Responsible Investment Report 2023

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Nomura Asset Management

Expertise to Exceed

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 (NAM)

Engagement

Proxy Voting

ESG Integration

Our Strengths in Responsible Investment

1 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.

History of Responsible Investment

2001
Proxy Voting Committee established

2004
Management of SRI Index Fund commenced

Management of governance fund commenced

2010
UK Stewardship Code adopted

2011
ESG Committee (now the Responsible Investment Committee) established

United Nations-supported Principles for Responsible Investment (UN PRI) signed

2014
Japanese version of the Stewardship Code adopted

ESG Committee reorganized into Responsible Investment Committee

Proxy Voting Committee reorganized into Stewardship Committee

2015
Responsible Investment Group and ESG specialists established

Stewardship Committee integrated into Responsible Investment Committee

2016
Responsible Investment Department established

Conflict of Interest Management Policy formulated and Responsible Investment Council established
Stewardship Codes in Singapore, Hong Kong and Taiwan adopted

UK Office acquired Tier1 evaluation from UK FRC*

2017
Proxy voting results disclosed individually

Malaysian Stewardship Code adopted

2018
Self-evaluation disclosed

2019
Support for TCFD. Strengthening our company-wide efforts to tackle climate change.

Formulated our ESG Statement

2020
Established Asset Management

Research Institute to promote ESG

2021
Established NAM's materiality Joined Net Zero Asset Managers initiative (NZAM)

Revised ESG Statement

2022
Sustainability Development Department and Net Zero Strategy Department established

Revised ESG Statement

2023
Corporate Sustainability Report 2023 published

2 Systematic and Continuous ESG-related Initiatives

Our company's second strength is our systematic and ongoing effort to address ESG-related issues in anticipation of the needs and dynamics 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 ideal form of business management of investee companies, as well as providing information to stakeholders through disclosure materials such as the Responsible Investment Report and the TCFD Report.

Furthermore, we have established a Sustainability Development Department to accelerate our business operations with an emphasis on sustainability, and in 2023 we newly issued a Corporate Sustainability Report. We are also working to strengthen our organizational structure with respect to ESG, including establishing an Engagement Department to bolster our engagement with portfolio companies and a Net Zero Strategy Department that is working to enhance our efforts to address climate change.

Organizational Structure for Responsible Investment

Responsible Investment Council

Oversight, verification, advice, etc.

Responsible Investment Committee

Secretariat:
Responsible Investment Department

Forming policies, oversight of initiatives, etc.

Reports on activities, define issues, etc.

Investment and research division

Main activities

- Dialogue with portfolio companies (engagement)
- Proxy Voting
- Integration into investment decisions (ESG integration)
- Collaborative/ public activities

3 Global Approach and Diversity

Our company's third strength is our global and highly-diverse investment and research framework. Based on our global platform for responsible investment, we have built an ESG investment and research framework made up of portfolio managers, corporate analysts and country specialists who manage ESG products in our overseas offices. Our team includes a large number of portfolio managers, ESG investment managers, corporate analysts, credit 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.

4 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 of the Responsible Investment Committee in real time. The majority of the Council is consists of highly independent outside directors and outside experts in order to manage conflict of interest. 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 14 meetings in 2023. The discussion at the Commitee often heats up over the decision on proxy voting and ESG related issues. The members of the Council observes the Committee meetings not only to monitor the conflicts of interest but also to actively join the discussion.

Responsible Investment Committee Meetings January – December 2023

Responsible Investment Committee
14 times
Regular 4 times
Ad hoc 10 times

Responsible Investment Council
7 times
Regular 4 times
Ad hoc 3 times

Cooperation with Our Overseas Offices

Cooperation With Overseas Offices

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 11-16).

Nomura Asset Management Stewardship Code Signing Status

UK*	Dec. 2010
JAPAN	May 2014
HONG KONG	Sep. 2016
SINGAPORE	Sep. 2016
TAIWAN	Dec. 2016
MALAYSIA	Apr. 2017

* In March 2022, Nomura Asset Management UK was approved by the Financial Reporting Council (FRC) as a signatory to the UK Stewardship Code 2020.

ENGAGEMENT

We engage in constructive dialogue with companies about important financial and non-financial risks and opportunities in accordance with our basic policy for engagement (refer to Pages 59-70). Specifically, our ESG specialists, ESG investment manager, engagement managers, company analysts and country specialists based in Japan and overseas offices collaborate to engage with portfolio companies.

We monitor the details of the engagement of managers in each country with target companies using common milestone management tools, which allows information to be easily shared among our offices. With respect to climate change, which is one of our key engagement themes, we urge portfolio companies to receive SBT approval, and by monitoring the status of these efforts on a global level we are able to check how much progress companies are making. Furthermore, ESG officers in overseas offices can now easily hold discussions with our ESG specialists in Tokyo about engagement details. (Refer to Pages 71-76)

PROXY VOTING

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 79).

ESG INTEGRATION

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 89-106).

PM Portfolio Manager

AN Research professional (company analyst, credit analyst) Quant analyst (quant analyst, financial engineer)

ESG ESG specialist, ESG investment manager, Engagement manager

CEO Message

Striving to be an asset management firm that makes the world a better place

Hiroyasu Koike
President & CEO

The global turmoil caused by the COVID-19 pandemic has now subsided, and people are finally able to return to their normal daily lives. After experiencing the unusual circumstances of the past few years, I think it is important that we remember to appreciate the peaceful times we have, and approach all of our efforts with an extra sense of focus. Currently, in addition to the emergence of new geopolitical risks, various climate change-related disasters are occurring in Japan and other parts of the world. At the beginning of this year, the World Meteorological Organization (WMO) announced that the global average temperature in 2023 was the highest on record. Local, national and global issues are becoming increasingly serious and complex, which makes now the time to consider and implement actions to address the many social issues we face.

Disruptions caused by geopolitical risks are causing significant volatility in energy prices. The price fluctuations remind us of the challenges of dependence on fossil fuels and worsen uncertainty around the future balance of energy supply and demand. This also affects companies' actual capital investment plans, leading to increased business uncertainty. Furthermore, the occurrence of disasters due to rising temperatures poses the question of how to build a sustainable society. For example, worsening climate change could result in a vicious cycle, where water and food shortages lead to an increase in involuntary migration, which could then spark new geopolitical risks. Issues that need to be addressed on a global scale, such as climate change, are also closely related to human rights and other social issues raised in the SDGs. In this way, we believe we must view climate change not as a single issue, but as a multifaceted problem related to a variety of other issues.

As a responsible investor, we aim to realize both social and economic value through our asset management business. The core idea to solving these social issues is the investment chain (virtuous cycle of investment). Companies that generate economic profits are fully capable of contributing to a sustainable and prosperous society. As an asset management firm, we play an important role in creating a virtuous cycle of investment and realizing a sustainable and prosperous society by connecting investors and companies through investment. This is the core of our investment chain philosophy. 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/SDGs-related initiatives.

In conclusion, I would like to emphasize that Nomura Asset Management will continue to embrace change, provide the best ESG products, enhance corporate value and build a sustainable society, not just as a responsible institutional investor, but also as an asset management firm that strives to make the world a better place. The essence of the asset management business is to provide products that meet customers' needs as well as the best performance and services. I also firmly believe that in the process of providing such products and services, it is our responsibility to create both economic value and social value.

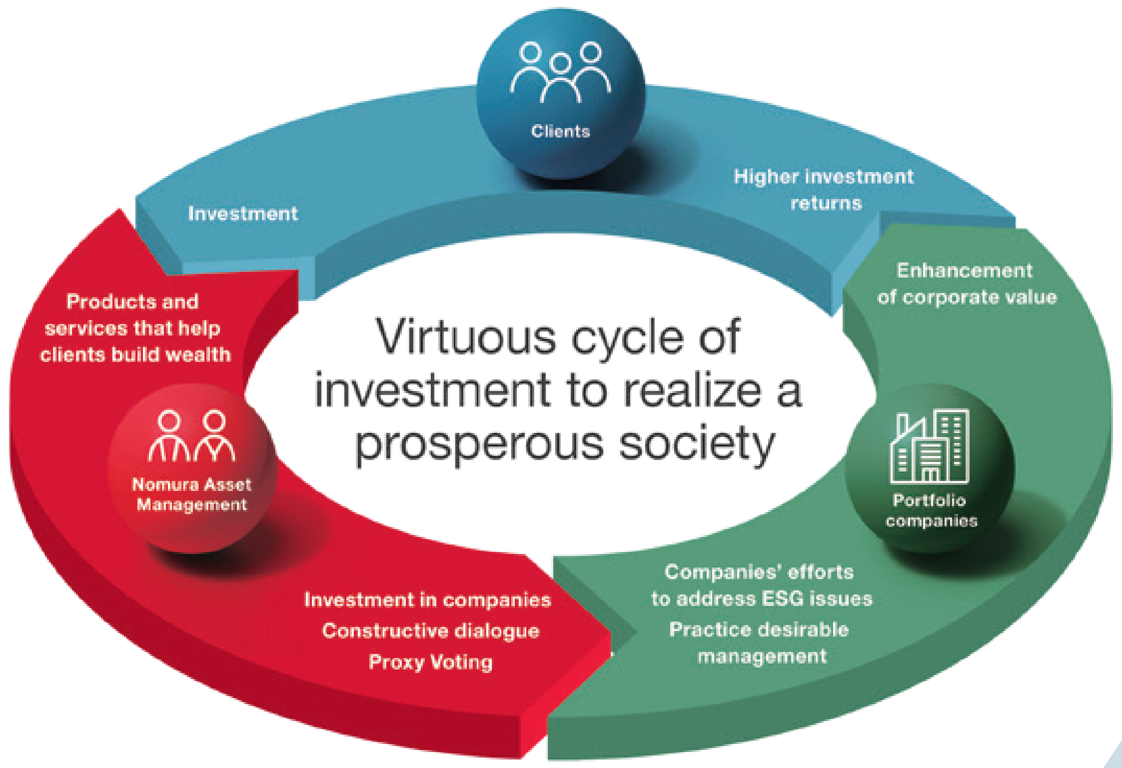
Expertise to Exceed

Using our expertise and foresight to stay ahead of change, we pursue exceptional performance and create cutting-edge solutions to exceed all expectations.

NAM's vision for the Investment Chain

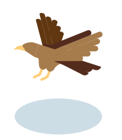
Virtuous cycle of investment to realize a sustainable and prosperous society

We seek to realize a sustainable, prosperous society in which the rich natural environment is preserved, diverse human capital is utilized, economy 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.



High Priority ESG issues

Climate Change


Natural Capital


Human Rights


Value Creation to Realize Well-Being Within Society


Diversity Equity Inclusion & Belonging (DEI&B)


Corporate Governance

NAM's materiality targeting the realization of the investment chain Key issues

We aim realize a sustainable, prosperous society through our asset management business.

For clients

NAM's vision

Continue to provide the highest value-added and be the asset management firm of choice

Provide excellent products and services that help clients build wealth

Execution of fiduciary duty

In order to enhance clients' investment returns

In order to create a society in which clients can enjoy abundance

Together with portfolio companies

NAM's vision

Through dialogue, we strive to both improve the corporate value of portfolio companies and create economic value, as well as solve ESG issues and other issues at portfolio companies to create social value, while NAM itself also works to create similar value.

Economic growth	Enhance corporate value by practicing desirable management and contribute to sustainable economic growth
Environment	Realize a decarbonized society, protect natural capital and biodiversity, and achieve a circular economy
Social	Respect human rights, Promote human capital management
Governance	Realize effective corporate governance

For society

NAM's vision

Widely contribute to advances in society through the asset management business

Promote financial and economics education

In order to familiarize people with wealth building, promote financial and economics education and work to widen the breadth of investors

Support regional revitalization

Work with regional financial institutions to create momentum for regional revitalization originating from regional financial institutions

Partner and collaborate with various stakeholders

As an asset management firm, partner and collaborate with various stakeholders to work to solve social issues

Fiduciary duty A duty to manage our business activities in the best interest of our clients.

- Fiduciary duty is a concept expressing the responsibility of an investment company that gives top priority to customer interests.
- In order to fulfill their fiduciary duty, financial institutions must properly develop, manage, and sell products so that they truly benefit investors.

Please refer to the following link for NAM's materiality
https://global.nomura-am.co.jp/special/sustainability/

Statement

We seek to realize a sustainable, prosperous society in which the rich natural environment is preserved, diverse human capital is utilized, economy 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.

(Excerpt from NAM's ESG Statement)

Statement

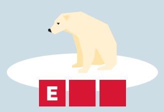
In March 2019, Nomura Asset Management announced our "ESG Statement". In this statement, we expressed the future direction of our ESG activities and how we will respond to environmental (E) and social (S) risks. Also, by sharing the details of our plans with stakeholders, we aim to realize a sustainable and prosperous society.

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.

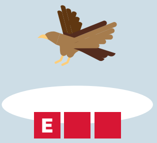
Furthermore, as a responsible investor, we encourage our portfolio companies to practice what we view as desirable management, while we ourselves will also continue to operate with a focus on ESG.

High Priority ESG issues

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. We also partner with a variety of initiatives to work to solve each issue.



Climate Change



Natural Capital

Human Rights

Value Creation to Realize Well-Being Within Society

Diversity Equity Inclusion & Belonging (DEI&B)

Corporate governance

Core ESG Initiatives

PRI Principles for Responsible Investment

Principles for Responsible Investment PRI

Signature Timing
March 2011

PRI (Principles for Responsible Investment) are a set of principles formulated in April 2006 that require investors to incorporate ESG into actual investment analysis and decision-making processes.

PRI Japan Advisory Committee member	Support for educating the public about and energizing PRI's activities in Japan (became committee member in 2023)
PRI Advance Signatory Advisory Committee member	Collaborative engagement for human rights (started in 2022)
PRI Spring Signatory Advisory Committee member	Collaborative engagement for nature and bio diversity (started in 2023)

Environment

N Signed as Nomura Group

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.

CDP

Signature Timing: June 2015 N
Signature Timing: November 2021

Established in 2000. This is a global project in which institutional investors around the world encourage companies to disclose their strategies to combat climate change as well as their specific greenhouse gas emissions. Current areas of focus include climate change, water and forests.

TCFD
(Task Force on Climate - Related Financial Disclosures)

Signature Timing: March 2019

A private-sector led task force launched in December 2015 by the Financial Stability Board (FSB) that encourages enhanced information disclosure related to climate change.

CA100+

Signature Timing: December 2019

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)

Signature Timing:g: August 2021
Signature Timing: March 2022 N

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.

NZAM
(Net Zero Asset Managers initiative)

Signature Timing: August 2021

A global initiative established in December 2020 comprising asset managers which aim for net-zero emissions of greenhouse gases (GHGs) from portfolio companies by 2050, in line with the goals of the Paris Agreement.

Natural Capital

Companies benefit from biodiversity through the utilization of forests, water sources, and other natural capital in their business activities. In 2021, the Taskforce on Nature-related Financial Disclosures ("TNFD"), an international organization that builds frameworks for appropriately assessing and disclosing risks and opportunities related to natural capital and biodiversity, was launched. In September 2023, the TNFD issued its final recommendations regarding the disclosure framework, and a foundation is being formed to create a nature-positive flow of funds. In order to respond to such changes in the environment surrounding natural capital, 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 address social issues, such as the preservation of natural capital and biodiversity.

FAIRR
(Farm Animal Investment Risk and Return)

Signature Timing: June 2019

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.

TNFD Forum

Signature Timing: July 2023

As a collection of stakeholders supporting the TNFD debate, the TNFD Forum enables discussion of the TNFD framework and raising awareness of the risks and opportunities associated with natural capital and biodiversity.

Social

N Signed as Nomura Group

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.

UNGC
(The United Nations Global Compact)

Signature Timing: June 2015 N

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.

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.

30% Club Japan
(Investor Group)

Signature Timing: December 2019

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.

Women in ETFs

Signature Timing: April 2022

"Women in ETFs" advocates for the goal of bringing together people from the ETF industry around the world to actively promote equality, diversity and inclusiveness. Its mission is to develop and sponsor human resources, recognize women's achievements in the ETF industry, and advance and grow the ETF community.

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.

Access to Medicine Index
(Access to Medicine Foundation)

Signature Timing: July 2019

Founded in 2003 by Dutch entrepreneur Wim Leereveld. 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

Signature Timing: May 2021

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.

Triple I for GH
(Impact Investment Initiative for Global Health)

Signature Timing: September 2023

The aim of this initiative is to promote the flow of public and private funds towards the field of global health and contribute to achieving universal health coverage* and the SDGs, primarily in developing countries. An additional goal is to contribute to solving international social issues by sharing impact reporting and good practices in the global health field.

* A state in which all people can receive appropriate health care services such as prevention, treatment, and rehabilitation, at an affordable cost.

Governance

Ⓝ Signed as Nomura Group

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.

ICGN
(The International Corporate Governance Network)

Signature Timing: December 2018

Established in 1995 to promote effective corporate governance standards and foster responsible investment to advance efficient markets and sustainable economies worldwide.

ACGA
(The Asian Corporate Governance Association)

Signature Timing: December 2018

Established in 1999 to engage in research and provide corporate support and education related to corporate governance in order to promote corporate governance in Asia.

JSI
(Japan Stewardship Initiative)

Signature Timing: November 2019

Aims to identify practical issues between asset owners and asset managers and to support efficient transmission of information aimed at advancing and deepening stewardship activities.

Other ESG Related Initiatives

GRESB

Signature Timing: March 2021

Measures the environmental, social, and governance (ESG) of individual companies and investment funds in the real estate sector. GRESB was launched in 2009, mainly by European pension funds, as a source of information to use when selecting investments and during dialogue with portfolio companies and investment funds.

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Principles for Financial Action for the 21st Century

21世紀金融行動原則

Signature Timing: January 2012

Formulated in October 2011 based on a proposal by the Ministry of the Environment's Central Environmental Council as action guidelines for financial institutions that wish to fulfill their responsibilities and roles as required for the formation of a sustainable society.

Environment Programme –Finance Initiative UNEP FI

Signature Timing: January 2019 Ⓝ

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.

ICMA Principles Membership

Signature Timing: June 2023

An international initiative that establishes standards, including the Green Bond Principles, the Social Bond Principles, and the Sustainability-Linked Bond Principles. The initiative aims to promote the healthy development of the global bond market by ensuring market transparency and through information disclosure and reporting.

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.

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.

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 investment products and services that help to address ESG issues and through efforts to expand the investment base through measures such as financial education. (For details, please refer to Pages 9-12 of our Sustainability report 2023.)

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.

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.

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.

Reference › https://www.nomura-am.co.jp/special/sustainability/pdf/sustainability_report2023_e.pdf

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".

NAM's initiatives on PRI

The PRI (Principles for Responsible Investment) is a set of investment principles proposed by UN Secretary-General Kofi Annan in 2006 and designed to reflect environmental, social and governance (ESG) in investment analysis and the decision-making processes. NAM and other institutional investors have the duty to act in the best long-term interest of beneficiaries. Believing that advancing initiatives in line with the investment principles espoused in the PRI is important in terms of fulfilling our fiduciary duty, NAM signed PRI in March 2011 and is strengthening its activities related to responsible investment. We also participate in PRI's annual evaluation, which helps us to improve our responsible investment activities. As of December 31, 2023, there are 5,372 signatories globally.

NAM has been proactively contributing to PRI's activities. In 2023, NAM was appointed as a member of the PRI Japan Advisory Committee, as well as "Spring", which is PRI's stewardship initiative for nature. In Advance, the PRI's collaborative initiative on human rights and social issues which has been active since 2022, NAM is leading engagement with specific companies as a lead investor.

Main activities related to PRI

PRI Japan Advisory Committee Member	Support for PRI promotion activities in Japan (Appointed in 2023).
PRI Advance Collaborative initiative for human rights and social issues (Started in 2022) **PRI Spring** Collaborative initiative for natural capital and biodiversity (Started in 2023)	NAM became a member of the Advisory Committee for "Advance" and "Spring", the PRI's collaborative initiatives, and we have taken a leading role in both building the collaborative engagement framework and in carrying out dialogue with companies.
PRI SSIMRG Member PRI's new initiative for investment managers (Started in 2023)	Discuss issues related to responsible investment and sustainable financial systems.
PRI Nature Reference Group Member	Support signatory awareness of natural capital and building investor capacity to address biodiversity loss and other nature-related risks.

Results of the 2023 PRI Assessment

NAM received the highest rating of "Five Stars" in six Modules in the 2023 PRI Assessment. This assessment involved NAM's initiatives in 2022 spanning a total of 10 modules.

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. The scores for 8 modules out of 10 modules greatly exceeded the respective median values. Among them, NAM received the highest rating of "Five Stars" in Policy Governance and Strategy, three modules for Direct Listed Equity, and two modules for Direct Fixed Income.

2023 PRI Assessment results

			Module score	Module median	Star score	AUM coverage
Policy Governance and Strategy			98	59	★★★★★	
Direct	Listed equity	Active quantitative	100	65	★★★★★	<10%
		Active fundamental	100	71	★★★★★	<10%
		Passive	100	42	★★★★★	>=10 and <=50%
	Fixed income	SSA	95	59	★★★★★	>=10 and <=50%
		Corporate	97	68	★★★★★	<10%
	Hedge funds	Long/short credit	0	40	★☆☆☆☆	<10%
Indirect	Listed equity	Active	82	57	★★★★☆	<10%
	Fixed income	Active	88	57	★★★★☆	<10%
Confidence building measures			60	80	★★★☆☆	

*In the PRI Assessment Report, Nomura Asset Management was assessed on a total of 10 modules. Please refer to the reports listed below for more information on all assessments, including indirect modules.

Reference materials

Reference › PRI Assessment Report 2023
https://www.nomura-am.co.jp/news/Assessment_Report_2023.pdf
PRI Public Transparency Report 2023
https://www.nomura-am.co.jp/news/Public_Transparency_Report_2023.pdf

NAM and PRI Jointly Hosted Side Event at PRI in Person 2023

NAM became a member of the PRI Japan Advisory Committee in May 2023. Together with members of other companies, we have worked to expand the number of signatory organizations and raise awareness of PRI in Japan. There was a demand for dialogue with companies at PRI in Person 2023, which was held for the first time in Japan. NAM collaborated with the PRI to hold an official side event, titled "Investor-Company Forum".

The side event took place on October 3, 2023. The first session of the forum, was moderated by Yuichi Murao, Senior Corporate Managing Director, Chief Investment Officer at NAM. The session involved discussion of issues related to communication gaps between companies and investors, while introducing trends related to the disclosure of non-financial information. Three panelists from leading Japanese companies - Ricoh Company, Ltd., Sumitomo Forestry Co., Ltd. and Mitsubishi Corporation, took the stage to discuss sustainability initiatives and information disclosure, focusing on climate change, biodiversity and human rights issues.

In the second part of the session, a total of eight companies – including Nomura Holdings, Inc. – engaged in direct dialogue with investors. The companies responded earnestly to numerous questions such as "How did you decide the various KPIs to which executive compensation is linked?" "Do you have any plans in relation to avoided GHG emissions?"

Foreign investors were impressed with the candor of some of the Japanese companies when explaining the sustainability challenges they faced and how they were addressing them, and commented that it was a good chance to hear directly from the participating companies. We received positive feedback both from investors and companies. "I am pleased that NAM has been able to provide a forum to connect overseas investors with Japanese companies in collaboration with PRI, at the world's largest ESG conference," commented Yuichi Murao, CIO, NAM.

Right: Yuichi Murao, CIO at NAM, moderating the first session of the side event.

Participated in panel discussions about natural capital and human rights at PRI in Person 2023

We participated in panel discussions on natural capital and human rights at PRI in Person 2023 held in Tokyo, and took part in lively discussions with other investors.

