emissions, stranded asset exposure, eco-friendly procurement ratio, etc.)</td>
</tr>
<tr>
<td>Assessment of M&amp;A strategy</td>
<td>Changes in the supply chain structure</td>
<td>Current customer and market development strategy</td>
<td>Social performance (employee turnover rate, diversity, safety indicators, actions on human rights, etc.)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Governance (governance structure, compensation, misconduct/scandals, etc.)</td>
</tr>
</tbody>
</table>
ESG Scores for Japanese Equities

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

ESG Score Content

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

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

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

In “Governance,” we evaluate multiple items to make sure that companies have put appropriate structures/systems in place, such as the composition of the board, outside director independence, and whether nomination and compensation committees have been established. Meanwhile, we also evaluate qualitative issues such as dialogue with top management and successor planning. The unique strengths of our corporate analysts, who have been studying and analyzing companies extensively for many years, are reflected in our evaluations. In “SDGs”, we proactively evaluate a company’s stance vis-à-vis working on future opportunities. We evaluate whether a company considers solutions to SDG issues as business opportunities and appropriately incorporates them into its business strategies. In doing so, rather than simply looking at whether or not a company has businesses that enable it to contribute to the achievement of each goal, we conduct extensive research and forecast future sales mixes capable of contributing to SDGs goals, and look at whether or not a company has excellent human and technological resources to differentiate itself from industry peers.

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

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Utilizing ESG Scores

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Utilizing ESG scores in engagement

ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities. By using this ESG score, we can compare the strengths and weaknesses of portfolio companies’ ESG efforts, and use the scores in engagement such as discussing future course of action.

Utilizing ESG scores in investment activity

ESG scores are posted on an internal research-sharing system. The materials used by investment committees and others to evaluate investment value for individual companies contain usual financial indicators as well as ESG scores and ESG comments by the analysts in charge. These scores are actively utilized in making investment decisions.

Utilizing ESG scores in portfolio construction and monitoring

When building and reviewing portfolios, we check scores for individual companies, use them to make comparisons with industry peers and see how a company’s score has changed, as well as to check the ESG quality of the portfolio. Investment managers can also use the items comprising the ESG scores of individual companies as a standalone data. Additionally, by regularly comparing the portfolio’s overall ESG score to the benchmark, they can use ESG scores to check ESG risk bias and other factors.
What is impact investing?

At Nomura Asset Management, we believe that impact investing is not limited to simply having an impact on the environment or society. 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 KPI and targets that generate impact, as well as proactively support business activities aimed at achieving them.

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

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

<table>
<thead>
<tr>
<th>Impact investment Engagement</th>
<th>Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio company</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Environment/Society = Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nomura Asset Management</td>
</tr>
<tr>
<td>Impact investment</td>
</tr>
<tr>
<td>Returns</td>
</tr>
<tr>
<td>Economic returns</td>
</tr>
<tr>
<td>Social returns</td>
</tr>
<tr>
<td>Business activities</td>
</tr>
<tr>
<td>Inputs (investment)</td>
</tr>
<tr>
<td>Outputs</td>
</tr>
<tr>
<td>Impacts</td>
</tr>
<tr>
<td>ESG Integration</td>
</tr>
<tr>
<td>GOALS</td>
</tr>
<tr>
<td>Pension funds, etc.</td>
</tr>
<tr>
<td>Individual investors</td>
</tr>
<tr>
<td>Clients/business partners</td>
</tr>
<tr>
<td>Employees</td>
</tr>
</tbody>
</table>
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 to 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.
Nomura Asset Management’s UK Office manages the Equity Strategy Nomura Global Sustainable Equity Fund based on the concept of impact investing. This fund not only encourages companies to tackle the key challenges facing the world today, but also imparts social impact on a variety of stakeholders by encouraging them to address the sustainability of their businesses. The key is establishing impact goals and measuring their impact.

We believe we can create a high degree of social impact by establishing monitoring indicators related to impact goals (KPIs) and by monitoring both these and CPIs (Company Performance Indicators) of individual companies tied to the actual portfolio. Also, we support actions that generate impact through actual engagement with portfolio companies, centered on the details of the monitoring of individual companies’ CPIs. The investment team pays close attention to what kinds of changes in actual corporate activities these engagements have caused, and what kind of impacts those changes have actually had on our society. We believe that engagement by investment managers with portfolio companies in various ways through CPI monitoring is an important process towards achieving the impact goals we have established.
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 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).

<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><strong>Total</strong></td>
<td></td>
<td>60</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

Clean energy and carbon-free power generation

Supplied 70TWh of clean energy

**Annual clean energy generation**

(Source): Prepared by Nomura Asset Management based on data from the company’s website

**The Global Sustainable Equity Fund’s Portfolio Impact**

<table>
<thead>
<tr>
<th>Impact Goal</th>
<th>%</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mitigate Climate Change</td>
<td>33%</td>
<td>20</td>
</tr>
</tbody>
</table>
| Energy generation output by wind power generation equipment | 70TWh of renewable energy
| Contributed to 351.1 million tons of CO₂ emission reductions through the provision of services to customers |

**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 for sustainability with respect to the environment and society.

While the global turmoil spurred by the 2020 COVID-19 pandemic is settling down and society is
adjusting as the disease becomes endemic, other disruptions arising from geopolitical risks are expected to continue for a prolonged period. Therefore it is important not only to pay attention to various social issues caused by such turmoil, but also to take immediate action to address those social issues.