At the panel on natural capital stewardship, the discussion centered on where the added value exists in joining multiple nature-related initiatives, amid the growing debate about appropriate assessments and disclosure of risks and opportunities related to natural capital, as well as system design. We pointed out that the greatest added value lies in being "mutually complementary." Natural capital is a relatively new topic in the investment community. Therefore, we told the audience that joining multiple initiatives enables us form networks and share knowledge with a wide range of professionals.

During the panel discussion on human rights issues in the value chain, the participants talked about how investors should carry out human rights due diligence as regulations regarding forced labor and human rights due diligence become stricter, and also discussed case studies. In Japan, further improvements are expected based on conducting on-site inspections of business partners and disclosing human rights due diligence. While introducing NAM's human rights risk monitoring process and positive examples of engagement, we pointed out the importance of raising the overall standard of human rights risk management and collaborative engagement.

Left: Wakaba Kawai, Senior ESG Specialist at NAM, attending a panel discussion about human rights.
Right, left in the picture: Dai Yamawaki, ESG investment manager at NAM, attending a panel discussion about natural capital.

Column

Basic Policy For RESPONSIBLE INVESTMENT

Basic policy for responsible investment

On November 1, 2023, the Responsible Investment Committee revised items related to "1 Proper Efforts on Environmental and Social Issues", "3 Adequate Performance of Corporate Governance" and "4 Adequate information disclosure and a dialogue with investors" of the "Basic Policy for Responsible Investment."
Regarding "4", we added the specific initiatives that we believe to be particularly important.
The basic policy for responsible investment defines our philosophy and specific approaches to responsible investment, and includes details regarding the "management practices expected for investee companies" and the engagement and proxy voting to achieve this.

BASIC POLICY FOR RESPONSIBLE INVESTMENT
Concrete Actions

1. Understanding Investee Companies
2. Approach to Investee Companies
3. Reflection in investment decisions
4. Control Conflicts of Interests
5. Collaboration and Outside Activities
6. Information Disclosure and Accountability
7. Organization and Actions

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.

*Ideal Form of Business Management of Investee Companies P. 20-22

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

Basic Policy On
RESPONSIBLE INVESTMENT
Ideal Form of Business Management of Investee Companies

1 Proper Efforts on Environmental and Social Issues

We believe that making proper efforts on global environmental and social issues from the perspectives of risk management and the pursuit of business opportunities will lead to increase in corporate value and sustainable growth. We also see such efforts as a prerequisite for a company to be accepted as a member of the society. Examples of issues that we consider particularly important and efforts that portfolio companies need to make are shown on the right.

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)	■ I dentification 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	■ Verification of business portfolio and promotion of technological innovation to respond to the climate change issue, ■ information disclosure based on the final 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 Scope3 under the international standards for the accounting and reporting of GHG emissions ■ and 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, ■ setting countermeasures and goals for reducing waste, improving recycling, etc;
5 Human rights	■ Development of a policy on human rights at investee companies that is consistent with international norms, ■ human rights due diligence and audits including supply chain, ■ corrective action and relief mechanism ■ and disclosure of due diligence results;
6 Human Capital With Diverse Values	■ Strategy for developing and maximizing human capital value ■ Setting a medium- to long-term target for the percentage of women among board members, senior executives, or managers, ■ A human resources system that enhances diversity, fairness, inclusion, and a sense of belonging (Measures to prevent job separation due to life events, fair opportunities providing meetings, implementing employee engagement, etc.) ■ creation of a corporate culture that embraces diversity and inclusion;
7 Society that promotes well-being	■ A management plan (including R&D and marketing strategies) that turns 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
8 Cooperation with stakeholders, such as participation in initiatives that are related to the issues listed above.	

Basic Policy On

RESPONSIBLE INVESTMENT

Ideal Form of Business Management of Investee Companies

2

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.;
   If there is a listed company within the group, to regularly verify the reasonableness of maintaining a listed company within the group; to properly manage the conflict of interest with general shareholders; and to support the listed company's efforts to strengthen corporate governance;
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.

Basic Policy On

RESPONSIBLE INVESTMENT

Ideal Form of Business Management of Investee Companies

3

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 following components should be covered to realise appropriate corporate governance systems.

1. The board consists of an adequate number of qualified and diverse members who have the ability and experience, including business management, finance and ESG, 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.
7. The board of directors monitors environmental and social issues and business and other risks and oversees initiatives by senior executives, and corporate governance systems are in place to ensure sufficient internal control in terms of compliance and internal auditing.
8. Comply with laws and regulations, and properly respond to the Corporate Governance Code

4

Adequate information disclosure and a dialogue with investors

We believes that it is important for companies to fulfill their accountability for the matters stated in 1. through 3. To this end, we consider that the following efforts are particularly important.

1. To disclose information in a timely and appropriate manner in accordance with appropriate standards based on the trends of regulatory authorities in each country and international initiatives. In particular, a company is expected to obtain third-party audits and assurances as much as possible, especially for quantitative information.
2. To actively hold dialogue with each investor in order to appropriately reflect investors' opinions in corporate management.
3. If a company is found to have engaged in any activity that is materially harmful to corporate value, it is important for the company to provide 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.

(From Japan’s Corporate Governance Code)

In response to corporate governance reforms, boards of directors of Japanese companies are being asked to move away from their traditional role as management boards. Although there is a movement towards advisory boards that emphasize the advice of outside directors, we are supporting the transition to monitoring boards in order to realize a “structure for transparent, fair, prompt, and decisive decision-making” as advocated by the Corporate Governance Code. Please refer to Page 23 of the Responsible Investment Report 2022 for more on our underlying philosophy.

Reference > https://global.nomura-am.co.jp/responsibility-investment/pdf/ri_report_2022.pdf

Nomura Asset Management supports the transition to a monitoring board

Management board

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

→

Advisory board

Main roles and responsibilities	Member composition
Management decision-making, advice to management team	Centered on inside directors (management team), but there are also a minority of outside directors

Monitoring board

Main roles and responsibilities	Member composition
Supervision of management team	Centered on outside directors

We expect companies to transit to this →

Desirable monitoring board and undesirable monitoring board

Desirable

Independent outside director —Supervision (nomination/compensation)→ Chairperson and President → Management decision-making | Management’s PDCA cycle functions

- **Debate with management team about management strategy, etc. (management team is accountable)**
- **Evaluate management team based on management strategy, etc., and reflect in nominations and compensation. Also, provide feedback on evaluation details to management team.**
  Nomination: Establish standards and process for periodically determining the necessity for replacing members of senior management, formulate a successor plan to prepare for such replacements.
  Compensation: Management team incentives/commitments aimed at enhancing corporate value
- **Provide advice to management team as needed during the supervision process.**

Undesirable ① Advisory board

Independent outside director —Advice / Supervision does not function→ Chairperson, CEO, executive officer → Management decision-making | Biased advice

Undesirable ② Cannot break away from a management board

Independent outside director+ Chairperson+ President → Management decision-making; —Supervision→ Executive officer, department head → Management decision-making | Independent outside directors participate in decision-making → Supervision of chairperson and president does not function

Handling of proxy voting standards

In order to support a voluntary transition to a monitoring board, not merely a transition as a formality, 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 (“Monitoring Board Requirements” below).
- We will not oppose company proposals on the reasoning that the company’s board does not fall under the category of a monitoring board, but it will be easier to support a company proposal if it does.
- The above requirements will be shifted to conditions for opposing in stages (after changing the threshold, etc. as needed)
- In addition to carrying out engagement aimed at transitioning to an effective monitoring board, if outside directors failed to fully fulfill their expected roles, we will vote against the reelection of outside directors.

Revised in Nov 2023

	Monitoring board standards		Standards to oppose company proposals	
	Monitoring board requirements*1	Voting result	Requirements to oppose company proposals	Proposals to vote against
① **Number of directors**	NEW More than 5. fewer than 20	**If a board satisfies all of the requirements on the left, we determine it to be a monitoring board** We will ease the requirements for voting in favor of company proposals related to director appointments (business performance standards*2) or 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.	NEW under 5 or more than 20	Election of directors
② **Number of outside directors Majority**	Majority		Falls below the minimum level: Under 1/3. For companies with a controlling shareholder, a majority. From November 2024 Minimum level is a majority. However, 1/3 if a company has no controlling shareholder and has nomination governance in place*3	Election of directors
③ **Nomination and compensation committee**	Establish a nomination and compensation committee in which outside directors comprise a majority and the committee chair is an outside director		Expand the scope of application Compensation governance is not in place*3	Executive compensation/Executive retirement benefits
④ **Diversity**	The ratio of women directors is at least 10%		No women directors	Election of directors
⑤ **Takeover defense plan**	No takeover defense plans		Has a takeover defense plan	Takeover defense plan or election of directors
⑥ **Strategic shareholdings Does not hold in excess**	Does not hold in excess (for financial institutions: less than 25% of net assets; for non-financial companies: less than 10% of invested capital)		Hold in excess (for financial institutions: more than 50% of net assets; for non-financial companies: more than 20% of invested capital)	Election of directors
⑦ **Director’ term in office**	If the company is a company with a board of corporate auditors, one year		NEW If the company is a company with a board of corporate auditors, two years	Election of directors
⑧ **The chair of the board of directors**	If there are controlling shareholders, outside director		-	-

*1 We view the above requirements as the bare minimum for being a monitoring board. *2 Standard to vote in opposition of re-appointment of chairperson and president, etc. who have been in the position for the most recent three or more consecutive fiscal years, if return on equity (ROE) has been in question and efforts for management improvement have not been demonstrated. *3 A case in which nomination and compensation governance is in place refers to the case where statutory or voluntary nomination and compensation committees have been established, the committee members include two or more outside directors, and the number of internal directors among the committee members is fewer than the number of outside directors.

Utilizing Human Capital

The Importance of Human Capital Management and NAM's Initiatives

In recent years, the importance of non-financial capital in corporate value has increased dramatically, and the sources of a company's competitiveness have shifted from traditional machinery and equipment to intangible assets. Over the past few years in particular, product cycles have shortened due to the growth of the IT industry and the progress made in the 4th Industrial Revolution driven by AI, robots, and IoT. With this, innovation and innovative business models that are more than mere extensions of conventional ways of doing things have become increasingly important.

The labor market is also undergoing major changes. Recruit Works Institute predicts that the shortfall in Japan's working population will be 3.41 million people in 2030 and 11 million people in 2040, as the labor shortage is expected to become increasingly severe over time. Furthermore, as more women advance in society, companies need to shift from single, homogeneous working styles to diverse and flexible working styles. As people's values become more diverse, workers, especially young workers, are increasingly changing jobs, making it much more difficult to secure and retain human resources than before.

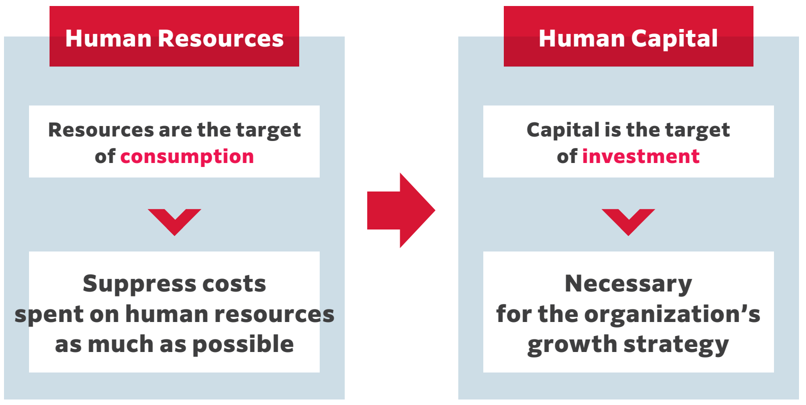
As the environment surrounding companies changes significantly and becomes ever more complex, the type of human resources that companies need is also changing. In order to continuously increase corporate value, it is essential for companies to secure and develop sufficient human resources to generate innovation in line with management strategies.

Under these circumstances, human capital management, in which human resources are treated as human capital (a target of investment) rather than as human resources (a target of cost control) and investment in human resources is made as a means to increase corporate value, is increasing in importance Figure 1.

At Nomura Asset Management, we consider "human capital possessing diverse values" to be one of the most important issues in the "desirable management style" in our Basic Policy for Responsible Investment, and therefore we have positioned this as a priority area of our engagement with portfolio companies.

When a company has a strategy of developing and maximizing the value of its human capital, improves the skills of its employees and places them in the right positions, it leads to improved productivity. In addition, developing human resources systems that enhance diversity, fairness, inclusion and a sense of belonging, and creating a corporate culture that promotes diversity and inclusion both enhance employee engagement, promote innovation, and bolster resilience through risk management based on diverse viewpoints. From this perspective, we believe that companies that engage in human capital management can improve their corporate value, and we engage with portfolio companies on this theme.

Figure 1 **Difference Between Human Resources and Human Capital**



Source: Prepared by Nomura Asset Management from various materials

Philosophy on Corporate Value and Human Capital Management

Here, we discuss a study performed by NAM's Innovation Lab Department using stock prices to examine the extent to which corporate management with an emphasis on human capital leads to improvement in corporate value. The sources of stock investment returns can be divided into two main types: growth in fundamentals such as accounting profits; and changes in stock price valuation that occur when factoring in non-financial information such as human capital that does not appear in accounting. This analysis examined the relationship between human capital and stock price by quantitatively evaluating the ability of companies to utilize human resources.

Specifically, the researchers divided stock returns into a category that can be evaluated financially and a category that can be evaluated non-financially, and for the latter, the researchers focused their evaluation on information related to companies' human capital. In order to evaluate human capital, the researchers selected metrics focusing on three aspects: incentives (employee motivation); resilience (organizational resilience); and diversity. They then added external evaluations to score companies, divided stocks into quartiles based on the final score, and calculated returns with equal weighting, thereby examining the relationship with stock prices Figure 2.

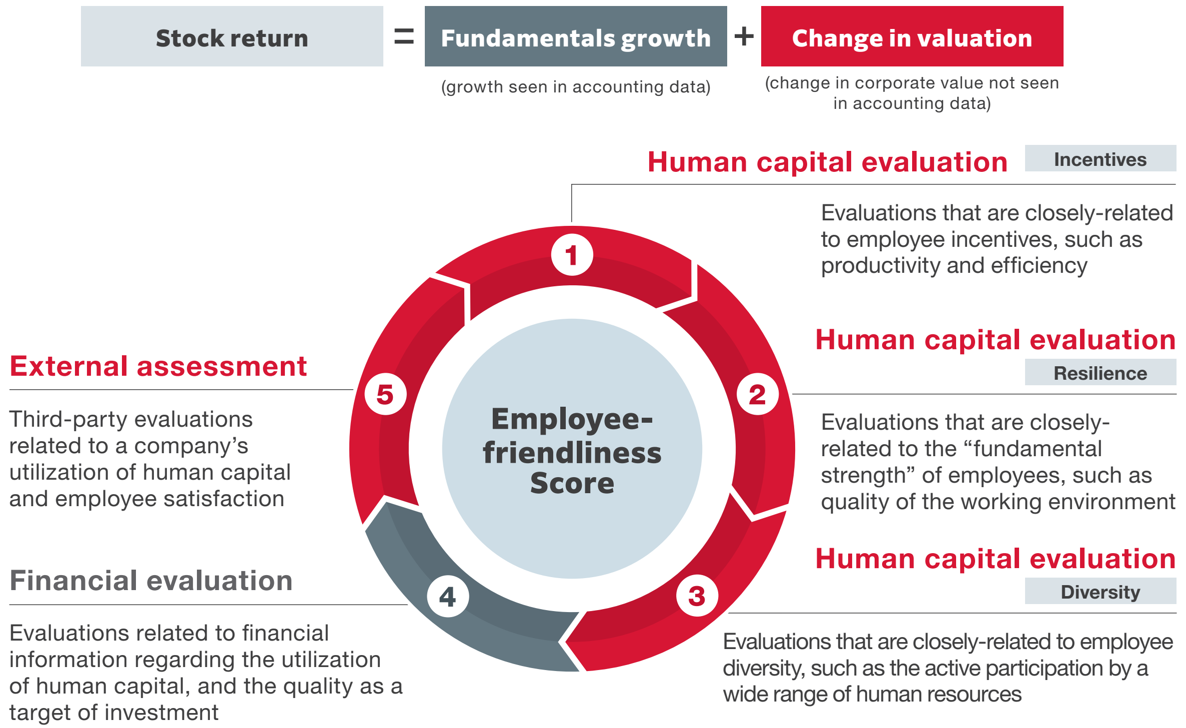
The analysis showed that for the period from January 2006 to March 2023, the annualized returns for the highest-scoring group was 5.9%, and the annualized returns for the lowest-scoring group was 1.5%, representing a large difference Figure 3.

In other words, the higher the ability of a company to utilize human resources, the higher the return on investment. This analysis was based on the 2017 Securities Analyst Journal Prize-winning paper "Employee Satisfaction and Firm Performance" (published in the November 2017 issue of Securities Analyst Journal). This paper focused on a company's stance towards its employees and found a positive relationship there.

There are various hypotheses as to why a satisfying work environment leads to high performance. One such hypothesis, introduced at the beginning of the paper, is that the source of a company's competitiveness has shifted from tangible assets to intangible assets. Although the competitiveness of a company generated by its intangible assets, including its investments in human resources, is difficult to see from the outside and is therefore underestimated by the market, it is believed that the competitiveness generated by such intangible assets will eventually lead to high future returns. This analysis has since been updated and improved, and is being utilized in actual investment fund management.

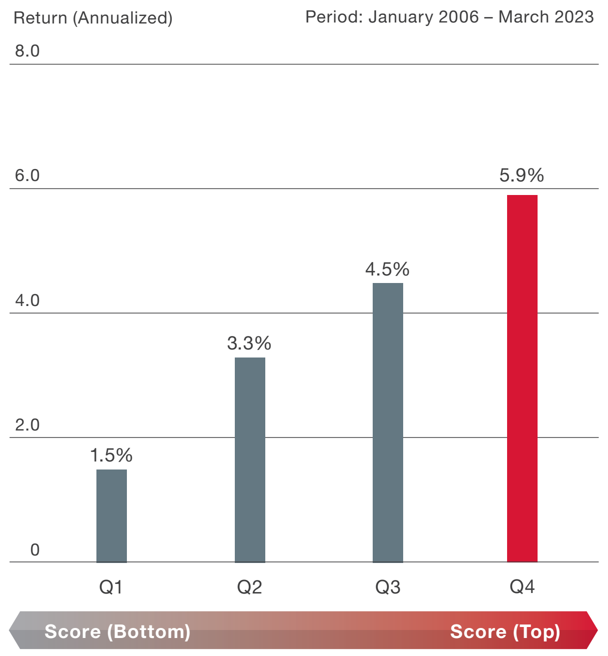
In recent years, in the wake of work style reform and the Ito Report on Human Capital Management, there has been rapid progress in reviewing the working environment and productivity in Japan, and companies have been increasingly disclosing their human capital information. The disclosure of human capital information in securities reports has become mandatory, and going forward it is believed that companies will be required to disclose an even higher level of human capital information. It is thought that initiatives on human capital and the disclosed details will make a difference in how investors value companies, and determining how companies are best able to convey value to investors will be the real work of information disclosure.

Figure 2 **Stock Return Model Using Human Capital Information**



Source: Prepared by Nomura Asset Management

Figure 3 **Human Resources Utilization Score and Performance**



* Every month, returns are calculated with stocks divided into quartiles based on quantitative scores calculated by Nomura Asset Management (approximately the top 1,000 Japanese stocks by market capitalization, equally weighted).

Source: Prepared by Nomura Asset Management

The Trend of Enhanced Disclosure of Human Capital Information

In recent years, in response to growing interest in corporate human capital information, countries and territories have been strengthening their rules for corporate human capital information disclosure. In Europe, since 2014 the Non-Financial Reporting Directive ("NFRD") has required companies with sales exceeding a certain level to disclose non-financial information, including about human capital. Subsequently, the Corporate Sustainability Reporting Directive ("CSRD"), which stipulates more detailed disclosure rules, was issued, and the scope of its use has gradually expanded. Additionally, in the Securities and Exchange Commission ("SEC") revised its rules regarding non-financial information in 2020, requiring listed companies to disclose information on human capital. In September 2023, the SEC's Investor Advisory Committee, comprising institutional investors and other members, asked the SEC to consider requiring companies to separately disclose labor costs required for current business activities and the human capital investments that will lead to value creation. As such, there have been developments like this to explore more in-depth disclosure of human capital.

In Japan, interest in human capital management has increased with the publication of the Ministry of Economy, Trade and Industry's "Ito Report on Human Capital Management (2020)" and "Ito Report on Human Capital Management 2.0 (2022)," and there is now more focus on human capital information as a valuable metric for corporate valuation. Under these circumstances, following the inclusion of human capital-related disclosure in the Corporate Governance Code revised in 2021, human capital disclosure has become mandatory starting with securities reports for the FY2022 Figure 4.

In addition, in response to growing interest in corporate social (S) initiatives, there is starting to be movement on formulating international standards for social (S) disclosure. The International Sustainability Standards Board ("ISSB"), which is under the IFRS Foundation and develops international accounting standards, is considering developing standards for the disclosure of sustainability information following climate change, and human capital has been brought up as one of the ISSB's high-priority projects. If the ISSB were to formulate standards related to human capital, it is expected that a Japanese version of the standards would be created domestically based on the ISSB's standards, and that companies would be required to provide disclosure (as of April 2024).

Figure 4 **Human Capital Information Disclosure Trends in Countries and Territories**

Japan	U.S.	Europe
2021	2020	2018
The revised Corporate Governance Code stipulates the disclosure of information related to human capital (Supplementary Principles 2-4 ①, Supplementary Principles 3-1 ③, Supplementary Principles 4-2 ②)	The U.S. Securities and Exchange Commission ("SEC") amended Regulation S-K under the U.S. Securities Act. It requires that listed companies provide descriptions of their human capital	The European Union enforced the Non-Financial Reporting Directive (NFRD), requiring companies above a certain size to disclose information on environmental and social initiatives
2023	2021	2024
"The Cabinet Office Ordinance on Disclosure of Corporate Content, etc." was revised. Disclosure of information regarding sustainability, diversity, and corporate governance was added to the items to be included in annual securities reports for FY2022	The Workforce Investment Disclosure Act passed the U.S. House of Representatives. It requires companies to disclose information about their human capital	The NFRD was revised into the Corporate Sustainability Reporting Directive ("CSRD"), and its application will be gradually expanded

Source: Prepared by Nomura Asset Management from various materials

Amid the trend of companies increasingly disclosing their human capital information, human capital management is moving from the "information gathering" stage to the "putting into practice" stage. Going forward, along with the enhancements in information disclosure, it will be important to create and communicate to stakeholders a "value creation" story about how a company will increase corporate value through means such as the linking of management strategy and human resources strategy, quantitative understanding of the gap between the vision and the current situation, and embedding it into corporate culture, which are key issues for human capital management laid out in the Ito Report on Human Capital Management.

Nomura Asset Management's Views on Human Capital Management

Given this trend, we want to encourage our portfolio companies to strengthen their initiatives related to human capital management. In order to ensure that Japanese companies' human capital management leads to improved corporate value, it is first necessary to sort out the mechanisms and ideas that are the prerequisites for utilizing human capital. At Nomura Asset Management, our view on this is as follows.

Corporate value is defined in finance theory as the present value of future cash flows. These future cash flows are generated by a "management relay" that includes not only the current management team but also future management teams. What makes this management relay possible is a future-oriented system design centered on nomination and compensation, which are essential elements of board of directors-centered governance. By properly linking KPI based on materiality to the system design, the two wheels of the management vehicle, execution and supervision, can function.

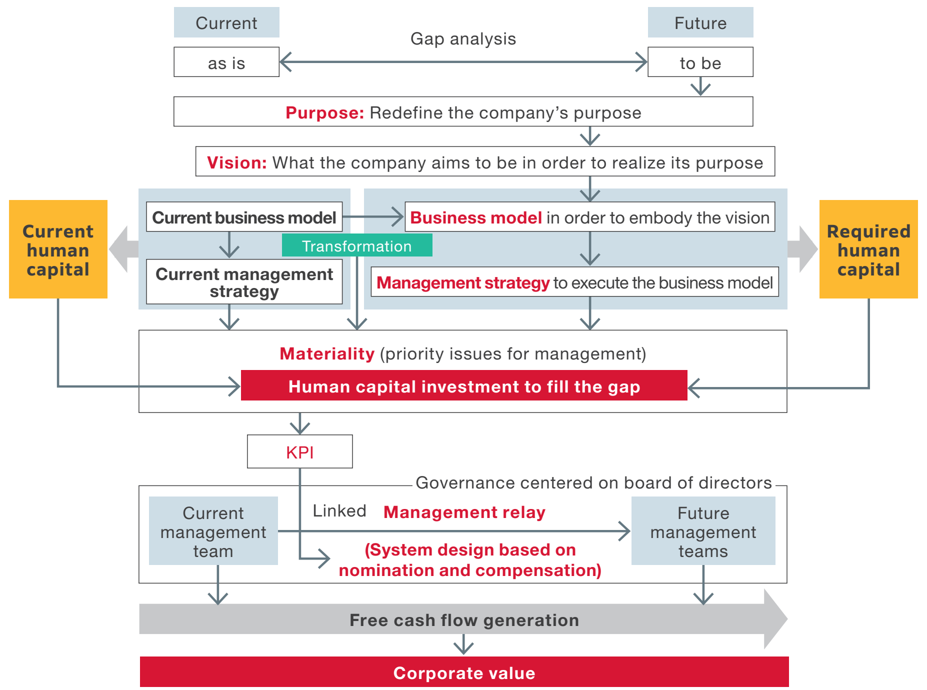
The materiality of each company is determined by that company's management strategy and its underlying business model. However, the environment surrounding companies is currently undergoing major changes and uncertainty is increasing. With this, the management strategies and business models that will generate future cash flows are also being forced to change in light of the future business environment and other factors. For this reason, companies need update their current management strategies and business models to those that will generate future cash flows. This requires transformation.

A company is only able to execute its management strategy and business model if it has human resources capable of putting them into action. No matter how grand a business strategy is, it is merely a fantasy if it cannot be put into practice. A company needs to verify that it has sufficient human capital to execute the management strategy and business model to generate future cash flow. If it does not, it must add human capital. Human capital management holds the key to this transformation.

Just as the current business model and management strategy differ from future business models and management strategies, the human capital supporting each will also be different. Only by recognizing this gap can the necessary human capital investment and management be realized. In other words, human capital management by a company is not possible without building the framework shown in Figure 5. Ultimately, through an analysis of the gap between the present and the future based on an "As-Is/To-Be" analysis, a company must redefine its purpose, which is its reason for existing as a company, and its vision, which is what it aspires to be in order to realize its purpose. This is also critical for improving the employee engagement index, which is considered an important KPI for companies these days.

A company's ESG initiatives and human capital management cannot be effective without this series of frameworks for creating corporate value. We always approach our engagement with companies from this perspective, and strive to understand the actual situation in the company by confirming the links between each item in this framework.

Figure 5 Positioning of the Frameworks and Human Capital Investment Leading to Higher Corporate Value



Source: Prepared by Nomura Asset Management

Dialogue on Human Capital

Through dialogue, we aim to improve the value of portfolio companies and raise the level of the Japanese market as a whole, and based on this we are focusing on engagement activities related to human capital with portfolio companies. Although information disclosure on human capital has just begun, the two standards issued by ISSB in June 2023, the General Requirements for Disclosure of Sustainability-related Financial Information (S1) and Climate-related Disclosures (S2), both require disclosure under the same framework as the TCFD and TNFD, which includes governance, strategy, risk management, and metrics and targets. In the future, this framework is expected to be recognized as the standard for the disclosure of human capital information, and companies will be required to develop internal systems that acknowledge these four elements.

Based on the above, we have summarized the responses and information disclosures we expect of our portfolio companies as an investor with respect to governance, strategy, risk management, and indicators and targets for human capital in Figure 6. For example, in terms of governance, we are expecting boards of directors to bolster their commitment related to human capital by the board of directors' supervision of and involvement in human capital strategy, the clarification of management's role regarding human capital and linkage to executive compensation, and the confirmation of the impact that the board's consideration of human capital has on strategic decision-making.

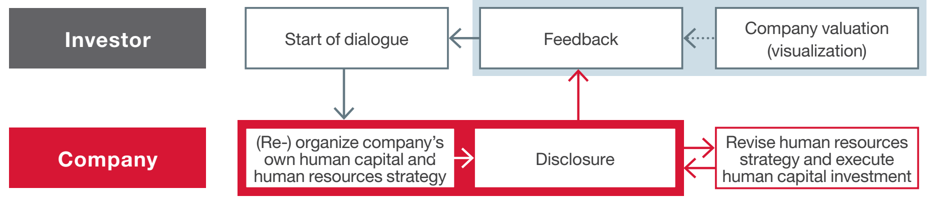
However, the majority of Japanese companies are considered to be at the stage where they will seriously work on human capital management from this point on, and it will likely be difficult for them to satisfy all the requirements at once. For this reason, we plan to encourage portfolio companies to improve their human capital management through a feedback loop in which we start a dialogue on human capital ⇒ the portfolio company sorts out and discloses its own human capital and human resources strategy ⇒ we provide feedback during dialogue ⇒ the portfolio company revises its human capital strategy and implements its human capital investments ⇒ we incorporate the company's actions in our assessment of the company's corporate value (visualization) Figure 7.

Figure 6 Human Capital Engagement Framework

	Investors' expectations	Response and information disclosure demanded of company
Governance and management	● Strengthening of commitment by board of directors (Consideration, evaluation and monitoring of human capital)	● Disclosure of board oversight of and involvement in human capital ● Clarification of the role of senior managers with respect to human capital and linkage with executive compensation ● Description of the impact that the board's consideration of human capital has on strategic decision-making
Business model and strategy	● Clarify the relationship between human capital and the business model ● Human resources as strategic capital and implementation of necessary human capital investment ● Maximize value of human capital	● Identification and clarification of the scope of a company's human capital ● Description about methodology and implementation of strategic human capital investments ● Description of the value creation process with human capital ● Description of human capital in business model and corporate strategy ● Description of the impacts of risks and opportunities related to human capital on corporate management
Risk management	● Clarification of risks and opportunities arising from human capital and the company's response to these	● Description of processes for identifying, assessing and managing human capital-related risks and opportunities ● Explanation of risks and opportunities related to human capital that have the greatest impact
Metrics and targets	● Management of human capital information that impacts corporate value and management of targets	Management and disclosure of the following types of metrics and targets ● Metrics and targets for establishing a desirable corporate culture ● Employee engagement metrics and targets ● Metrics and targets related to incentive design, training/skill development, and promotions ● Other metrics and targets necessary to improve corporate value, such as diversity

Source: Prepared by Nomura Asset Management

Figure 7 Human Capital Dialogue Feedback Loop



Source: Prepared by Nomura Asset Management

Initiatives on 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. The European Union (EU) is expected to adopt the Corporate Sustainability Due Diligence Directive (CSDDD) in 2024, which will require large companies to conduct environmental and human rights due diligence (as of March 2024). In Japan, in 2022 the Ministry of Economy, Trade and Industry formulated guidelines for companies to respect human rights, and in 2023 the government announced a policy to give preferential treatment in public tenders to companies that take human rights into consideration. As such, there is a growing trend in efforts by companies to respect human rights, and this trend is expected to become even stronger.

A company's business activities involve procuring, producing, and transporting supplies and products, and providing them to users and end consumers. Various human rights risks lurk within the value chain, but especially when crossing national borders, differences in the economic strength, legal systems, and customs of each country affect people working on the frontlines, and there is a risk of human rights issues arising that are difficult to see from the surface. Once a human rights issue arises, it adversely affects the community, the company's employees, and business partners, and leads to a loss of trust from its customers. In addition, if the problem remains unresolved 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 portfolio companies and having them proactively advance relevant initiatives.

Nomura Group, including Nomura Asset Management, stipulates respect for human rights in the Nomura Group Code of Conduct and established the Nomura Group Human Rights Policy in May 2023. We respect the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO International Labour Standards and the U.N. Guiding Principles on Business and Human Rights ("Ruggie Principles"). Additionally, in 2015, we signed the U.N. Global Compact, and remain committed to respecting human rights as a company. Nomura Asset Management positions human rights issues as important issues in our ESG Statement and, as an institutional investor, we promote initiatives to ensure respect for human rights by our portfolio companies. We carefully assess human rights risks for our portfolio companies and use human rights risk assessments in our engagement and in ESG integration to fulfill our role as a responsible investor engaging in broad investment activity on a global basis.

Nomura Asset Management's Human Rights Risk Monitoring Process

Negative Screening

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. Figure 1 First, we screen companies in our investment universe for violations of international norms such as the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO International Labour Standards, and the Ruggie Principles, referencing data from ESG research organizations. Based on that screening, we engage with companies found to be in violation, and if there is no outlook for improvement, these companies become the subject of escalation, such as reflecting such violations in our proxy voting or even divestment from the company.

Figure 1 **Human rights risk monitoring of companies**

Human rights risk monitoring of companies
(based on individual companies)

- Human rights-related policies (child labor, forced labor, wages, safety, etc.)
- Check the status of compliance with international norms
- Human rights risk management systems (monitoring, grievance mechanisms, self-assessment, etc.)
- Investigations of misconduct related to human rights violations

Engagement
(stocks with high human rights risk)

- Formulation of human rights policies
- Implementation and disclosure of human rights due diligence
- Creation of grievance mechanisms
- Action towards improvement

Integration into investment
(investment decision-making)

- Buy
- Sell
- Continuous hold

Human Rights Due Diligence and its results for companies in our investment universe

In order to ascertain the potential human rights risk level for companies in our investment universe, our ESG specialists perform human rights due diligence based on data including corporate disclosures, NGO reports and media information.

The detailed method is as follows. Sectors with complex supply chains and sectors that produce products in production areas and raw material procurement points with historically high human rights risks are designated as human rights high risk sectors Figure 2 , and we conduct focused investigations of the human rights management systems of companies belonging to these sectors. The evaluation items comprise the following seven points: (1) Whether the company has a human rights policy that conforms to international norms; (2) Whether the company commits to respecting workers' rights; (3) Whether the company is performing human rights due diligence; (4) Whether the company makes evaluations after identifying human rights risks and their impacts; (5) Whether the company takes corrective actions based on the evaluation results; (6) Whether there are grievance mechanisms for workers; (7) Whether there are grievance mechanisms for external individuals/ communities.

In 2023, we expanded our research from large-cap stocks to mid-cap stocks. As a result, we found the following Figure 3 .The majority of Japanese companies we evaluated had already formulated human rights policies conforming to international norms and also had committed to respecting the rights of workers. Also, approximately 70% of companies have grievance mechanisms in place for workers in the company and conduct human rights due diligence. On the other hand, only about half of companies evaluate human rights risks and are taking action based on the evaluation results, and only about 30% of companies have established grievance mechanisms for external individuals and communities. We expect companies to make further improvements in these areas.

For those companies lagging behind in their efforts, Nomura Asset Management will continue to actively engage with them with respect to building human rights risk management systems.

Figure 2 Sectors with high risk of human rights issues

Food/ agriculture products
Major industries/products
Food, Daily goods, Food retails

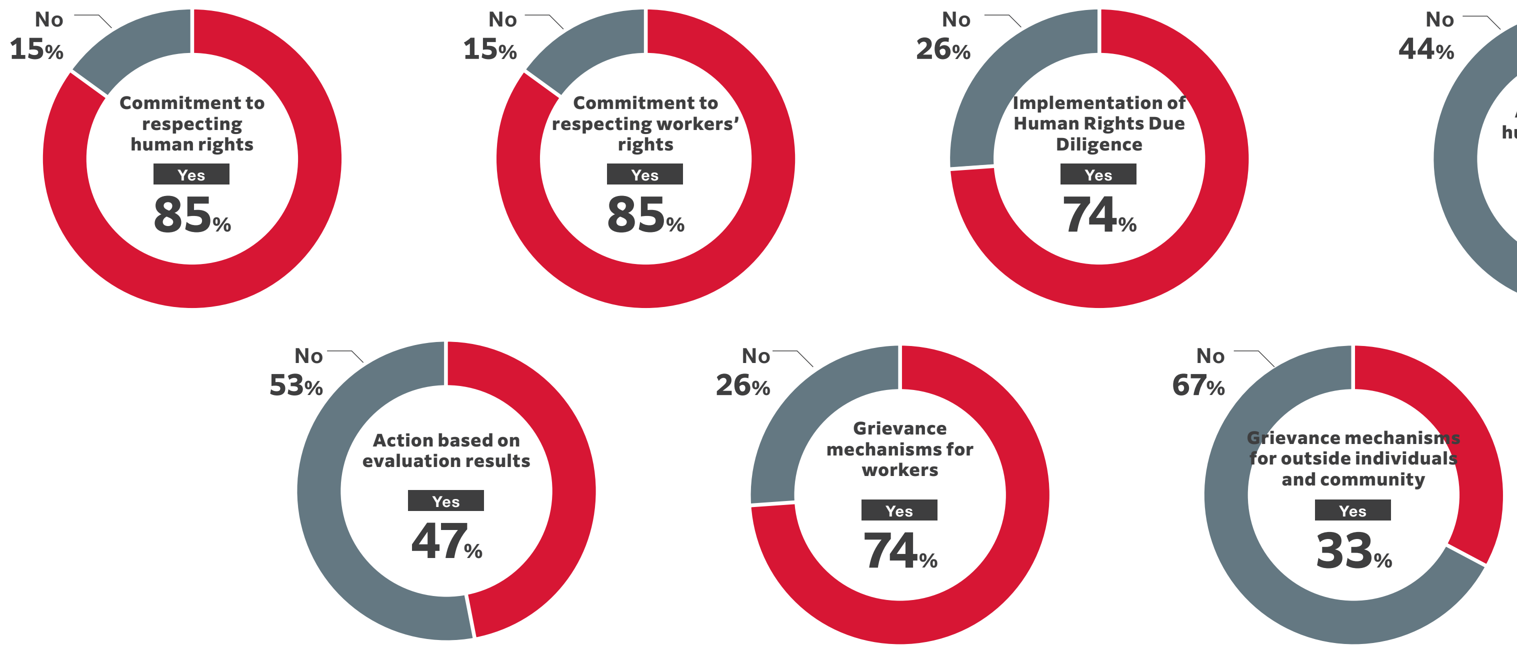
Automobiles
Major industries/products
Finished cars, Automobile parts, Tires

ICT
Major industries/products
Electric products, Electronic components, Semiconductor manufacturing equipment

Apparel
Major industries/products
Textiles, Shoes, Clothing retail

Resource related
Major industries/products
Mining/Petroleum, Steel, Trading companies

Figure 3 Human Rights Due Diligence and its results for companies in our investment universe



Human Rights Engagement and Integration

If, after performing human rights due diligence on the companies in our investment universe, we find that we hold the stock of a company that has been determined to have high human rights risks, we will proceed with engagement. 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 disclosure of information), and discuss an action plan to make improvements. For companies that are considered high risk in terms of human rights 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 for which we can expect improvement will be unflagged as human rights high-risk companies, and will be subject to normal monitoring.

In recent years, human rights risk assessment has generally become demanded as a part of corporate activities. Companies that have put in place human rights risk management processes are able to reduce human rights risk not only in transactions with existing customers but also in transactions with new customer companies. In addition, these companies are expected to see an increase in business opportunities based on the fact that the products and services they provide will be evaluated higher. We believe that by repeating this human rights management at the portfolio level, we can gain a deep understanding of social risk carried by companies in our investment universe and reflect this in our investment decisions. We feel that this will also advance our ESG integration related to human rights risk.

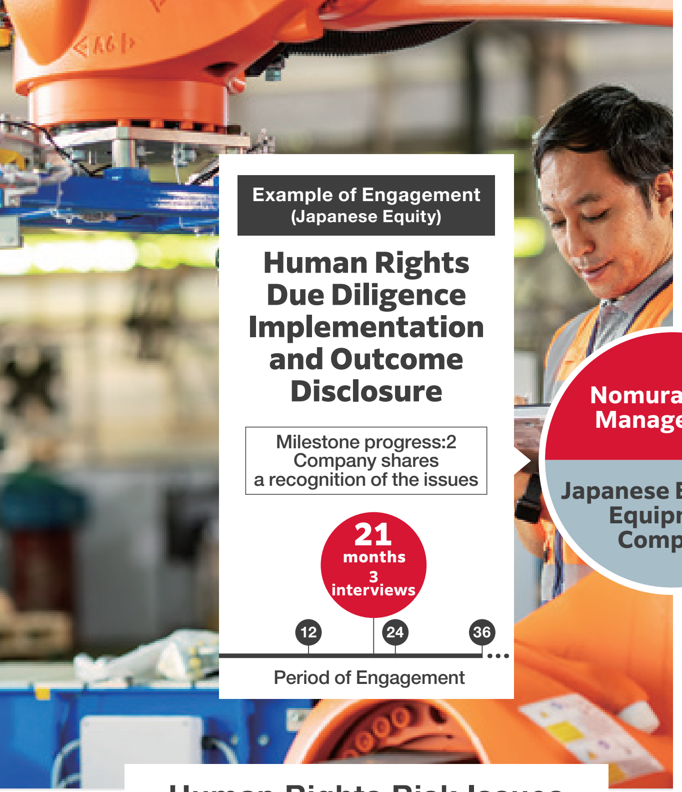
Required Elements of a Human Rights Management System

Human rights issues are an important theme for engagement, regardless of the company's country of origin, and one of our responsibilities as an asset management company is to engage in dialogue about human rights issues with portfolio companies and encourage them to make improvements for any issues that exist.

In 2021, 10 years after the adoption of the Ruggie Principles, which are the basis of various international rules and policies regarding human rights, the U.N. published "UNGPs 10+: A Roadmap for the Next Decade of Business and Human Rights." While this report recognized the significant increase in the number of companies that are committed to respecting human rights and that carry out human rights due diligence, it also noted that only a portion of such companies are able to carry out effective human rights due diligence. It also pointed out issues such as the fact that responsibility for respecting human rights has not been elevated to the board level.

Human rights issues can be managed to some extent by establishing a management system, but due to their nature, risks cannot be completely eliminated. Industries and companies with complex supply chains, and operations in regions with unstable political situations and human rights policies, can pose unexpected risks to companies. The first thing that a portfolio company needs to do is establish an effective human rights management system. It is important to perform a risk assessment, understand which risks are of high importance, prioritize them, and take action. Because it takes time to build an effective management system, it is necessary to repeat the PDCA cycle, make improvements every year, and evolve step by step.

By widening disparities and causing social divisions, human rights violations are serious and significant risks that threaten the foundations of sustainable economic activity and affect long-term investment returns. We seek to reduce human rights risks by understanding the structures that cause human rights violations and working with portfolio companies to develop solutions to rectify them.



Human Rights Risk Issues

Example of Engagement (Japanese Equity)

Human Rights Due Diligence Implementation and Outcome Disclosure

Milestone progress:2
Company shares a recognition of the issues

21 months
3 interviews

12 24 36

Period of Engagement

Nomura Asset Management

Japanese Electrical Equipment Company

Background

Transactions with the automobile industry, where human rights risks tend to attract attention, are increasing, and although the company explained that the reason for holding large amounts of financial assets is to prepare for risks, we determined that the company is insufficiently addressing human rights risks. We urged the company to achieve the goals listed on the left.

Although the domain of human rights is attracting increasing attention in the automobile industry, human rights initiatives seem to be lagging behind.

Although we have not provided disclosure about this, we are considering obtaining external certification at each site and are considering initiatives in the supply chain as well.

Human rights risks are poorly described overall.

We are engaged in discussions about human rights. We will disclose the results of our human rights due diligence after the start of the new year.

We confirmed that the company is engaged in human rights due diligence, and we decided to wait on the company to disclose the results.

(Subsequently, we concluded the engagement after the company disclosed the results of its human rights risk assessment online.)

Example of Engagement (Japanese Equity)

Understanding Human Rights Risk based on Leadership from Top Management

Milestone progress:5
Conclusion

37 months
4 interviews

12 24 36

Period of Engagement

Nomura Asset Management

Japanese Machinery Company

Background

This company was lagging behind in responding to human rights issues. While the company has some strengths in terms of voluntary efforts of each site, we determined that there was a lot of room to strengthen cross-divisional efforts under the leadership of the senior management team, so we urged the company to achieve the goals listed on the left.

There is little information given about risks, and in particular it is difficult to understand the involvement by top management. In other industries that are expanding globally, even Japanese companies are beginning start having evaluations of addressing human rights.

The trends among other companies are very helpful. We will take your opinions home and study them.

Does top management have an understanding of the risks across the entire company?

We disclose the results of human rights due diligence in our integrated report. Starting with Southeast Asia, we looked into whether there are any risks we should pay attention to.

We determined that the goal had been achieved, and concluded the engagement.

Human Rights Risk Issues

Example of Engagement (Global Equity)

Adoption of Strategy to Effectively Deal with Human Rights Risk Issues

Milestone progress:4
Company implements countermeasures

33 months
7 interviews

12 24 36

Period of Engagement

Nomura Asset Management/ Sustainalytics

Swedish Specialty Retailer

It is important to manage human rights risks because the company has manufacturing facilities globally, both in-house facilities and facilities through subcontractors, and has a large number of workers. You have disclosed that 34% of your primary suppliers have collective labor agreements, but we would like you to disclose the differences between the wages stipulated in the collective labor agreements and living wages. Regarding suppliers' collective labor agreements, transparency needs to be enhanced, such as by providing disclosure on a factory-by-factory basis.

Internally, we conduct comparative analyses of wages stipulated in collective labor agreements and living wages, and we have confirmed that there is a gap between the two. We will discuss internally whether we can provide disclosure about collective labor agreements and thereby enhance transparency.

A report was released which stated that in Bangladesh there was unfair pricing pressure on suppliers by global apparel brands during the COVID-19 pandemic period. We want you to explain how you are responding to such allegations. Even if prices are negotiated separate from labor costs, isn't there a risk that workers will not be paid fair wages if the supplier's profit margin is too small?

We feel that the analysis method used in that report is not accurate. We are a member of the ACT (Action, Collaboration, Transformation) initiative, and are committed to fair procurement. Prices were agreed to before the COVID-19 pandemic, and we have not used the pandemic as an excuse to change agreed upon prices.

What is the average number of complaints received by each factory?

Because the numbers vary by factory and country, we do not publish averages. We are currently employing a consultant to examine whether our suppliers' grievance handling mechanisms are in compliance with the U.N. Guiding Principles on Business and Human Rights.

Efforts must be made to have responsible purchasing practices and pay workers a living wage. It is also necessary to introduce effective audit programs and legitimate labor standards, including in the supply chain, and to operate grievance handling mechanisms in accordance with the U.N. Guiding Principles.

We will examine whether our suppliers' grievance handling systems comply with the U.N. Guiding Principles on Business and Human Rights, and we plan to disclose information related to that.

Column

Activities with PRI Advance

(Advance: a collaborative initiative on human rights and social issues)

We are a member of the Advisory Committee of Advance, PRI's human rights and social issues collaborative initiative, which started in 2022, and we are playing a leading role in building a framework for collaborative engagement and in dialogue with target companies. Companies targeted for collaborative engagement are selected globally from the metals and mining sector, and renewable energy sector. We are a co-lead investor in collaborative engagement with Japanese company and continually engage with the company. Over this time, we have seen progress at the target company, including the establishment of human rights policies.

Senior ESG specialist **Takashi Miyao**

Senior ESG specialist **Madoka Minagoshi**

Senior ESG specialist **Fuyumi Takeuchi**

Senior ESG specialist **Wakaba Kawai**

TCFD & NET ZERO GOAL BY 2050

Initiatives in 2023 Aimed at Achieving NAM's Net Zero Goal

In 2023, we once again made steady progress on our initiatives towards achieving our Net Zero goal and realizing a decarbonized society. In 2023, we worked on the following three main areas.