As a part of this, "impact investing" is attracting attention as an investment method that addresses the environmental and social problems we face. This is an investment method that, in asset management products, in addition to earning the usual investment returns, seeks to solve issues in society through 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.

Impact from JSEG Portfolio Companies

JSEG portfolio companies have achieved the following environmental and social impacts through their business activities (FY2021)

**Environment**
- Contributed to the reduction of 33.23 million tons of CO₂ by selling products with strong environmental performance
- Sold approximately 226,000 EV traction motors, which strongly curb greenhouse gas emissions
- Procured 254,000m³ of ecosystem-friendly certified lumber
- The resource recycling business handled 6.34 million tons of materials for metals, including collection and processing of renewable materials from discarded vehicles as well as scrap metal in the market and from factories

**Society**
- Provided 30 million tablets of antifilarial medicine for neglected tropical diseases to 12 million people
- Invested ¥383.8 billion in R&D costs to promote development of new drugs
- Used disinfectant to provide drinking water for 760 thousand people

**Maintaining Social Infrastructure and Improving Productivity**
- Provided intermediary services to 453 small- and medium-sized enterprises facing business succession problems due to the aging of executives and other issues, thereby helping to avoid ¥349.3 billion in economic losses.
In April 2022, NAM’s Singapore office began managing the Asia Sustainable Equity Strategy based on our 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).

**Impact by Asia Sustainable Equity Strategy (ASE) portfolio companies**

**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 EVs, which strongly curb greenhouse gas emissions
- Energy generation output by Wind power and Solar power generation equipments
- 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.)

**CO₂ emissions by country (2020)**

- China 32%
- India 7%
- Japan 3%
- South Korea 2%
- Indonesia 2%
- Australia 1.1%
- Thailand 0.7%
- Malaysia 0.7%
- Singapore 0.2%
- New Zealand 0.1%
- Rest of APAC 4%
- EU 7%
- US 13%
- Row 28%

(Source): Prepared by Nomura Asset Management based on data from The EDGAR (Emissions Database for Global Atmospheric Research) by European Commission Joint Research Centre
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.

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

- **Eliminate Communicable Disease/ Mitigate the Obesity Epidemic**
  - Invested **US$16 billion** in R&D aimed at developing new drugs and bolstering existing drugs

- **Mitigate Natural Capital Depletion**
  - Provided **US$35 billion** to small- and medium-sized companies
  - Provided **US$1.4 billion** in home loans to low-income households

Global unbanked adult population (% by country, 2021)

- Bangladesh: 4.1%
- China: 9.5%
- Egypt, Arab Rep.: 3.6%
- India: 16.7%
- Indonesia: 7.1%
- Nigeria: 4.6%
- Pakistan: 8.3%
- Rest of the world: 46.2%

(Source): Prepared by Nomura Asset Management based on data from Global Findex database
Fixed Income Integration

Portfolio alignment metrics for credit investment in the transition to net-zero emissions

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*1) 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*2 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*3, 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$59 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 contribute to achieving the global common goal by 2050 stipulated in the Paris Agreement, which is to work to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

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.

From the perspective of fixed income investment, we aim to reduce downside risk 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, and yield level.

*1 Net-zero refers to efforts to have zero effective emissions by balancing GHG emissions and absorption.
*2 ESG stands for Environment, Social, and Corporate Governance.
*3 Rating at the time of investment
*4 This refers to companies that, even if they currently emit a large amount of carbon, have been evaluated by us as being companies that will make greater contributions to climate change in the future through efforts to reduce carbon emissions.
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, by 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

Replacing fossil fuels with wind power through investment in the project is estimated to reduce CO₂ emissions by 551,000 tons in 2021.

Prepared by Nomura Asset Management based on data from the company’s website

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 to develop and operate offshore wind power plants, thereby accelerating its supply of electricity from renewables.

Example of green bond issued in 2017

<table>
<thead>
<tr>
<th>Use of proceeds</th>
<th>Multiple offshore wind power projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount issued</td>
<td>750 million euro (Approx. ¥106.7 billion)</td>
</tr>
</tbody>
</table>

Hornsea 1
One of the largest offshore wind power plants in the world
Area 407 km² (approximately the size of 10 Tokyo Domes)

Portfolio Manager
Takeda Konoka
Nakano Shuhei

Responsible Investment Report 2022
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 have developed 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 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.

Vehicle exhaust gas regulations in Europe are stringent, and sales of gasoline-powered vehicles are expected to be banned in the future. Under these circumstances, the company is focusing on sales of electric vehicles as a decarbonization initiative, and has set a goal of selling only electric vehicles in the future. In addition, in the manufacturing process, the company identifies parts that emit a large amount of CO₂ and sets CO₂ emission standards for the selection of parts, and has achieved carbon neutrality (a balance between GHG emissions and sequestration) at its manufacturing plants by installing solar 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 a country’s potential risks and to reducing downside risks particular to investment in emerging markets, which is extremely important in improving long-term investment performance.

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 unique climate and characteristics of each region. In recent years, the share of renewable energy such as solar power and wind power in the country’s power supply mix has increased. For example, in the northern desert region of the country, solar PV generation takes advantage of the long hours of sunlight, while in the south, which is famous for its year-round strong winds due to the influence 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. Become 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.

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.
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 coherency and potential impacts.

Also, in regards to cybersecurity risk which is a new downside risk factor, we had discussions upon 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 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.