First, we worked on expanding the scope of asset classes for which we measure and disclose investment portfolio emissions ("Financed Emissions"). In December 2022, the Partnership for Carbon Accounting Financials ("PCAF"), with which we have been affiliated, released standards related to the measurement and disclosure of financed emissions for sovereign debt. Based on these standards, in April 2023 we announced the results of our analysis of financed emissions and carbon metrics for our sovereign bond portfolio.

Second, in order to accelerate the provision of funds and transition finance towards realizing a decarbonized society, we focused on avoided emissions as an appropriate evaluation metric for climate-related opportunities and worked to popularize and expand the use of avoided emissions. This was based on the increasing attention globally on avoided emissions. For example, in March 2023 the World Business Council for Sustainable Development ("WBCSD"), the organization that formulates the GHG Protocol (global carbon accounting rules), announced its Guidance on Avoided Emissions. In addition, the communiqué issued at the G7 Ministers' Meeting on Climate, Energy and the Environment held in Sapporo in April 2023 stated that there is also value in acknowledging avoided emissions. Nomura Holdings was appointed as the chair of the GX Business Working Group as part of the GX League*, and NAM also participated as a key member. This working group has developed the "Basic Guidelines for Disclosure and Evaluation of Climate-related Opportunities" (issued in March 2023) and released "Leveraging Avoided Emissions: Financial Institution Case Studies (published in December 2023), thereby contributing to the effort to have more companies use avoided emissions.

Third, we partnered with climate-related initiatives and public institutions. Within the PCAF Japan Coalition, which aims to promote the measurement and disclosure of sovereign bond financed emissions and to popularize and expand the use of avoided emissions, in FY2023 we played a central role in two subcommittees related to the measurement and disclosure of sovereign bond financed emissions and avoided emissions, where we shared knowledge. In addition, we participated as a committee member and advanced discussions in both the "Japan Public and Private Working Group on Financed Emissions to Promote Transition Finance" launched by the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment, as well as the Ministry of the Environment's "Working Group on the Green List," both of which aim to grow transition finance and green finance. At COP28 held in Dubai, United Arab Emirates (UAE) at the end of 2023, we took the stage as a panelist in the panel discussion for the seminar titled "Appropriate Evaluation of Avoided Emissions Towards Net Zero Society" held at the Japan Pavilion. In addition to introducing our methodology for assessing avoided emissions, we actively discussed the future use of avoided emissions by financial institutions.

Going forward, we plan to not only deepen our analysis of climate-related risks and opportunities related to our portfolio, but also advance our engagement with portfolio companies.

*The GX League aims to achieve Japan's 2050 carbon neutrality goal and further contribute to achieving carbon neutrality worldwide. In the challenge of quickly transitioning to carbon neutrality, a transformation of the entire economic and social system (GX: Green Transformation) is required. To this end, the GX League is a venue for a group of companies actively working on GX, together with government, academic, and financial players who are taking on the challenge of GX, to work together to discuss the transformation of the entire economic and social system and the creation of new markets.

TCFD 2022 summary

We plan to release a summary of our 2023 TCFD-related initiatives during the April – June 2024 period. As a result, Pages 37-42 contain a summary of the Responsible Investment Report 2022.

Please refer to the link below for 2022 TCFD&Net Zero by 2050:

Reference › https://global.nomura-am.co.jp/responsibility-investment/pdf/ri_report_2022.pdf

Disclosure Based on the TCFD Recommendations

2022 Summary

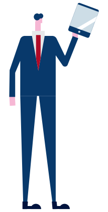
Governance

- 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, which acts as 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 company analysis, 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 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 stranding 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, CCUS, 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 methodology for climate-related risk and opportunities, we are carefully analyzing the impact that climate-related risks and opportunities have 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 41 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 after being 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 four carbon metrics recommended by the TCFD (total carbon emissions, carbon footprint, carbon intensity, and weighted average carbon intensity) and perform scenario analyses as well as 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 ISS estimates for Scope 3 emissions. Meanwhile, 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 (our investment portfolio). Under the 2030 Interim Target, we will work to ensure that, by 2030, 55% of our investment portfolio assets are being approved by SBTi. 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

2022 Summary

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 TOPIX 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.

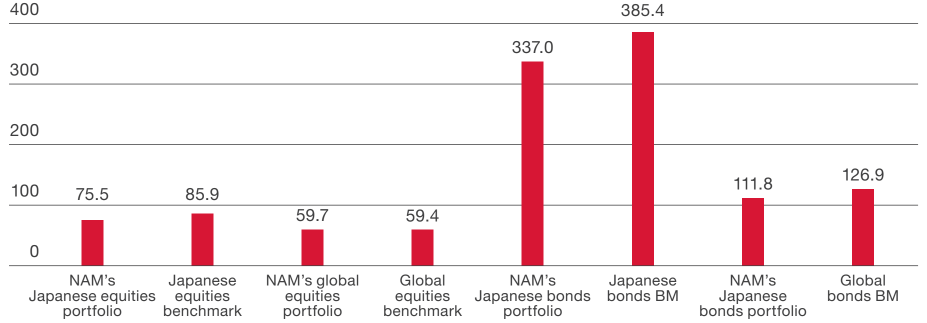
Please refer to our website "Climate-related analysis of our portfolio" for the results of our analysis of our sovereign bond portfolio emissions (financed emissions).

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.

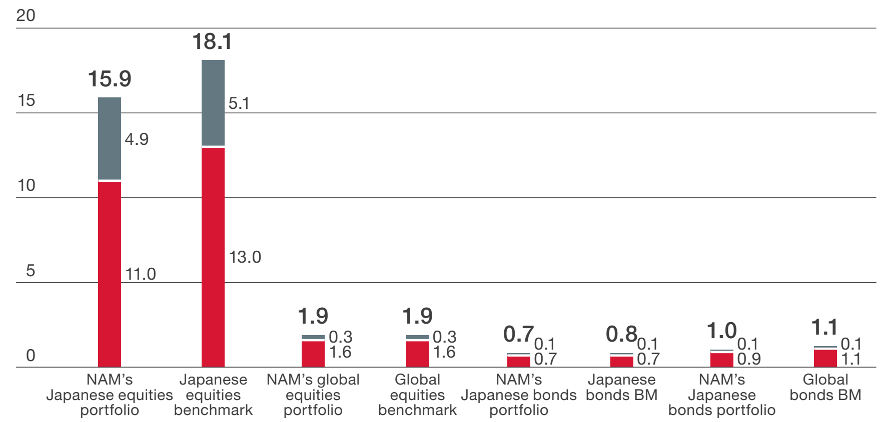
Also, for global equities, domestic bonds and global bonds, the emissions of our portfolios and the benchmarks were roughly the same.

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 relatively high ratios from Industrials depending on the asset class, and the same trend is seen 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.

Carbon Footprint

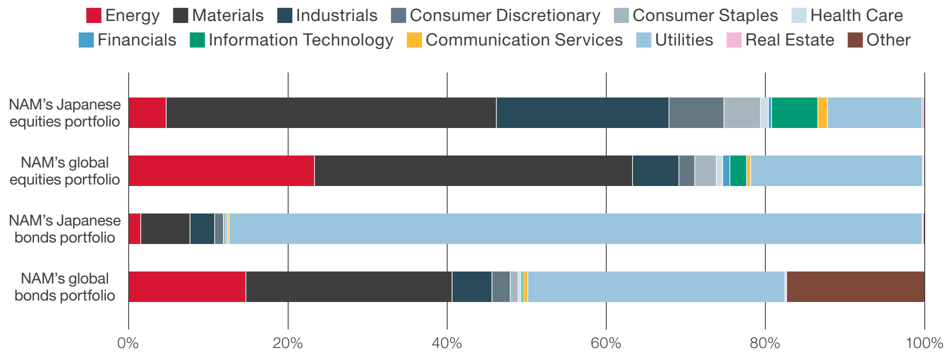


Total Carbon Emissions



		NAM's portfolio	BM	% of BM		NAM's portfolio	BM	% of BM
Scope 3 (Million tCO₂e)	Japanese equities	184.0	194.3	95%	Japanese bonds	1.8	2.3	80%
	Global equities	12.4	13.9	89%	Global bonds	4.9	3.0	162%
Total of Scope 1, 2, and 3 (Million tCO₂e)	Japanese equities	199.9	212.4	94%	Japanese bonds	2.6	3.1	82%
	Global equities	14.3	15.8	90%	Global bonds	5.9	4.2	142%

Ratio of Total Carbon Emissions by Industry



Scenario Analysis 2022 Summary

1 Sustainable Development Scenario (SDS)

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)

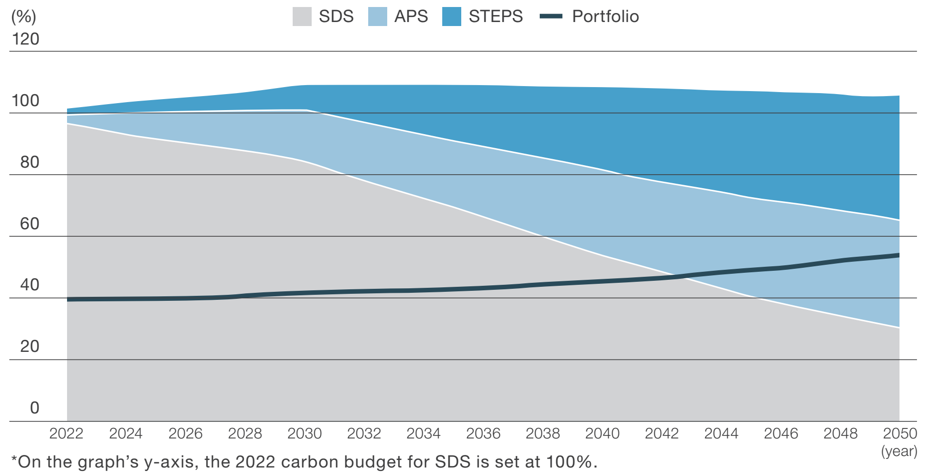
A scenario which assumes that countries carry out policy initiatives their governments have already announced, on the assumption that countries will keep ambitions and goals of the policies they are currently implementing. Under this scenario, the earth's temperature is expected to rise approximately 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 by the fact that our global equities and global bonds portfolios include comparatively high weightings of stocks and bonds in the Energy, Materials, and Utilities sectors, centered on emerging countries and developing countries, where GHG emissions are high in conjunction with economic growth. Our analysis also hints at the importance of continuing to call for measures to address climate change across the market, as our investment portfolios include many passive investments, mainly in Japanese equities.

Comparison of NAM's four-asset integrated portfolio's total carbon emissions and carbon budget under each scenario



*On the graph's y-axis, the 2022 carbon budget for SDS is set at 100%.

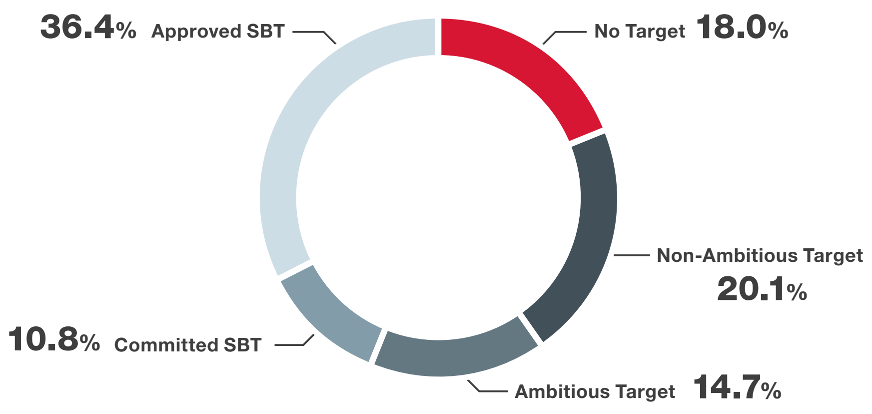
Status of GHG Reductions by Portfolio Companie 2022 Summary

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).

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.

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



Risk Analysis 2022 Summary

Transition Risk

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.

Physical Risk

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.

NATURE & BIODIVERSITY

Actions to Protect Natural Capital

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 for achievement 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. COP15 also included an agreement on 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 for playing a role in preventing biodiversity loss and in preserving and restoring natural capital.

Nomura Asset Management 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 work together to address climate change and biodiversity protection and restoration.

In September 2023, the Task Force on Nature-related Financial Disclosures ("TNFD") announced its final recommendations on a framework for appropriately assessing and disclosing risks and opportunities related to natural capital Figure 1. The TNFD recommended disclosures comprise: (1) Governance; (2) Strategy, (3) Risk and impact management, and (4) Metrics and targets. In addition to these four pillars, many of the 14 recommended disclosure items are also common to the TCFD.

Similar to the TCFD, companies need to first improve their governance and begin building a system, centered on the board of directors, for effectively discussing and supervising important management issues related to their natural capital issues. For example, in the final recommendations, the content provided under "Risk and impact management" in the previous draft version have been moved to "Governance". In addition to risks and opportunities related to natural capital for the company, its responses targeting affected stakeholders have also been changed from the on-site level to being the responsibility of the board of directors, further emphasizing the importance of governance. Considering that information disclosure related to climate change and natural capital will become increasingly integrated going forward, one of the key points in evaluation will be whether or not a company's efforts in governance are adequate.

Figure 1 **TNFD Final Recommendation**

14 recommended disclosures (Final recommendation)

Governance

Disclose the organization's governance of nature-related dependencies, impacts, risks and opportunities.

- **A** Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities.
- **B** Describe management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities.
- **C** Describe the organization's human rights policies and engagement activities, and oversight by the board and management, with respect to Indigenous Peoples, Local Communities, affected and other stakeholders, in the organization's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.

Strategy

Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organization's business model, strategy and financial planning where such information is material.

- **A** Describe the nature-related dependencies, impacts, risks and opportunities the organization has identified over the short, medium and long term.
- **B** Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organization's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.
- **C** Describe the resilience of the organization's strategy to nature-related risks and opportunities, taking into consideration different scenarios.
- **D** Disclose the locations of assets and/or activities in the organization's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.

Risk and impact management

Describe the process used by the organization to identify, assess, prioritize and monitor nature-related dependencies, impacts, risk and opportunities.

- **A i** Describe the organization's processes for identifying, assessing and prioritizing nature-related dependencies, impacts, risks and opportunities in its direct operations.
- **A ii** Describe the organization's processes for identifying, assessing and prioritizing nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s).
- **B** Describe the organization's processes for monitoring nature-related dependencies, impacts, risks and opportunities.
- **C** Describe how processes for identifying, assessing, prioritizing and monitoring nature-related risks are integrated into and inform the organization's overall risk management processes.

Metrics and targets

Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

- **A** Disclose the metrics used by the organization to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process.
- **B** Disclose the metrics used by the organization to assess and manage dependencies and impacts on nature.
- **C** Describe the targets and goals used by the organization to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.

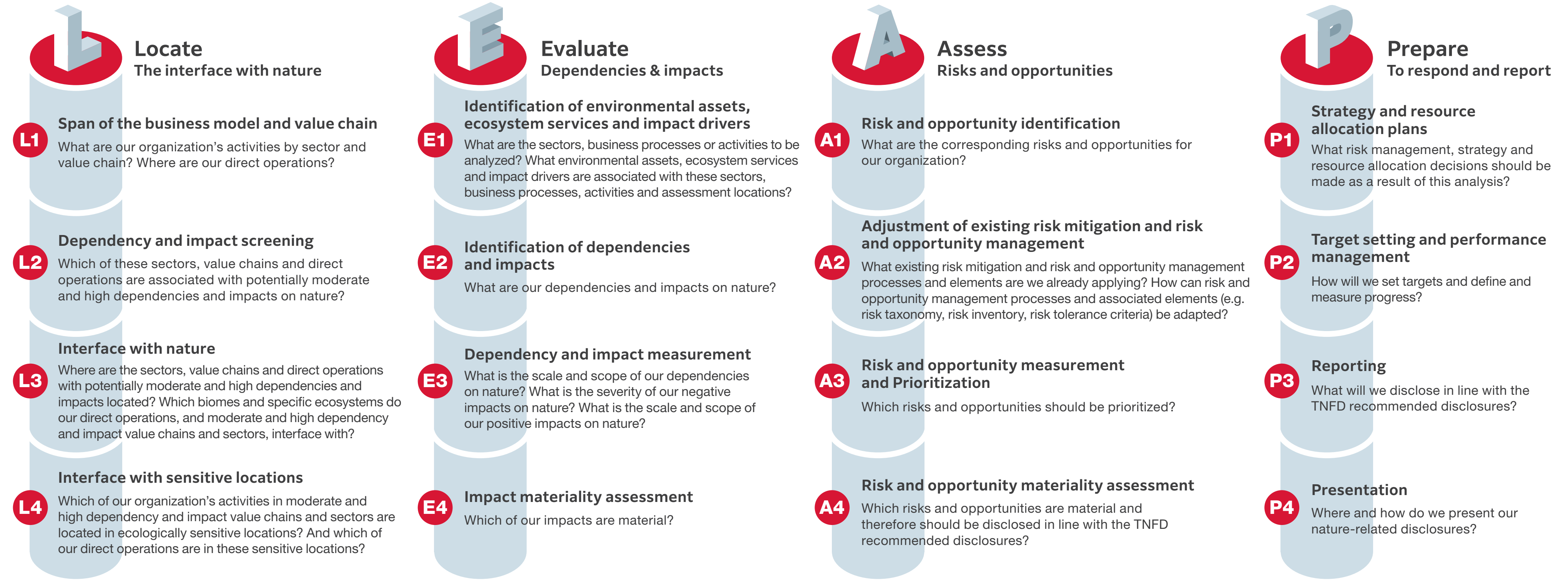
Source: Prepared by Nomura Asset Management based on TNFD website

Meanwhile, there are also recommendations unique to the TNFD, which incorporate issues and perspectives specific to natural capital. In particular, in the field of natural capital, there is no single yardstick, and regional characteristics are strongly reflected, so measurement requires a more multi-sided perspective. To this end, the TNFD advocates for the LEAP approach Figure 2 as a method for a company to comprehensively assess its nature-related risks and opportunities. Based on this approach, it has been pointed out that it is important for companies to locate their interface with nature (Locate), evaluate dependencies and impacts (Evaluate), assess risks and opportunities (Assess), and prepare to respond and report (Prepare).

When responding to TNFD, it is important to understand the similarities and differences with the TCFD, and undertake internal initiatives, improve disclosure, and show investors what the company is doing. Sector-specific guidance is scheduled to be published in 2024, and more companies and financial institutions are expected to make progress in addressing natural capital and with related disclosure.

In July 2023, Nomura Asset Management joined the TNFD Forum, a stakeholder group that aims to support discussions on TNFD, and we are collecting the latest information regarding TNFD in a timely and appropriate manner and participating in technical review work. In addition, we are actively speaking at external events on the topic of natural capital and biodiversity. In October 2023, we participated as a panelist in a session on natural capital at PRI in Person 2023, the world's largest global conference on ESG and responsible investing (Please refer to the sidebar on Page 18).

Figure 2 LEAP Approach: an integrated approach for the assessment of nature-related opportunities and risks



Source: Prepared by Nomura Asset Management based on TNFD website

Partnerships to Protect Natural Capital

Through both individual and collaborative engagement activities, Nomura Asset Management urges portfolio companies to address the loss of natural capital and biodiversity.

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 (refer to Page75). We encourage companies to take action to protect and restore biodiversity, and we share insights and best practices regarding engagement targeting biodiversity protection. Furthermore, in response to the fact that seafood-related assets and revenues are exposed to risks such as overfishing, natural destruction, and damage from fish diseases, we joined the joint engagement program "Seafood Traceability" that FAIRR launched in October 2023, and we are lead investor targeting two Japanese seafood companies.

In our collaborative engagement with Sustainalytics (Page74), we carry out engagement on many individual topics related to biodiversity. We encourage companies from a wide range of sectors in the agricultural value chain, including financial institutions, retailers, food companies and chemicals companies, to manage the risks of biodiversity-related impacts, dependencies and opportunities, and ask them to combat the loss of biodiversity.

In addition, for clean technology companies related to electric vehicles and solar or wind power generation facilities, we will 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, in October 2023, we joined Spring, a new collaborative initiative of institutional investors aimed at resolving the loss of natural capital and biodiversity, launched by the Principles for Responsible Investment (PRI). With 131 institutional investors representing total assets under management of approximately $9.5 trillion announcing their participation in the initiative, Spring is one of the world's largest natural capital-related collaborative engagement frameworks. We also serve on an advisory committee whose purpose is to advise PRI on its strategy and execution in the natural capital domain (see right).

Spring's activities have been in full swing since the beginning of 2024, initially focusing on forest loss and land degradation, the main drivers of biodiversity loss, and selecting 40 major companies to target for engagement. This may extend to other drivers of biodiversity loss in the future, and we are therefore committed to encouraging portfolio companies' efforts on risk and opportunities related to natural capital and biodiversity through collaborative engagement and participation in and contributing to technical discussions. In addition, we will further advance efforts to maintain and improve medium- to long-term corporate value and the sustainability of society as a whole.

Appointment as Advisory Committee member of Spring, PRI's collaborative initiative on natural capital and biodiversity

spring

In 2023, we became a member of the Advisory Committee of PRI's collaborative initiative on natural capital and biodiversity (Spring), and we are playing a leading role in building the framework for collaborative engagement and dialogue with target companies. The companies targeted for collaborative engagement under the Spring initiative comprise 40 large companies that can have an impact in areas where forest loss and land degradation, which are major causes of biodiversity loss, are a concern. As the area of natural capital and biodiversity is a relatively new domain for the investment community, investors believe that collaborative engagement, timely and appropriate information gathering, and continuous peer learning, are all essential.

ESG Investment Manager
Dai Yamawaki

Information Disclosure based on the TNFD Recommendations

The loss of natural capital, including biodiversity, has a huge negative impact not only on the environment, but also on the economy and human health. Meanwhile, in the world of economics and finance, natural capital has long been considered as a given input in the production function. However, as the finiteness of natural capital has grown to be widely recognized, there is a need for the sustainable use of natural capital and information disclosure about natural capital, and this has accelerated in recent years, including with regard to the development of related systems.

In order for companies to become more sustainable, they need work to protect and sustainably utilize natural capital. This includes understanding the extent to which they rely on nature for the continuity of their business operations and grasping the impact that their business and its supply chain have on nature. If issues related to biodiversity emerge, either from a company's own operations or in the supply chain connected to that company, the company's corporate value may be greatly impacted through increased costs to procure raw materials or due to reputational risk such as damage to the company's image. In this way, we believe that companies that are able to manage risks related to natural capital and make the protection of natural capital part of their business strategy will likely enjoy a positive reputation for the products and services they provide, and this will lead to them continuing to increase their corporate value over the long term.

Nomura Asset Management recognizes issues related to natural capital as particularly important, and we have articulated this clearly in our ESG Statement since 2019. In addition to regularly monitoring natural capital-related data and regulatory developments with respect to portfolio companies, through engagement we evaluate both risks and opportunities with a focus on the natural capital domain. We incorporate these evaluations into our investment decisions, as we advance efforts to preserve natural capital both as an institutional investor and as a company ourselves.

In addition, unlike climate change, there is not a single, common yardstick for natural capital on a global basis, and since this is a relatively new area in the investment industry, we collect the appropriate information in a timely manner and continuously engage in peer learning so that we do not have opinions that are not based on facts. To this end, we have joined multiple initiatives in order to acquire comprehensive knowledge and we are actively building our networks with professionals possessing technical expertise in a wide range of fields.

After participating in the TNFD Forum in July 2023, we registered ourselves as a TNFD adopter in January 2024, indicating our intention to provide disclosure in FY2024 based on the TNFD recommendations. Given the timing of our registration, we were announced as a TNFD early adopter at the World Economic Forum's Annual Meeting in Davos, which was held that same month. We are currently preparing to disclose information based on more comprehensive TNFD recommendations.

Column

Spoke at Tokyo Sustainable Seafood Summit (TSSS) 2023

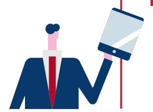
Nomura Asset Management took the stage at Tokyo Sustainable Seafood Summit (TSSS) 2023, one of Asia's largest sustainable seafood events. TSSS is a global flagship event originating from Japan, and one of the largest in Asia, which brings together diverse stakeholders working to turn the seafood industry into a growth industry, with the aim of pursuing sustainability in marine food systems and becoming nature-positive. This marked the ninth time the TSSS was held. In the panel session "Seafood Blue Finance: Investor-Led Engagement in the Seafood Sector," we discussed our approach as an investor towards the seafood industry, which faces various risks such as overfishing, worker human rights violations, and the destruction of biodiversity, as well as introduced some actual examples of our own engagement activities

Disclosure in alignment with TNFD

Governance

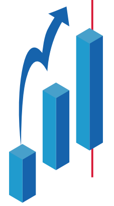
- We have positioned nature-related risks and opportunities as elements that have important impacts on our business and medium- to long-term management goals, and we have built an appropriate governance system. The data about nature-related risks and opportunities and the status of engagement and other initiatives compiled by the Responsible Investment Department which is the secretariat for the Responsible Investment Committee, is ultimately reported to the Board of Directors through the Executive Management Committee, which allows the Board of Directors to appropriately monitor our nature-related risks and opportunities.
- Analytical data on nature-related risks and opportunities compiled by the Responsible Investment Department and the status of engagement on related efforts are shared within the Investment and Research Unit in a timely and appropriate manner, and are utilized in company analyses and investment decisions. These analytical data are regularly reported to the Responsible Investment Committee, comprised of members of the Investment and Research Unit, which then evaluates the nature-related risks and opportunities of our portfolios. For example, the Responsible Investment Committee receives reports on portfolio analysis data from the end of the previous year, and in July the Committee plans to decide the priority themes for nature-related engagement.
In addition, the Chair of the Responsible Investment Committee reports the results of evaluations to the Executive Management Committee, and the senior management team uses the content of these reports to make management decisions.

Risk and impact management



- In order to support the long-term improvement of corporate value of investee companies, we continuously monitors natural capital risk in a wide range of investment target stocks, aiming to reduce natural capital risk at the portfolio level. We also regularly investigate natural capital-related and waste-related information in investment target stocks by utilizing corporate disclosure information, media reports, external databases, and other information. Survey items include disclosures on water usage, waste volume, forest and soil resource conservation, river and marine resource conservation, and associations with commodities with high biodiversity risk.
- We use the ISS analytical methods to manage portfolio risk. We also identify and manage natural-related risks at investee companies through our unique corporate analysis, ESG score, and engagement activities.
- Outputs of these risk management are shared within our Investment Research Unit, monitored by our Responsible Investment Committee, and then integrated into the overall risk management process, including reporting to our Management Committee and Board of Directors.

Strategy



- We recognize a variety of nature-related risks and opportunities in the short, medium and long term. In terms of transition risk, we are paying close attention to increased production costs and stranded assets due to stricter regulations, and fluctuations in demand due to changes in consumer behavior and preferences. With respect to physical risks, we are focusing on damage to natural capital due to forest fires, floods, droughts, and outbreaks of pests and diseases. We also recognize the interconnectedness between these risks and the systemic risks of ecosystem and financial stability. Meanwhile, with respect to opportunities, we are focusing on technologies, products and services that create positive impacts on nature or abate negative impacts.
- In line with our long-term strategy to become nature positive, we use a variety of metrics to understand the status of efforts by portfolio companies that are dependent on and have a large impact on natural capital. (See also <Risk and impact management>). Also, through engagement, we urge portfolio companies to recognize such risks and opportunities, and to respond and disclose information in a timely and appropriate manner. We ultimately reflect such information in our investment decisions, by evaluating both risks and opportunities.
- In addition to the analytical methods of Institutional Shareholder Services (ISS) regarding nature-related risks and opportunities, we qualitatively and quantitatively analyze the status of overall natural capital initiatives of our portfolio companies. Through this, we perform detailed analyses of the impacts on our business, strategy, financial planning, and portfolios.

Metrics and Targets

- We evaluate the nature-related risks and opportunities in our portfolios of equities and bonds in line with our strategy and risk management processes. In particular, we focus on the Potentially Disappeared Fraction ("PDF"), the metric that quantitatively expresses the potential loss of endemic species within a geographical range that due to environmental pressures, and we perform comparative analyses against benchmarks using ISS's data and analysis methodology. Please refer to Page 49 for the results of the analyses we performed on our equities and bonds portfolios, as well as our four-asset integrated portfolio.
- We have established environmental fields such as climate change and natural capital as priority themes in our engagement. Through regular dialogue, we urge portfolio companies to identify opportunities and risks related to climate change and natural capital, and to proactively address these risks and opportunities as well as disclose information about them. We then monitor the status of companies' progress on doing so. Also, in addition to managing engagement milestones, we tally up the number of engagement cases by engagement topic.

PDF
Potentially Disappeared Fraction

Potential Disappeared Fraction of species in a given area over a specific period of time

Example: 100 PDF km^2.yr= 100% loss of biodiversity in 1 year over $100km^2$

Weighted Average PDF Intensity
Weighted Average PDF Intensity

PDF per unit of sales for each company in the portfolio, weighted by each company's weight

Unit: PDF km^2.yr/ mil. EUR

$$\text{Weighted Average PDF Intensity} = \sum_{n}^{i}\left(\frac{\text{market value of the investment } i}{\text{market value of the portfolio}} \times \frac{\text{absolute PDF value of the investee company } i}{\text{sales of investee companies } i}\right)$$

Investment Portfolios’ Impact and Dependence on Natural Capital

Nomura Asset Management evaluates natural capital-related risks for four portfolios we manage: Japanese equities; global equities; Japanese bonds and global bonds. We focus in particular on the potentially disappeared fraction (“PDF”), a metric that quantitatively expresses the potential loss of endemic species due to environmental pressures. PDF is referred to in Life Cycle Assessment (LCA) models which are methods to quantitatively evaluate the environmental stress in the entire lifecycle of products and services, and widely used as a coefficient that indicates the amount of damage on affected domains (endpoints). The larger the PDF, the greater the impact on biodiversity.

We use ISS’s data and analysis methods to analyze our portfolios against benchmarks. As benchmarks, for Japanese equities we used TOPIX, and for global equities we used MSCI ACWI ex-Japan. For Japanese bonds, we used NOMURA-BPI (overall) (only corporate bonds), while for global bonds we used the Bloomberg Barclays Global Aggregate Index (only corporate bonds).

The analysis revealed that the PDF Figure 3 of our portfolios were lower than the benchmark in the case of Japanese equities, global equities, and Japanese bonds. On the other hand, for global bonds, the analysis suggested that our PDF was higher than the benchmark as a result of being overweight (versus the benchmark) in the energy sector. These characteristics can also be confirmed in the makeup of each sector in terms of the weighted average PDF intensity Figure 4.

Figure 3 Absolute Biodiversity Impact

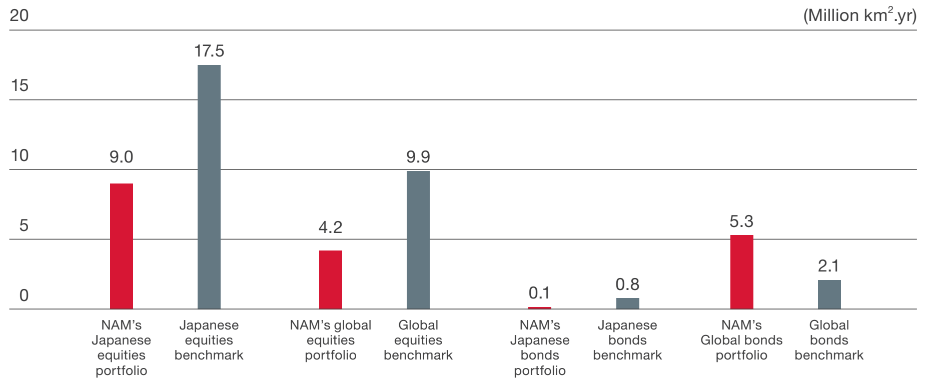
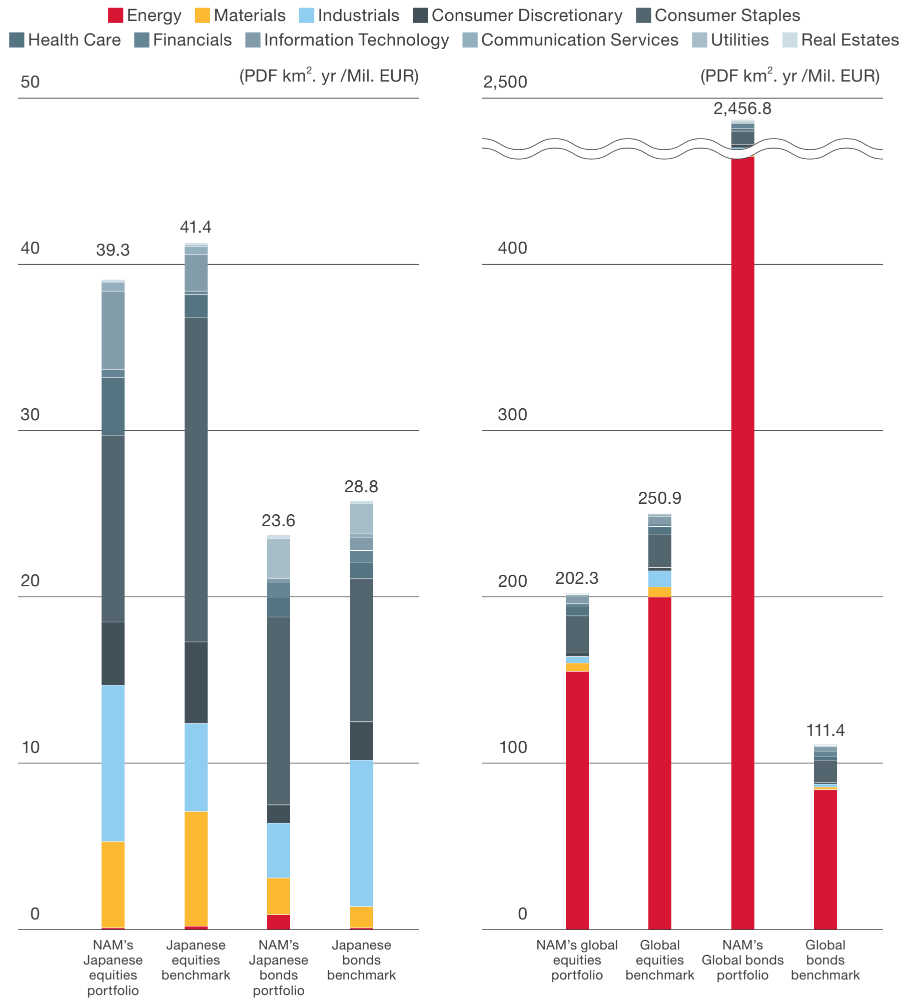


Figure 4

Weighted Average PDF Intensity by Industry (Japanese equities and bonds)

Weighted Average PDF Intensity by Industry (Global equities and bonds)



At the same time, in order to measure our portfolios’ dependence on nature, we examined the extent to which our portfolio companies’ activities are dependent on the three major categories of ecosystem services: provisioning services (groundwater/surface water, animal vitality, textiles and other materials, etc.); regulating services (water quality and water circulation, soil maintenance, protection from disasters, pest control, etc.); and cultural services (ecotourism, recreation, etc.). We found that in all areas (domestic equities, global equities, domestic bonds, and global bonds) our portfolios Figure 5-1 were highly- dependent on regulating services, while not as dependent on cultural services as others. We also found that for global bonds Figure 5-2 we were more dependent than the benchmark on provisioning services, while for other assets there was not much of a gap between our portfolios and the benchmarks.

Figure 6-1 Breakdown of Impact per Biodiversity Drivers (NAM’s four-asset integrated portfolio’s)

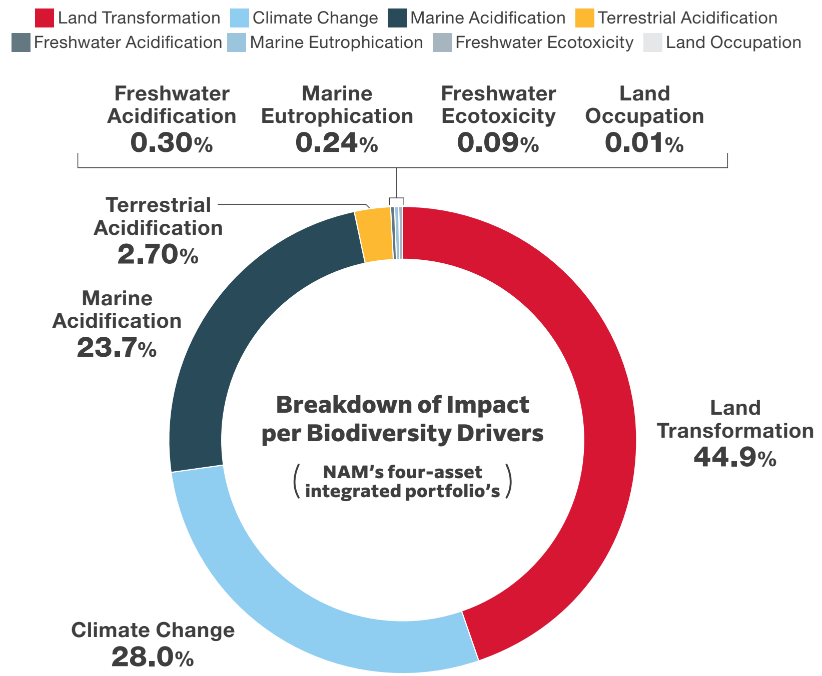


Figure 5-1 Ecosystem Services Dependencies

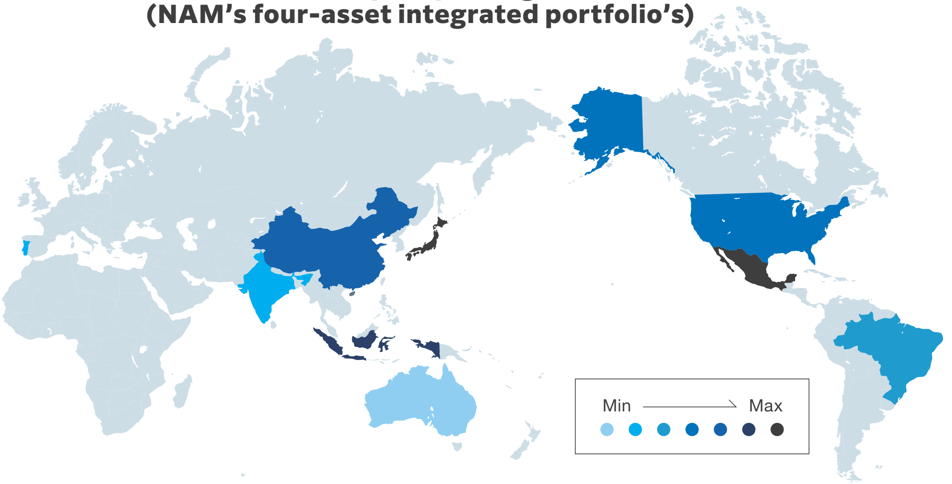
	Provisioning	Regulation & Maintenance	Cultural
NAM’s Japanese equities portfolio	23.0	70.0	7.0
NAM’s global equities portfolio	20.0	73.0	7.0
NAM’s Japanese bonds portfolio	23.0	70.0	7.0
NAM’s Global bonds portfolio	25.0	68.0	7.0

Figure 5-2 Benchmark comparison

	Provisioning	Regulation & Maintenance	Cultural
NAM’s Japanese equities portfolio	3.0	0.0	–3.0
NAM’s global equities portfolio	–1.0	0.0	1.0
NAM’s Japanese bonds portfolio	2.0	–1.0	–1.0
NAM’s Global bonds portfolio	10.0	–13.0	3.0

We also assess the natural capital-related risks of our four-asset integrated portfolio. From the analytical perspective that environmental burden manifests itself as the amount of damage to the endpoint through the impact area (midpoint), we examined the impact that our four-asset integrated portfolio has on the impact area, and we found that there is a risk of affecting the ecosystem mainly through the channels of land transformation, climate change, and ocean and terrestrial acidification Figure 6-1. Furthermore, Japan, Mexico, China, and Southeast Asian countries were identified as regions where the impacts could be significant Figure 6-2.

Figure 6-2 **Breakdown of Impact per Region (NAM's four-asset integrated portfolio's)**



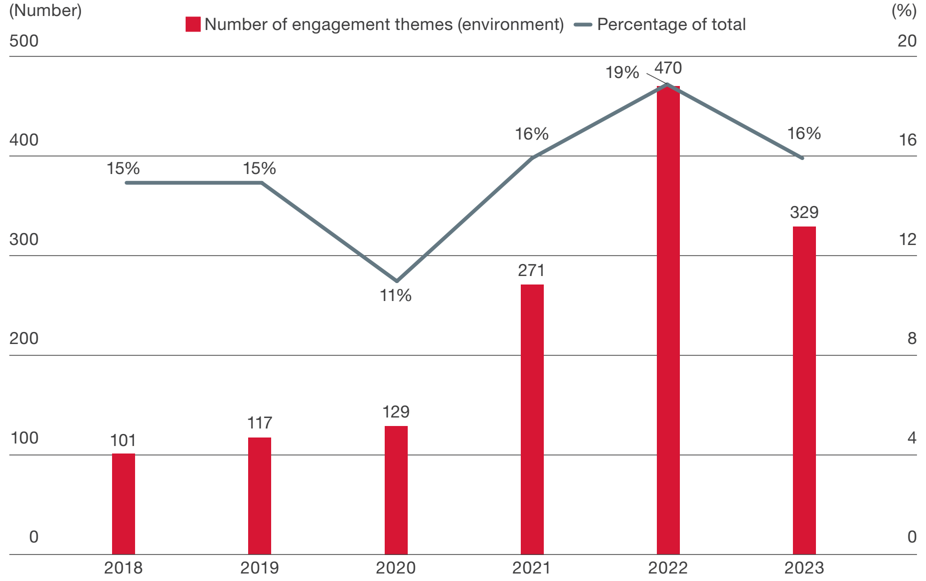
Quantitative Understanding of Environmental Engagement

We check whether or not companies are undertaking initiatives towards sustainable production and procurement, especially companies where sales are highly dependent on commodities that have a significant 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 nature-related risk.

We recently compiled the number of domestic equities engagement themes in the environmental field, such as climate change and natural capital, over time. The number of engagement themes has tripled over the past six years (2018: 101; 2023: 329), accounting for approximately 16% of the total number of domestic equities engagement themes (2,424 themes) Figure 7.

NAM will promote the efforts of investee companies (recognition of nature risk, its response, information disclosure, etc.) through our qualitative and quantitative analysis as well as engagement activities, and contribute to the enhancement of long-term corporate value and sustainability of the society.

Figure 7 **Number and percentage of engagement themes for domestic equity (environment)**



Example of Engagement (Japanese company)

Conservation of forests and biodiversity

Status of milestone management

First interview
interview 1 time

12 24 36

Engagement period

Nomura Asset Management

As demand for palm oil increases worldwide, problems such as the deforestation of tropical forests and peat swamp forests and the loss of biodiversity have emerged. What is the status of your procurement of certified palm oil?

Human rights issues such as child labor at palm oil production sites are also attracting attention. What is the status of your implementation of human rights due diligence?

Polyethylene has replaced polystyrene as the mainstream packaging material, and a shift to environmentally-friendly packaging material such as biomass is expected to occur. The use of biodegradable packaging is progressing in Europe and the U.S., but how will you address this?

We will continue to monitor your efforts to both protect forests and biodiversity, as well as to procure sustainable palm oil.

Japanese food company

Our procurement volume of palm oil is one of the largest among Japanese companies. The ratio of certified palm oil in our total procurement has been increasing year by year, and is currently over 30%. However, it is not easy as the types of certification required vary by country.

After repeated discussions within the company, we established palm oil as one of our priority areas. We have conducted human rights due diligence in accordance with the Guiding Principles on Business and Human Rights (Ruggie Principles) established by the United Nations Human Rights Council.

We believe that our response will depend on the regulatory environment in each country. For example, in Japan, incineration is an option, but in the U.S. there is the option to bury packaging material in the soil, while in Europe it is composted. It is important for us to stockpile different technologies.

We will continue to increase the ratio of certified palm oil we procure and strive for sustainable procurement.

Natural Capital Risk Issues

Example of Engagement (Global company)

Supply chain deforestation problem

Status of milestone management

28 month
interviews 5 times

12 24 36

Engagement period

Nomura Asset Management

Please explain the situation regarding deforestation incidents reported by satellite imagery reports in the second half of 2022.

Please explain whether the grievance handling system has been improved by bringing in third-party partners.

Please explain your progress toward sustainable procurement of coffee beans and your regenerative agriculture initiatives.

It is necessary to respond to deforestation events in a timely manner and to disclose up-to-date complaint tracking information. Efforts to handle grievances must be effective and contribute positively to both the environment and society.

Switzerland consumer staple company

We removed one company from our supplier list that we believe has the potential to be doing business with our supply chain.

Regarding supplier traceability, we are updating our own system to the latest data. We are upgrading our complaint handling system with our third-party partners.

Solid progress is being made towards achieving 100% deforestation-free procurement of coffee and cocoa by 2025. As a leader in the company and the industry, our coffee division collaborates with a Cornell University research institute to systematically collect data on beehives necessary for pollination, fertilizers, and pesticides using IT tools. We are developing coffee beans that are resistant to dryness and are highly productive.

Our goal is to have 50% of our coffee beans sourced from regenerative agriculture by 2030, and we are promoting regenerative agriculture through cooperation with and by supporting farmers.

Product Governance

Our 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 include 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 54 for more information on our overall product 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 European SFDR (Sustainable Finance Disclosure Regulation) and other overseas regulations including Taxonomy, sorting out the issues regarding ESG investment policies to ensure such compliance and identifying matters to disclose, among other issues.

For our Europe-domiciled funds, we have established a Responsible Investment Oversight Committee (RIOC) in our UK European base to strengthen supervisory functions in Europe, including dealing with local regulatory authorities. The year 2023 was a year in which we saw many changes in the regulatory environment in Europe. Additional guidance on SFDR was published by the European Commission in the first half of 2023. Subsequently, a consultation was held regarding proposed changes to the SFDR regulatory technical standard, and in the second half of 2023 a consultation regarding the current status and future vision of the SFDR was held, resulting in an uncertain situation regarding the regulations that have already been applied. Nomura Asset Management's UK and European offices provided responses to the consultation regarding the SFDR. Our offices in the UK and Europe believe that it is important to bolster our accountability with regard to ESG investment products in an environment where regulations are unclear and fluid, and the RIOC has strengthened qualitative monitoring focused on ability to explain such products. In addition, the UK's SDR (Sustainability Disclosure Requirements and investment labeling system) was released in 2023, and the associated rules are scheduled to be applied in phases starting in 2024. Our offices in the UK and Europe are preparing to respond, under the assumption that the application of anti-greenwashing rules will have an impact in particular.

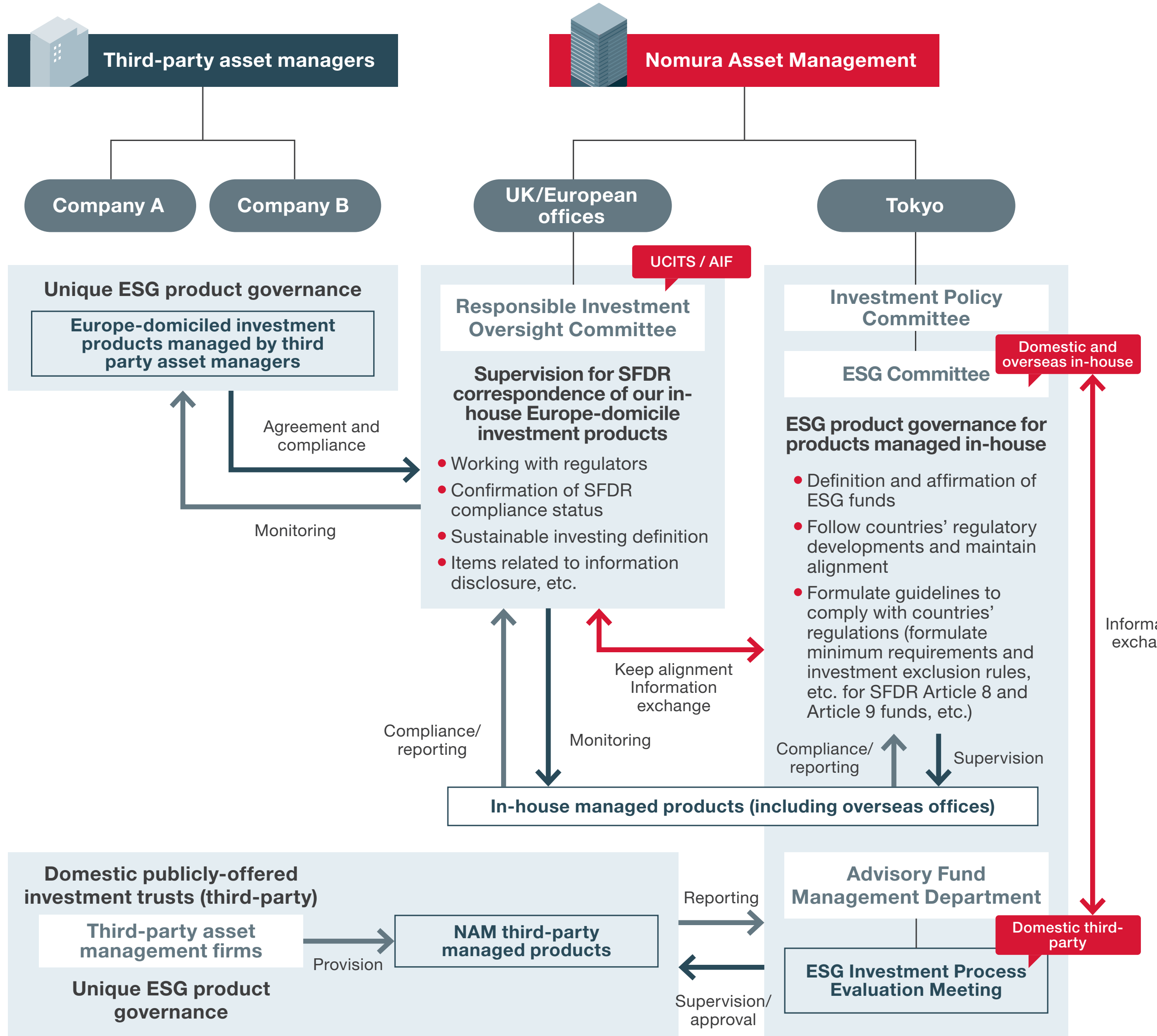
The ESG Investment Process Evaluation Meeting, which evaluates ESG investments by third-party asset managers, regularly monitors and evaluates the internal structures, engagement policies, ESG investment processes and other aspects of these third-party asset management firms.

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. Therefore, in the same way as for inhouse 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 55-56 for more information about ESG index providers, and refer to Pages 57-58 for more information about third-party asset managers.) ESG investing has evolved to an era in which investments will be stringently 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.

Reference › Please refer to the following link on our website for more information about our main ESG funds. (Japanese only)
https://www.nomura-am.co.jp/special/esg/strategy/esglineup.html

Overall ESG Product Governance System for the Investment Side



ESG Product Governance for Index Funds

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.

Check ESG index quality

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. Also, Nomura Asset Management participates as an index advisory member for JPX Research Institute and FTSE. We exchange opinions based on our perspective as an asset management company, aiming to continuously improve overall index quality and governance.

Main topics of communication

- **Index providers' ESG research and ESG index provision system**
- **Important topics in ESG evaluation and the latest global trends**
- **Enhancement of information provision to end investors regarding ESG indices**

Compare and study candidate indices

Check performance/ ESG profile

Establish/ listing criteria

1
- Check the index provider's efforts with respect to the ESG index (regular/irregular basis)
- Response to consultations concerning ESG index (irregular basis)

2 Due diligence and Evaluation on index provider's philosophy and efforts with respect to ESG index

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. In 2023, we received responses from all providers of ESG indices that we use, and we confirmed that all providers, as providers of ESG indices, have frameworks in place to appropriately explain how they ensure quality, develop specialized personnel, maintain independence, manage conflicts of interest, and ensure transparency.

Main topics of communication

- **Status of efforts to secure ESG index quality**
- **Status of ensuring transparency and independence in computing ESG index, and conflict of interest management system**
- **Efforts for ensuring specialized ESG assessment data as well as initiatives in collecting ESG assessment data**

Before establishment | At time of establishment | After establishment

Adopted Benchmarks and Overviews of NAM's ESG Index Funds

FTSE4Good Developed 100 Index	One of the indices in the FTSE4Good Index series.* This index excludes tobacco manufacturers and weapons and weapons system manufacturers from companies in developed countries around the world, and is comprised of approximately the top 100 companies by market capitalization screened using ESG selection standards. *The FTSE4Good Index series is a series of stock indices targeting companies that meet globally recognized and accepted ESG selection criteria.
MSCI Japan Empowering Women (WIN) Select Index	A stock index developed by MSCI comprising Japanese companies that aim for and maintain a high level of gender diversity. In selecting companies, the index uses companies with high ratings in terms of gender diversity and scandal scores, as well as companies with high growth rates in capital investment and sales.
S&P500ESG Index	A stock index that incorporates ESG factors into the selection criteria of constituent stocks and aims to provide performance comparable to the S&P 500 and maintain sector weights similar to the S&P 500. In selecting stocks, constituent stocks are determined based on the S&P Global ESG Scores (calculated based on the quantified status of companies' sustainability initiatives and comprehensive ESG performance evaluation data).
MSCI Japan Country ESG Leaders Index	A stock index developed by MSCI comprising Japanese companies with high ESG ratings compared to industry peers. This index has been designed to seek high ESG performance using a simple and highly transparent best-in-class approach based on the parent index, the MSCI Japan Index.
Solactive Japan ESG Core Index	An ESG-focused stock index that uses the Solactive GBS Japan Large & Mid Cap Index, which is comprised of large- and mid-cap Japanese stocks, as the parent index. This index includes stocks that conform to ESG standards stipulated by Solactive from among multiple industries that are expected to have medium- to long-term growth potential from the perspective of development related to Japan's economic activity and sustainable growth, as well as stocks from other sectors that have relatively high ESG scores (low ESG risk ratings). The index focuses on emissions of CO_2 and other greenhouse gases. The index composition ratios are determined by taking into account each stock's ESG scores and market capitalization.

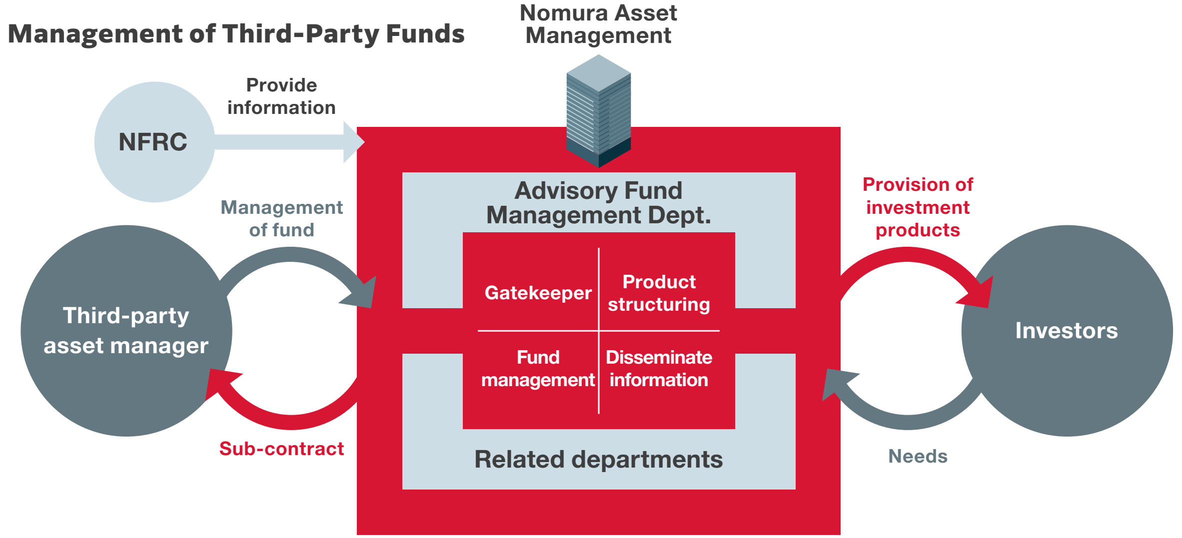
Governance of Third-Party Asset Managers' ESG Products

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 (net assets totaling approximately ¥7 trillion as of December 31, 2023) to investors. These assets are broadly diversified in different asset classes, including equities, fixed income, and FOFs (funds of funds).

When we outsource investments to a third-party asset manager, we carefully examine the investment capabilities and operational execution capacity of that asset management firm before selecting them. In addition, in order to ensure the quality of a fund after we select it, we collaborate with Nomura Fiduciary Research & Consulting (NFRC) to continuously monitor the asset management firm, its investment system, investment processes, performance, and other matters as a part of an annual third-party fund qualitative assessment. If we identify any serious issues in a third-party fund's management, we demand that the asset manager make improvements to its investment operations. This is part of our effort to maintain and improve the quality of these third-party funds.

Management of Third-Party 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 2023, 12 of the third-party funds we offer are ESG funds.

Qualitative Evaluation of 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.

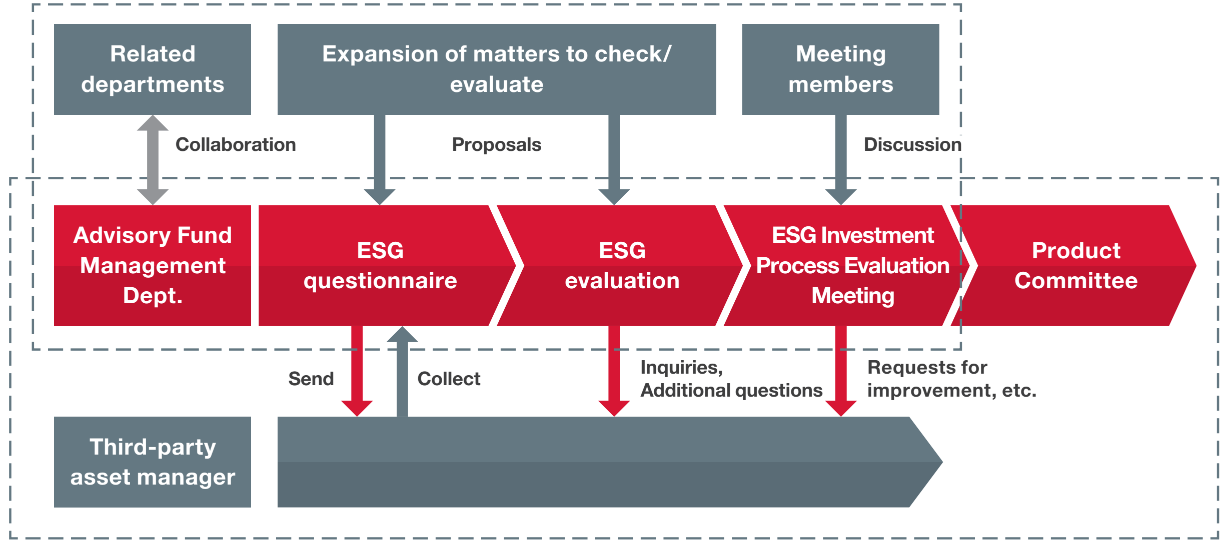
The evaluations are performed based on the seven investment styles identified by the Global Sustainable Investment Alliance (GSIA). These are corporate engagement and proxy voting, ESG integration, negative screening, positive screening, norms-based screening, sustainable-themed investment and impact 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.

In 2023, rules in countries around the world were enhanced, including the strengthening of disclosure rules related to ESG investment. Amid this, we determined it was necessary to further improve our qualitative evaluation by having it assessed from a third-party perspective, and we consulted with an outside organization to enhance our evaluations, including by adding new evaluation items such as initiatives to address human rights and biodiversity issues, as well as ESG risks.

With these improvements, we are now able to perform concrete checks, including of detailed information on ESG investments by third-party asset managers and the status of initiatives on a wider range of ESG issues than before. Our efforts targeting third-party-managed funds have been assessed externally, and in the 2023 annual evaluation by the Principles for Responsible Investment (PRI), the item (module) score related to third-party investment improved from the previous assessment.

Going forward, disclosure rules related to ESG investment in countries around the world are expected to become more stringent. We will closely monitor the situation surrounding ESG investment and incorporate any necessary assessment items as we maintain and improve the quality of third-party managed ESG funds.

Qualitative Evaluation Process for ESG Funds



Engagement

We engage in constructive dialogue with companies to promote their continued value creation and sustainable growth

Basic stance on engagement

1
Engage in dialogue with a cordial and constructive attitude

2
Work to understand non-financial information, including companies' efforts to address ESG issues, and the strategies and philosophies behind them

3
Listen to the views of portfolio companies on the efficient use of capital, and communicate our thoughts

4
When a serious scandal or accident has occurred, promote sound management by hearing the causes and measures to prevent recurrence

Our 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.

We carry out our engagement activities based on the Basic Policy for Responsible Investment Management established by the Responsible Investment Committee and the priority engagement topics determined based on this policy.

As shown in the figure to the right, our priority engagement topics cover a wide range, from ESG to business strategy and financial strategy. The Engagement Department Meeting is the body that considers and establishes engagement activity policies (engagement goals) that contribute to increasing the corporate value of each portfolio company, referencing these priority topics. This meeting is held approximately biweekly, with over 20 participants, mainly from the Engagement Department, including portfolio managers, analysts, and ESG specialists, and they work to refine engagement goals.

In July 2021, we selected approximately 300 Japanese companies to be priority companies for engagement. Subsequently, we have established engagement goals for each of these companies, and during 2023 we mostly completed the goal-setting for all 300 companies. We held approximately 1,000 engagement meetings, so we are confident that our engagement system is firmly in place in terms of engagement volume.

On the other hand, we believe that we are entering a phase in which the quality of engagement, or its effectiveness, will be put to the test.

After setting engagement goals, we use milestones to manage progress towards achieving them. If we determine that progress will be difficult under the current method, we either revise the method, such as requesting a meeting with outside directors, or consider escalation measures, such as reflection in investment decisions and proxy voting. On the following pages, we introduce several cases where engagement progressed through dialogue with outside directors. We believe that contacting multiple stakeholders in this way to encourage change in a company is important.

The roles that companies are expected to play in areas such as human rights due diligence, supply chain management, and well-being are becoming increasingly diverse. Following the Tokyo Stock Exchange's request in March 2023, companies' awareness of capital efficiency has changed. In line with these social changes, we are also gradually adding to and updating our engagement goals.

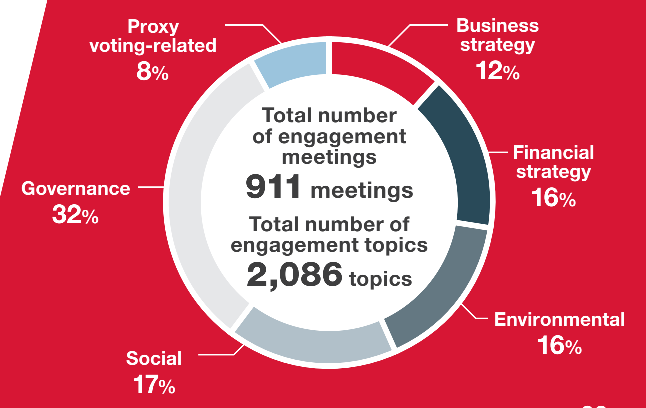
Breakdown of 2023 year-end engagement goals (by priority topics)

Category	Topic		Ratio
Business	1	Integrate Business Strategy and Sustainability	2.7%
Environment	2	Climate Change	14.3%
	3	Natural Capital	1.2%
Social	4	Human Rights Risks	4.9%
	5	Utilize Human Capital Possessing Diverse Values	5.3%
	6	Realizing Well-Being within Society	1.3%
Governance	7	Redefine the Board of Directors	11.6%
	8	Strengthen commitment to capital efficiency	13.6%
Financial	9	Rational explanation of financial strategy	11.6%
Others			33.4%

As of December 2023

Head of Engagement Department
Yosuke Uchida

2023 Engagement Meetings



*Breakdown of engagement meetings throughout 2023 (number of topics)

Measuring the Effects of Engagement Activities

We are currently promoting measures to measure the effectiveness of our engagement activities.

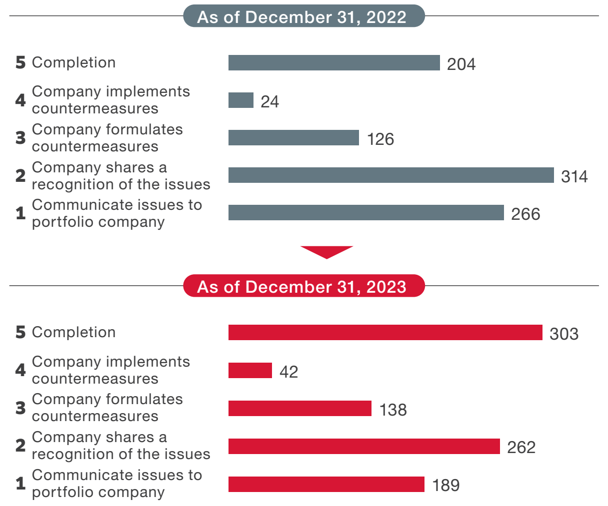
The chart on the right shows progress towards the milestones for 2023. We set engagement goals in advance, such as "growth strategy formulation and disclosure" and "board of directors' diversity enhancement," and then proceed with engagement activities. Milestone management measures the progress achieved by these activities. As of the end of 2022, the status was mostly "2. Shared recognition," but as of the end of 2023, an increasing number of cases have progressed to corporate action such as "4. Implementation of countermeasures" and "5. Completed."

In addition to checking the progress of individual engagement activities in this way, our Innovation Lab Department is also measuring the effectiveness of our engagement activities as a whole.

Specifically, the Innovation Lab Department compared companies we engaged with from 2016 to 2022 to companies we did not engage with, and has assessed the outcome of engagement by comparing changes in companies' business performance and corporate actions (such as strengthening ESG initiatives and enhancing dialogue with the stock market, etc.). The figure below shows the findings of the analysis. We found statistically significant trends among the companies with which we engaged, including, but not limited to, a decrease in the ratio of cross-shareholdings, the elimination of takeover defense measures, an increase in the percentage of shares owned by executives, and an increase in the ratio of female and outside directors.

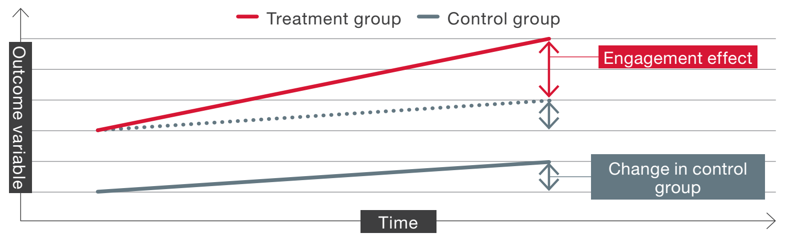
Furthermore, starting in FY2023, this analysis not only includes whether or not we engaged with a company, but also how many times we engaged as well as the specific details of the engagement and the assessments of those engagements. This analysis found the trends shown below to be statistically significant.

Status of Milestone Management*



*Check the progress of milestones regarding engagement goals that have been set as of the end of December 2022.
Completion: Countermeasures have been announced via press release, etc., and it is certain that the countermeasures will be implemented (For completions, the cumulative figure is until the end of 2023. The number of completions in 2023 alone was 99)
Company implements countermeasures: Countermeasures have been announced via press release, etc., but it is determined that it is necessary to examine that the company completes implementation of the countermeasures
Company formulates countermeasures: It has been confirmed at a meeting that the company is studying measures to address the issues we identified
Company shares a recognition of the issues: The company shares a recognition of the issues that we identified (the company understands the issues and has begun studying them)
Communicate issues to portfolio company: We have communicated to the company the areas that we think are issues to be addressed

Outcome of two-period model



We define the engagement effect as the difference in the change in the outcome variables between the group of companies we engaged with (treatment group) and the group of companies we did not engage with (control group).

- **Companies that we have engaged with repeatedly tend to have improved capital efficiency the more we engaged with them**
- **Companies with which we have conducted governance-related engagement tend to have increased executive officer shareholding ratios and have introduced performance-linked compensation.**

We are confident that the results of this analysis confirm the importance of continuous engagement activities, which is something we value. Meanwhile something we will continue to analyze from last year is the issue of endogeneity, whereby effects cannot be said to be the result of our engagement activities alone, and that companies with poor governance systems are more likely to be the subject of engagement. We will continue to accumulate data and measure effectiveness, including examining this issue of endogeneity, and will utilize these data to improve future engagement activities. This analysis and verification was supervised by Professor Yumiko Miwa of Meiji University, who provided beneficial comments during the process.

Engagement on SBT (Science Based Targets)

As part of our climate change engagement, we encourage our portfolio companies to become SBT-certified.
SBTs are GHG emission reduction targets set by companies for the next five to 10 years consistent with the levels required by the Paris Agreement. SBTs are certified by the SBT Initiative, an international organization established by the CDP, UNGC, WRI, and WWF.
As companies and the overall supply chain are being asked to take steps to reduce GHG emissions, an increasing number of companies are working to obtain SBT certification for a variety of reasons, including boosting their external assessments and complying with demands from business partners.
In 2023, more than 700 Japanese companies had obtained SBT certification, and as of the end of December 2023 the number of Japanese companies that have obtained SBT certification is the highest in the world.

Engagement with Kyushu Electric Power Co., Ltd. on obtaining SBT certification

In April 2021, Kyushu Electric Power Co., Inc. ("Kyuden") formulated the "Kyuden Group Carbon Neutral Vision 2050," and declared that as a frontrunner in carbon-reduction/decarbonization efforts, it will aspire to become a corporate group that will spearhead Japan's decarbonization initiatives from Kyushu. Additionally, Kyuden's zero-emission/FIT power supply ratio is 58% (FY2019), which is top-class among electric power companies in Japan.

The ratio of fossil fuel-based electricity generation in Japan is generally seen as high, but Kyuden is eager to restart nuclear power plants as soon as possible and to introduce renewable energy. Kyuden's management team and IR Department have actively promoted these efforts through IR briefings and facility tours.

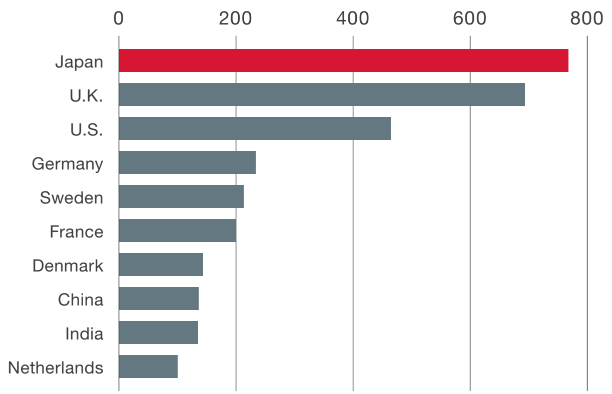
We believe that SBT certification is desirable in order to both educate investors and other stakeholders about Kyuden's low-carbon and decarbonization efforts, and to increase its corporate value, and since 2021 we have been encouraging Kyuden to obtain SBT certification at IR and ESG meetings.

There were not many cases around the world of SBT certification being obtained by electric power companies, and it was initially believed that obtaining SBT certification would be very challenging, but in March 2023, Kyuden's GHG emissions reduction target became the first among a major Japanese energy company to receive SBT certification.

We think that our encouragement was one of the factors that led to Kyuden receiving its SBT certification.

Number of SBT-certified companies by country

(As of December 2023)



Engagement Activities Targeting Human Rights Risk Management, Utilization of Human Capital

With labor shortages becoming a concern worldwide, companies are being asked to utilize a diverse range of human capital. Expanding human capital possessing diversity across gender and nationality is expected to contribute not only to an increase in the quantity of human resources, but also to a higher level of quality of human resources. On the other hand, it is also important to monitor whether human resources are being treated and evaluated appropriately. As supply chains become globalized and intersect with different regulations and customs, human rights issues can arise. We closely monitor the human rights risks of portfolio companies and encourage them to conduct human rights due diligence.

Priority topics 5
Utilize Human Capital Possessing Diverse Values

Target company

Semiconductor company A

Period 3 **year** (Most recent interview: June 2023)*

Overview of engagement

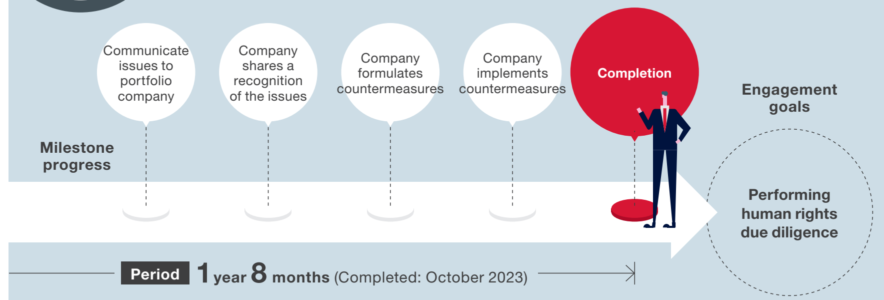
NAM's concerns	As competition for human resources intensifies throughout the semiconductor industry, this company has a low ratio of female employees, so we have begun engagement with the company, believing that promoting the active participation of women will help resolve the issue of personnel shortages.
Engagement progress	When we urged the company to set targets for promoting the active participation of women and develop measures to achieve the targets, the company commented that it wanted to take a proactive approach to doing this. Subsequently, the company announced targets for the ratio of female managers, but these targets were a bit conservative compared to its industry peers, so we asked the company to revise its targets and enhance its measures.
Current status	When we checked on the current status of the measures, we learned that roundtable discussions and company introduction materials are being expanded with the aim of strengthening the recruitment of female engineers. The company now has a policy of expanding its measures based on the opinions of outside directors who have research findings with respect to promoting the active participation of women, and we will support this policy.

*The period is the number of months from the start of interviews until December 2023

Priority topics 4
Human rights risk

Target company

Retail company B



Period 1 **year** 8 **months** (Completed: October 2023)

Overview of engagement

NAM's concerns	As the retail industry increasingly utilizes foreign workers, issues with the working environment have been identified. The company in question is a large retailer that operates a chain of convenience stores both domestically and internationally, but we could not confirm the status of their consideration of human rights risks in their integrated reports and other disclosures, so we began engaging with the company.
Engagement progress	When we asked the company about the status of its management of human rights risks for foreign workers, we found that while the company has established a foundation that contributes to supporting the lives of foreign workers in Japan, the company told us that it may not be able to grasp the actual situation at its overseas franchise stores. We encouraged the company to conduct human rights due diligence to ascertain human rights risks throughout its supply chain.
Current status	We have subsequently had multiple conversations with the company. The company disclosed the results of its supplier human rights due diligence and risk mitigation policies in its 2023 integrated report.

Engagement Initiatives

We collaborate with numerous international engagement initiatives that address social issues.
One of these engagement initiatives is the Access to Medicine Index (ATMI).
This initiative aims to promote improved access to healthcare in low- and middle-income countries, and we are working as a lead investor in collaborative engagement with two major Japanese and American pharmaceutical companies, including Daiichi Sankyo Co., Ltd.

Overview of initiative

- Research findings published by the Access to Medicine Foundation.
- The Access to Medicine Foundation has been working with the pharmaceutical industry for more than a decade, with a primary goal of improving access to health care for the billions of people in low- and middle-income countries who are underserved by modern medical advances.

Participating companies

- 142 institutional investors around the world ($22 trillion in assets under management) refer to ATMI.
- Nomura Asset Management became an investors signatory in 2019. Representing the investors, we handle collaborative engagement as lead investor for two large pharmaceutical companies in Japan and the US (Among Japanese investors, only two companies, including our company, act as lead investors.)

Our activities as a part of the initiative

- In 2021, we co-signed a statement in support of a fair and equitable response to COVID-19.
- In 2022, our UK office was a co-lead investor for a large UK pharmaceutical company.
- In 2023, our UK office became the lead investor for a US pharmaceutical company, and our Japan office became the lead investor for Daiichi Sankyo Co., Ltd.

Status of dialogue

ATMF | **Nomura Asset Management** | **Daiichi Sankyo Co., Ltd. (Target company of engagement)**

Nomura Asset Management: We have been appointed by ATMI as the lead investor to conduct engagement activities with your company. ATMI's assessment of your company is not high. We realize that your company is focusing on access to medicine, and we think that you can improve your assessment by making improvements to your explanations and disclosures.

Daiichi Sankyo Co., Ltd.: It is possible that they do not understand the circumstances unique to our company. For example, our company outsources some of our overseas sales to a UK pharmaceutical company, and it seems that our efforts to improve access to medicine are not being evaluated in this respect.

Nomura Asset Management: Regarding this issue, we would like to contact ATFM as well. Meanwhile, there may be other issues that could be considered, such as formulating a company-wide access plan.

Daiichi Sankyo Co., Ltd.: Since each region has different characteristics, we have so far kept cross-regional rules to a minimum and established detailed rules for each region. However, there might be room for us to make improvements with respect to the content and methods of our explanations, and we will look into this.

Nomura Asset Management: We held a meeting with Daiichi Sankyo Co., Ltd. The company also considers ATMI to be an important index, and it appears that the company wants to improve its evaluation. On the other hand, the company appears to have special circumstances, such as outsourcing the sale of some pharmaceutical products to a UK pharmaceutical company. It might be better to make an evaluation based on such individual circumstances?

ATMF: We want to reconsider the evaluation of such pharmaceuticals.

*Periodic assessment revisions by ATMF are scheduled to be carried out in 2024.

Daiichi Sankyo's comment

The Group's strengths lie in our product portfolio and research and development pipeline for advanced cancer treatment drugs, most notably ADCs.

In order to deliver products to more patients even more quickly, we are leveraging partnerships with major European and US companies, and in regions with poor medical infrastructure, we are promoting initiatives to expand access to medical care through partnerships with NGOs. Through dialogue with your company, we were able to recognize the importance of further disclosure of indicators related to access to medicine (such as the number of countries medicines are sold in and patient reach), and it also served as an opportunity for the ATM Foundation to consider the significance of improving access to medicine through collaboration.

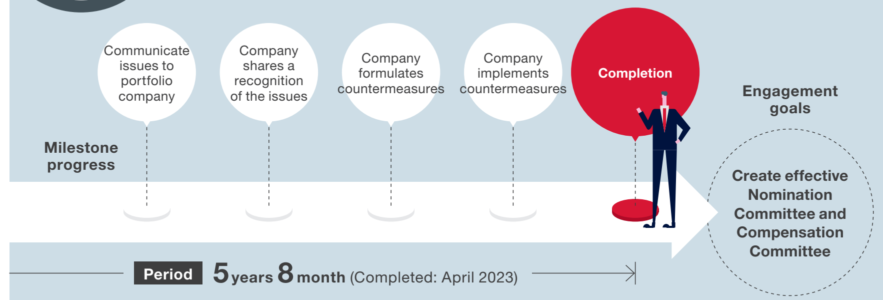
Engagement Targeting Increased Board Effectiveness

Enhancing the effectiveness of a company's board of directors contributes significantly to bolstering corporate governance. We believe that the role and responsibility of a company's board of directors is to supervise management, and we encourage portfolio companies to transition to monitoring boards. In our opinion, there are several requirements for a monitoring board, with the most important being the board members themselves. In addition to external criteria such as independence, we take the skill matrix into consideration, aiming to support the creation of a board of directors capable of supervising the company in question.

Priority topics 7 Redefining the board of directors

Target company

Pharmaceutical company D



Period **5** years **8** month (Completed: April 2023)

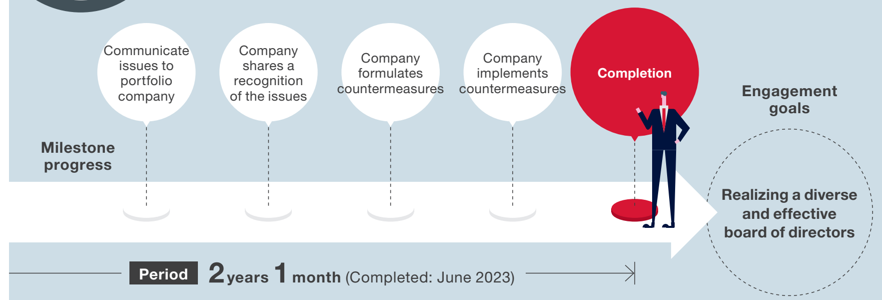
Overview of engagement

NAM's concerns	The company had an advisory committee that nominated directors and auditors and discussed compensation, but the committee was chaired by the president, and there were issues with its effectiveness.
Engagement progress	The role and responsibility of the board of directors of this company is to supervise the senior management team. When we expressed concern that the company's president, as the chairman of the board, is leading the considerations of nominations and compensation, which are the core decisions of the board of directors, the company's only comment was that the majority of the board members are outside directors and there were no problems with the board's effectiveness. Subsequently, we held two interviews with outside directors of the company, and expressed concerns about this structure in which the president self-evaluates nominations and compensation, and we discussed the importance of the nominating function when formulating a succession plan for the president.
Current status	In April 2023, the company established a new Nomination and Compensation Committee. The Committee comprises the director in charge of general affairs and five outside directors, with an outside director serving as the Committee chair.

Priority topics 7 Redefining the board of directors

Target company

Semiconductor company E



Period **2** years **1** month (Completed: June 2023)

Overview of engagement

NAM's concerns	The company is a semiconductor manufacturer that operates globally, but there were issues with the diversity of its board of directors, including the absence of any female directors and only one outside director. In addition, as the company expands its overseas business going forward, we believe that it needs a director who has expertise in this business, so we began engaging with the company.
Engagement progress	We informed the company that we believe there is an issue with the diversity of the board of directors, and that as it expands its overseas business going forward, it may need people suited for overseeing the business, such as non-Japanese directors, and the company commented positively that it wants to consider personnel selection in order to improve diversity and effectiveness.
Current status	In 2022, the company appointed a female director and a non-Japanese director with management experience at a foreign-capital semiconductor manufacturer. The following year, in 2023, the number of female directors was increased to two, and the diversity and effectiveness of the board of directors has greatly improved.

Chief Credit Analyst
Shuichi Goto

Equity Analyst
Makoto Imamura

Comment from equity analyst Makoto Imamura

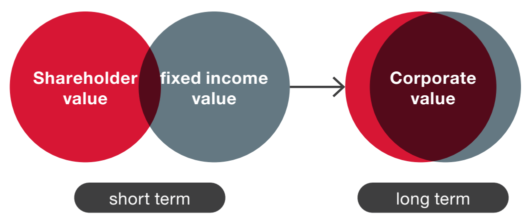
Equity analysts and credit analysts have different approaches when it comes to corporate analysis, investment periods, and financial leverage. Therefore, if equity analysts and credit analysts engage separately with portfolio companies, the engagement goals we seek from them tend to become vague and unclear. We recognize that having equity analysts and credit analysts communicate with portfolio companies based on the common goals of increasing corporate value and achieving sustainable growth is critical to enabling lively and constructive discussions.

Fixed Income Engagement

Characteristics of fixed income engagement

In our domestic credit investment engagement activities, we are focusing our efforts not only on engagement by credit analysts alone, but on engagement in collaboration with our equities division. We hold joint meetings approximately 100 to 150 times a year, in which equity analysts participate in debt IR events hosted by the fixed income division, or credit analysts participate in meetings hosted by the equity division, and equity analysts and credit analysts work together to engage in dialogue with portfolio companies.

Conflicts of interest between equity and fixed income are decreasing over the long-term



Dialogue extending beyond conflicts of interest

The interests of fixed income investors and equity investors are generally thought to be in conflict with one another, but by having a common value standard of increasing the portfolio company's corporate value during engagement, we are able to have constructive discussions that go beyond the bounds of the conflict of interest between fixed income and equity.

Specifically, in domestic fixed income engagement, instead of simply asking for a company to maintain or improve its finances and ratings, there are times when we ask the company to explain its philosophy on optimal capital structure if the company has surplus capital. In addition, we support policies that increase financial leverage if it is appropriate from the perspective of increasing corporate value. Even if financial leverage increases and the spreads widen in the process of pursuing an optimal capital structure, we believe that this will be a positive for investment performance from a long-term perspective based on higher bond yields.

In domestic fixed income investment, we invest in issues that are resistant to downside risks from a long-term perspective, as we look to "discover trees that can withstand storms," and our engagement is based on this concept.

Examples of Engagement

Financial institution F

Although the company had achieved its announced shareholders' equity ratio target, our credit analysts believed that the company was not yet sufficiently prepared for downside risks. On the other hand, our equity analysts believed that the company was reluctant to return profits to shareholders even though the company had achieved its capital targets.

Under these circumstances, our credit analysts participated in a meeting with the company's CFO organized by our equity analysts, and a three-way discussion was held regarding the company's optimal capital structure. Although no conclusion was reached, we believe that having this discussion based on different perspectives led to meaningful dialogue for both parties.

Aiming to Improve the Capital Efficiency of Japanese Companies

In March 2023, the Tokyo Stock Exchange requested that listed companies take "Action to implement management that is conscious of cost of capital and stock price." Following this request, companies have become much more cognizant of capital efficiency.

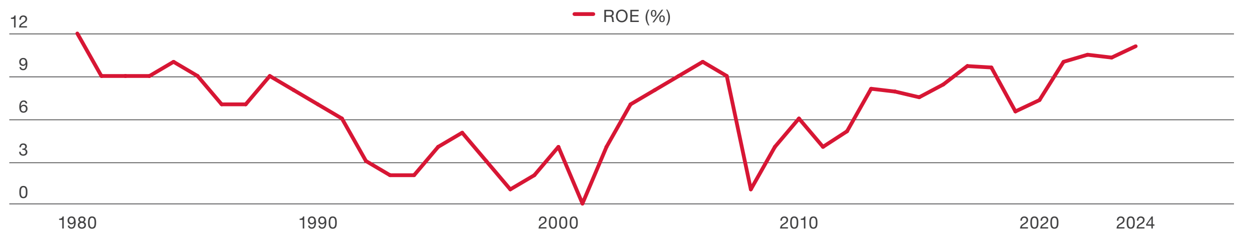
According to an announcement by the Tokyo Stock Exchange in January 2024, approximately 49% of companies listed on the Prime Market had announced measures to improve capital efficiency by December 2023.

To improve capital efficiency, one of the most common measures being taken by Japanese companies these days is to bolster their shareholder return policies. Many Japanese companies still hold more cash and deposits than is appropriate, and reducing surplus cash and deposits through enhanced shareholder returns is the first step toward improving capital efficiency. However, improvements in capital efficiency that rely solely on balance sheet reforms will eventually reach a limit.

We believe that in order to improve capital efficiency over the medium to long term, and in turn increase corporate value, it is necessary for companies to foster and strengthen growth businesses, reform their business portfolios, and have a strong commitment to capital efficiency from senior management. In our dialogue with portfolio companies, we not only encourage consideration of shareholder return policies, but also urge a commitment to enhancing capital efficiency over the medium to long term, including growth investments that utilize surplus cash and deposits and non-business assets, reviews of low-profit businesses, setting capital efficiency targets, and utilizing performance-linked compensation for directors.

Average ROE for Japanese companies*

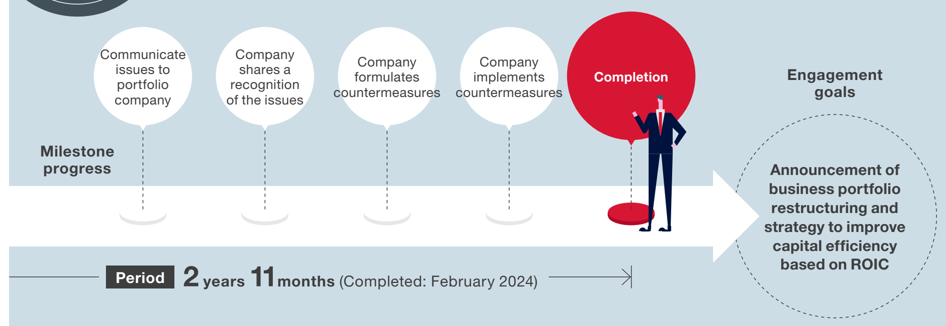
*Aggregate value for companies in TOPIX



Priority topics 8 Bolstering the commitment to capital efficiency

Target company

Heavy machinery company G



Overview of engagement

NAM's concerns	The company is a conglomerate with multiple small businesses. After examining the profitability of the company by business line over the past 20 years, we found that capital efficiency has been declining in multiple businesses, so we began engaging with the company to check on the company's future plans for low-profit businesses.
Engagement progress	When we asked the company about its plans for its low-profit businesses, the company replied that it was also aware of this problem. After that, we met with outside directors to confirm the current state of ROIC management that the company is advancing, and they shared the problem that although ROIC is being utilized internally by the board of directors and elsewhere, the external disclosure regarding this is insufficient.
Current status	The company announced its medium-term management plan until FY2026 at its full-year financial results briefing for FY2023, and as a part of that, it announced its ROIC target values for each business. At the same time, it announced that it would be suspending new orders and withdrawing from problematic businesses, thereby making significant progress in reforming its business portfolio.

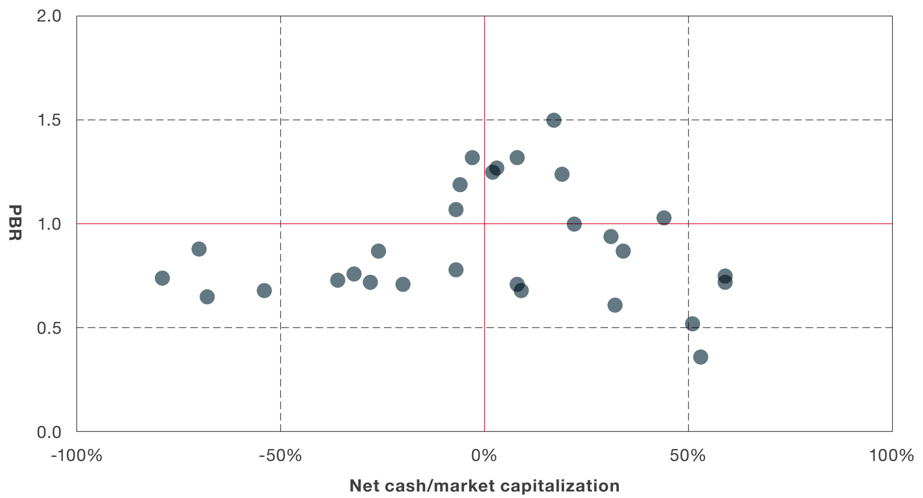
Engagement Activities Targeting the Automobile Industry

The automobile industry has been one of the industries that has attracted attention since March 2023, when the Tokyo Stock Exchange requested that listed companies take "Action to implement management that is conscious of cost of capital and stock price." There are many companies in the automobile industry that hold large amounts of cash and deposits, and as shown in the lower left chart, there are a number of companies whose net cash (which is calculated by subtracting interest-bearing debt from cash and deposits and securities held), account for more than 50% of their market capitalization. There are concerns about a decline in capital efficiency due to holding such surplus funds on the balance sheet, and when we checked valuations, which indicate how the stock market assesses companies, we found many companies with a PBR of less than 1.0x, which is a market evaluation lower than a company's dissolution value.

The sale of cross-shareholdings is attracting particular attention. In the automobile industry, relationships between affiliates remain strong, and there are many cross-shareholdings between companies that are business partners. As shown in the diagram on the lower right, not only is there concern that the interests of minority shareholders will be neglected due to large cross-shareholdings between corporate groups, but also that this is causing a decline in capital efficiency in the automobile industry. As the industry as a whole undergoes major changes such as the shift to EVs, it is important to consider how these kinds of non-business assets can be used to fund promising growth businesses.

In addition, the automobile industry, which includes the manufacturing of approximately 30,000 components, covers a wide base and includes global operations, and thus automakers' social initiatives are drawing increasing attention. In particular, as awareness regarding compliance and human rights increases, automakers must now manage compliance with respect to working environments and human rights, not only within their own companies, but also for their business partners. Additionally, with regards to diversity and inclusion, the low ratio of women in management positions is an issue. We believe that companies' efforts to address these social issues will have a significant impact on brand value, and we are encouraging improvements through proactive engagement activities.

Situation for Japanese automakers and parts suppliers



Status of cross-shareholdings by main companies in large automobile groups

Company whose shares are being held	Company holding shares: Automaker A	Parts supplier B	Parts supplier C	Parts supplier D	Parts supplier E	Parts supplier F
Automaker A		8.8%	3.3%	1.3%	0.0%	0.1%
Parts supplier B	24.7%		9.5%	2.1%	0.0%	0.0%
Parts supplier C	24.2%	9.3%		1.7%	0.0%	0.0%
Parts supplier D	24.8%	7.7%	4.8%		0.0%	0.0%
Parts supplier E	31.1%	4.2%	5.5%	0.4%		0.4%
Parts supplier F	42.8%	0.1%	0.8%	0.5%	0.0%	

Engagement activities targeting the automobile industry

Analyst engagement Automobile industry

Based on our concern that cross-shareholdings are contributing to a decline in capital efficiency in the automobile industry, we have been talking to companies in the automobile industry about the need to reduce cross-shareholdings, which are non-business assets, and making growth investments based on this.

Companies took a cautious stance initially, perhaps because they were concerned about a deterioration in relationships with business partners that might result from the sale of cross-shareholdings, but based on our position as a third party, we have persistently pushed forward with discussions, including seeking opinions from companies and their business partners.

Our engagement efforts are beginning to pay off. We have been discussing cross-shareholdings with Company H, shown below, as well as the growth potential and strategies for the OHT (off-highway tire*) business, which is becoming a strength for the company. We pointed out that the appeal of the OHT business, which we gained an understanding of through the discussions with the company, had not been sufficiently conveyed to the capital markets. Subsequently, the company became more proactive in its disclosures, so we are confident that our dialogue with the company has been constructive.

The elimination of cross-shareholdings is taking place not only by Company H, but throughout the automobile industry. In the second half of 2023, there were a series of announcements from Toyota Group affiliates of plans to eliminate cross-shareholdings.

While we are pleased with this development, in addition to selling cross-shareholdings, we will continue to talk with companies about how they can use the proceeds from share sales to invest in growth and enhance corporate value.

*OHT... OHT (off-highway tire) refers to tires used for agricultural machinery, industrial vehicles, and the like. In the tire industry, tire manufacturers from emerging countries are increasing their presence with low price strategies, but OHT products, which require a higher level of durability than passenger car tires, are expected to have solid profitability. Company H entered the OHT business in 2016, completed the acquisition of a major company in the industry in 2023, and is expanding the scale of this business.

Senior Equity Analyst
Yoshinori Eguchi

Engagement with Tire Manufacturer H

Overview of engagement

We asked for an explanation about the future policy for holding cross-shareholdings as well as the growth prospects and strategy for the OHT business, which is a growth business.

Response from company

We recognize that cross-shareholdings are an issue to address. While it will take time to sell shares, we will continue to consider this. With respect to the OHT business, we will work on proactive disclosure that will help people understand the appeal of this business.

Engagement outcomes

In addition to announcing the sale of a large cross-shareholding, the company also announced that the proceeds from the sale will be used to fund strategic investments aimed at growth in the OHT business and other areas. Regarding the OHT business, the company is disclosing senior management's views on the profitability and growth potential of the business, as well as holding briefings on this business.

Comment from tire manufacturer H

Our stock price has been sluggish for the past few years, and in 2020, our PBR had fallen to 0.4x. At a meeting with NAM during this period, you pointed out that the stock market may not be fully aware of how attractive the OHT business is or understand our thoughts on allocating assets for growth. Following this dialogue, we held OHT business briefings and enhanced our disclosure of financial results briefing materials. At the same time, our top management did interviews and proactively promoted our company's growth potential and strategies. As a result, our PBR is approaching 1x. We will continue to actively carry out IR activities going forward.

Review of Priority Topics

In July 2023, we reorganized our priority engagement topics. In response to the growing interest of operating companies in capital cost and capital efficiency, we will bolster our efforts to improve medium- to long-term return on capital.

First of all, we have established a new priority topic, "Rational explanation of growth strategy." We will ask portfolio companies to formulate strategies to achieve medium- to long-term growth, including business portfolio restructuring, and provide rational explanations of these. We believe this is central to "management that is conscious of cost of capital and stock price" as requested by the Tokyo Stock Exchange. Second, we have integrated "Rational explanation of financial strategy" with the new priority topic of "Strengthen commitment to capital efficiency." In addition to financial initiatives such as shareholder returns and effective use of cash, it is aimed at strengthening senior management's commitment centered on reducing cross-shareholdings and bolstering compensation governance. In addition, we believe that "natural capital," which relates to biodiversity and renewable resources, and "human capital with diverse values," which links human capital management to enhancing corporate value, are topics that will become pursued in earnest from this fiscal year onward.

We will engage with companies targeting improvements in corporate value, centered on the nine priority topics below.

Category	Topic		Topic overview
Business	1	Rational explanation of growth strategy	Encourage rational explanations regarding strategies to achieve growth (including building the business portfolio)
	2	Integrate Business Strategy and Sustainability	Demand explanations of business strategies that integrate sustainability. Including disclosure regarding materiality and risks.
Environment	3	Climate Change	Companies are expected to set GHG reduction targets aiming for net-zero, obtain SBT certification, disclose Scope 3 emissions and amount of GHG absorption, etc.
	4	Natural Capital	Demand efforts to address biodiversity and water risk.
Social	5	Human Rights Risks	Ask companies to formulate human rights policies and perform human rights due diligence as demanded by the public both in Japan and overseas.
	6	Utilize Human Capital Possessing Diverse Values	Demand that companies utilize human capital in line with a growth strategy, including gender diversity and employee well-being.
	7	Realizing Well-Being within Society	Encourage efforts to link solutions for realizing well-being within society with business opportunities.
Governance	8	Highly-effective Monitoring Board	Encourage the transition to an effective monitoring board
Governance, Financial	9	Strengthen commitment to capital efficiency	Commitment = incentives through compensation + accountability. Aims to achieve capital efficiency that exceeds capital costs, including reductions of cross-shareholdings.
Others			Engagement activities related to overall business strategy, disclosure, dialogue, etc.

Column

CEO Engagement

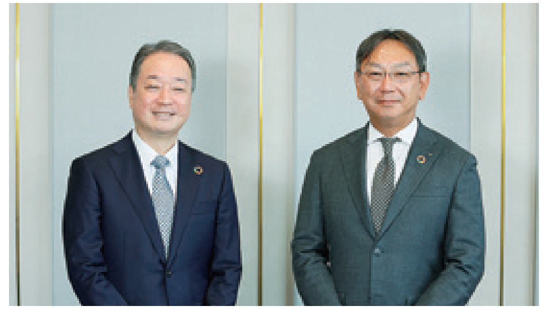
Since 2022, our NAM President and CEO Hiroyasu Koike has been encouraging Japanese companies to improve their corporate value through dialogue with companies and outside experts.

By December 2023, he had the opportunity to engage in dialogue with the leaders 21 companies, and as a new initiative starting in 2023, he has also exchanged information with outside academic experts and institutional investors who are engaged in similar engagement activities as we are, as we work to improve and advance the level of our engagement activities.

The content of these dialogue sessions are posted on our website.

Reference ›
https://global.nomura-am.co.jp/responsibility-investment/investors/ex-engagement.html

Dentsu Group — Pursuing Transformation to Go Beyond Advertising



Representative Executive Officer, President & CEO of Dentsu Group Inc.
Hiroshi Igarashi

President and CEO of Nomura Asset Management Co., Ltd.
Hiroyasu Koike

We are engaged in in-depth discussions on the background, aims, challenges, and potential for the growth strategy of Dentsu Group, which is working to evolve from a traditional advertising agency to a corporate group that combines marketing, consulting, and technology.

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 2023 our overseas offices conducted engagement on a total of 661 topics (the total number of meetings was 299). 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 74). 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 75-76).

Example of Engagement at Overseas Offices

During 1H23, our UK office began a new ESG project focused on reducing obesity within the US workforce. We believe that cutting obesity in the workforce can lead to tangible financial benefits to employers from lower absenteeism due to sickness and lower healthcare insurance costs. Most importantly, though, we think this is a way for employers to improve the quality of life for their employees. We focused on the US because employers are large stakeholders in the healthcare system. Around 50% of Americans are covered by health insurance co-sponsored by their employer.

We contacted 27 of our holdings in our Global Sustainable Equity (GSE) strategy that have a sizeable US presence, of which over 80% responded. We asked them what measures they were taking to combat obesity in the workforce through a survey. Our areas of focus included the coverage of anti-obesity medicines (AOMs), weight-loss programs, bariatric surgery, and other initiatives intended to promote fitness and wellbeing. The results indicated a willingness from employers to help tackle obesity. Out of our survey, 100% of respondents indicated that they cover bariatric surgery for employees. In addition, 85% of respondents at least partially covered weight loss programs either through their health insurance scheme or directly by offering discounts to gym classes.

A novel pathway for targeting obesity is through highly efficacious drugs. Novo Nordisk (NOVO), a holding in GSE, has been an early leader in the field. Now, several other companies are trying to move into the space. The high cost of these medicines (US$1,349 per month list price for NOVO's Wegovy) and a large addressable population can create cost pressure for employers. Despite this, we found that 70% of respondents currently cover anti-obesity medicines, and we were quite encouraged by this rapid take up. Out of the 30% who did not offer coverage, one cited the upcoming cardiovascular trials as important evidence on whether these medicines improved health outcomes as well as weight loss. These trials, if successful, could spur greater take-up amongst employers.

Engagements with Global Equities

Total number of engagement topics by overseas offices	2023	661 topics (299 meetings)
Engagements by Sustainalytics*	2023	441 topics

	Ratio	Number of topics
Europe	13%	85
North America	28%	184
Asia and Emerging	59%	392
Total number of topics		661

	Ratio	Number of topics
Business strategy	7%	47
Financial strategy	4%	27
Environmental	36%	236
Social	22%	144
Governance	15%	102
Disclosure/ dialogue	16%	105
Total number of topics		661

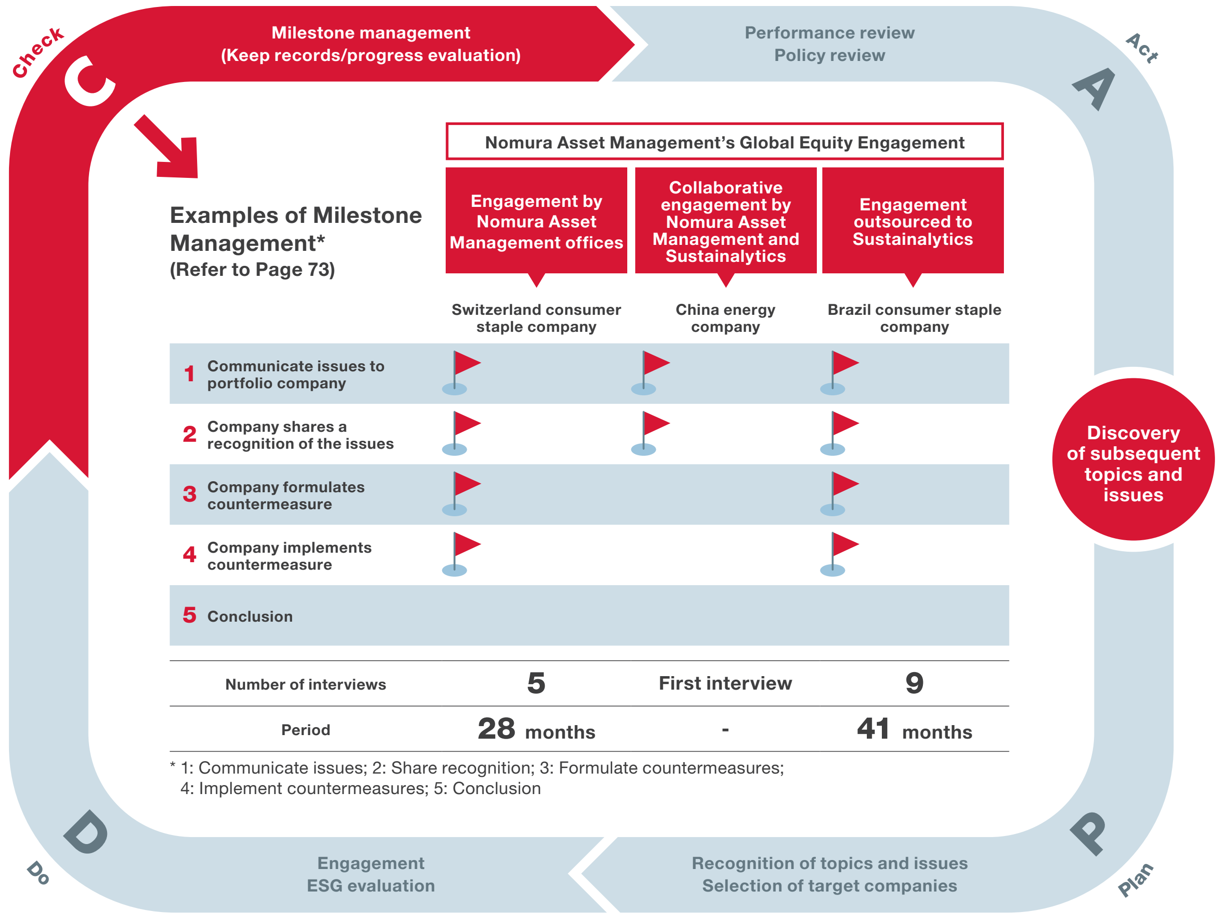
*Target universe: MSCI ACWI ex Japan

From 2H23 onwards we would like to: i) engage with companies that either did not respond initially or ranked poorly compared to peers on this topic; ii) explore the idea of inter-company collaborations to drive change; and iii) engage with the drug companies (Novo Nordisk and Eli Lilly) on how they view access strategies to their anti-obesity medicines, in order to improve the impact of our portfolio companies.

Global Equity Milestone Management

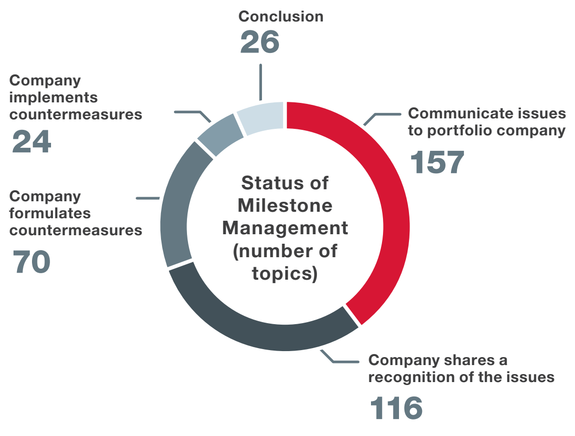
In our global equity engagement as well, we share our awareness of ESG issues with companies, set specific goals, and carry out milestone management until the goals are achieved. In addition to the engagement and milestone management that we conduct on our own, we also perform milestone management for 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 PDCA (Plan, Do, Check, Act). The ESG issues focused on during engagement and the goals established vary greatly depending on the company.

Target of Global Equity Milestone Management



* 1: Communicate issues; 2: Share recognition; 3: Formulate countermeasures; 4: Implement countermeasures; 5: Conclusion

Status of Global Equity Milestone Management
(as of December 31, 2023)



In 2023, we carried out engagement across 661 topics. As of the end of 2023, we are managing milestones for a total of 393 topics (284 companies).

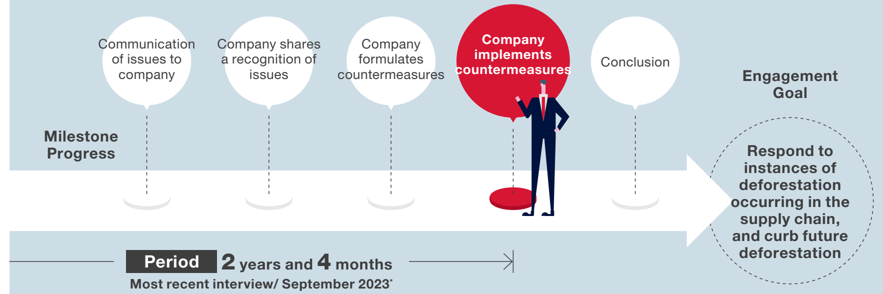
Of these, 26 topics are already at "Step 5: Conclusion."

Examples of Global Equity Engagement (Milestone Management)

Priority Topics: **Protection of natural capital, elimination of deforestation in the supply chain**

Target company

Switzerland consumer staple company A



Overview of engagement

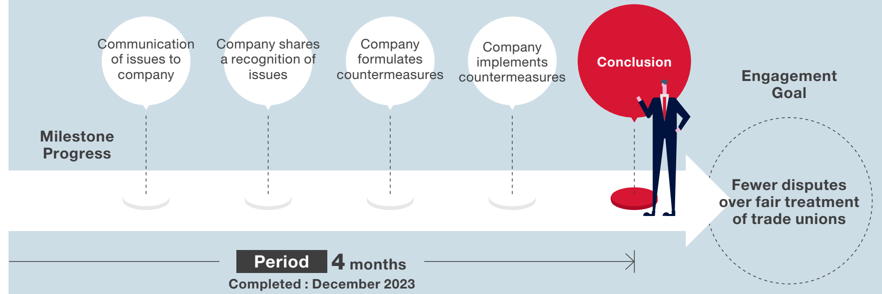
NAM's Concerns	Monitoring system and traceability in the supply chain, initiatives to prevent deforestation
Engagement progress	Confirmed response to incidents of deforestation reported through satellite imagery reports. The company explained that they have reviewed the four events flagged by the investor group and have removed one company from their supplier list as the company could not be verified. We have confirmed that they are upgrading their supplier traceability systems and their complaints handling system. We also discussed progress towards sustainable procurement of coffee beans and regenerative agriculture initiatives.
Current situation	By upgrading in-house supplier traceability systems and grievance management systems, we hope they will strengthen traceability and respond in a timely manner to corporate deforestation events in the supply chain. They are also working to promote regenerative agriculture with the goal of sourcing 50% of coffee beans through regenerative agriculture by 2030.

*The period is the number of months from the start of interviews until December 2023

Priority Topics: **Treating unions fairly**

Target company

Taiwan Semiconductor company B

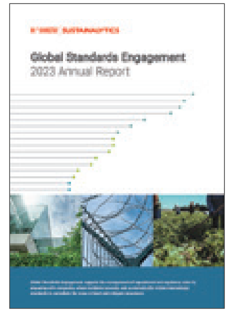


Overview of engagement

NAM's Concerns	When the company set up a factory in the U.S., it received backlash from local construction unions who accused it of sending construction experts from Asia to the U.S. and taking jobs away from Americans. Since stagnation in negotiations between the two sides would lead to delays in factory construction, we discussed ways to resolve the issue.
Engagement progress	We engaged with the company to demand fair treatment of the labor union. The company believes that advanced semiconductor fabrications (fab) require special skill sets but due to a skills shortage in the U.S. the company is sending construction experts with experience in state-of-the-art fab construction to train U.S. workers. These experts will be in the U.S. temporarily and local employees would be responsible for the operation of the factory over the long term.
Current situation	In December 2023, the company and union issued a joint statement pledging that a committee made up of representatives from both sides would meet quarterly to develop employee training programs, maintain transparency on safety issues and announced that both sides had agreed to resolve the dispute.

Engagement by Sustainalytics

In global equity engagement, Nomura Asset Management's overseas offices also actively engage portfolio companies, but due to the broad scope of coverage for global equities, we partner with Sustainalytics to carry out collaborative engagement and outsource 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 biodiversity and natural capital, responsible cleantech from a global perspective.



Global Standards Engagement

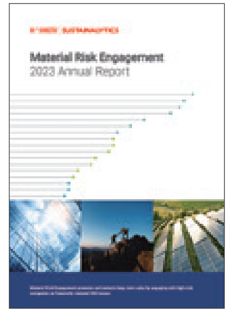
E S G

Engagement Policy

Encourage companies to resolve severe incidents as well as build a strategy aimed at preventing future recurrences and improving ESG practices

Target companies

Companies that severely or systematically violate the United Nations' Global Compact or other international norms



Material Risk Engagement

E S G

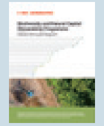
Engagement Policy

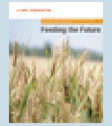
Encourages companies with financiallymaterial ESG issues to construct strategies to handle ESG risks and opportunities with the aim of increasing long-term corporate value

Target companies

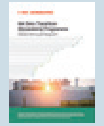
Companies with particularly high ESG risk in their industry

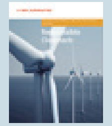
Thematic Engagement

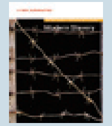

E — Engagement related to Biodiversity and Natural Capital

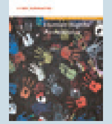

E — Engagement related to Feeding the future

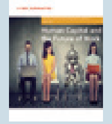

E — Engagement related to Climate Change - Sustainable Forests and Finance

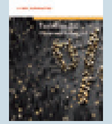

E — Engagement related to Net Zero Transition

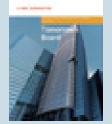

E S — Engagement related to Responsible Cleantech

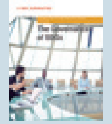

S — Engagement related to Modern Slavery


S — Engagement related to Human Rights Accelerator


S — Engagement related to Human Capital and the Future of Work


G — Engagement related to Taxation


G — Engagement related to Tomorrow's Board


G — Engagement related to The Governance of SDGs

Cooperation with Global ESG Initiatives

Bioacoustic research efforts for natural capital protection

1

In the second half of 2022, an investor group consisting of Nomura Asset Management, Cardano and Fidelity International sponsored Green Praxis, a vegetation management solutions provider, to conduct a study and work on the development of biodiversity measurement tools and indices to measure the impact of human activities on natural ecosystems. The project leveraged the use of artificial intelligence (AI) and machine learning to process bioacoustics data collected on the ground.

The goal of the study was to lay the initial foundations for building an affordable, speedy, reliable and non-invasive (minimal disturbance) tool for measuring biodiversity richness and abundance in a certain area. The work is important and innovative as at present, there is no universally accepted tool or metric to do this. Although, we acknowledge that there is a need for further studies with larger sample sizes and conducted at different geographies and at different times of the year (to check for seasonality), the investor group was pleased with the initial set of results received in 2Q23 and believe they are promising and in-line with previous scientific findings.

Key findings of the study showed a clear difference between production and conservation areas, displaying strictly different acoustics landscapes. Production areas' acoustic space was dominated by intense monotonous activity of one particular type of insect, while to a different degree in both conservation and control areas a variety of species were observed, such as birds, frogs and even primates (e.g. gibbons). Another interesting finding was that while both conservation and control plots clearly demonstrated higher species richness, the conservation areas were lacking in terms of species abundance compared to the control group.

Overall, the conclusion of the study is that conservation efforts of corporations can be quite productive in restoring at least partially the biodiversity richness and abundance in a specific area, but cannot, of course, replace the protection of natural forests.

One of the limitations experienced was the inability to find a true primary, or otherwise called, pristine forest adjacent to the plantation to serve as a control group for the study. To our disappointment, the investor group learned that all of those forests in the area had been cleared in the 1980s. Despite this, we believe this represents another key finding of this study on its own and will be a continued focus for future phases of this project to find and test a true pristine forest. We believe that finding and testing truly pristine forests will be a continued focus for future phases of this project.

Next steps: the investor group, along with Green Praxis, is already in talks with another palm oil producer for a potential second study to continue building the database and to develop the AI model and overlay. Furthermore, once sufficient data is gathered and initial findings are confirmed, the results can be used in our engagements with companies. We have seen and demonstrated in the past the power of evidence-based engagement work through our participation in the collaborative engagement towards zero deforestation and we can potentially in the future be equipped with proprietary evidence and research on effects of conservation efforts and impacts on local biodiversity.

Reference › More information on this project at:
https://www.nomura-asset.co.uk/download/news/GreenPraxis_research_study_press_release.pdf

Access to Medicine Foundation/ Access to Medicine Index

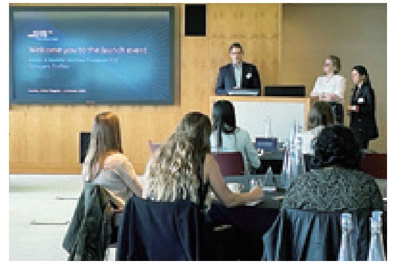
2

Report published every two years

The UK office Equity team co-hosted the launch of the Access to Medicine (ATM) Foundation's report on generics and biosimilar medicine manufacturers. The Foundation has previously focused primarily on the developers of the drugs and treatments, which are ranked in the annual Access to Medicine Index, however it has expanded to cover the generic manufactures who also play a very important role in supporting access and NAM UK was delighted to be able to support this in some small way through co-hosting the launch event and participating in the investor discussion. Generic manufacturers play a very important role further downstream than the R&D focused pharmaceuticals and will often be the companies that manufacture the treatments themselves in low and middle income-countries (LMICs) – either off patent treatments or through agreements wherein a treatment patent has been donated such that drugs can be manufactured across a range of lower income countries by generics. Benjamin Lacaille, Healthcare Analyst, contributed to a fascinating panel discussion, which identified specific opportunities and six key takeaways:

6 key takeaways:

1	There are meaningful opportunities for investors in the generics industry to have a positive impact on access in low and middle-income countries (LMICs).
2	The analytical framework and company profiles are useful tools for investors.
3	Investors care about ESG therefore generics will benefit from stepping up access to medicine in the long term.
4	Investors play a critical role in ensuring the Foundation's findings can lead to change.
5	There are specific conditions concerning biosimilar medicine
6	For those investors concerned about antimicrobial resistance engaging with generic manufacturers is key given that the vast majority of antibiotics are manufactured by generics.



From left: Nomura Asset Management UK Lead Portfolio Manager Alex Rowe, Access to Medicine Foundation Engagement Manager Suzi van Es, Nomura Asset Management UK ESG Specialist Yoko Beesley

Reference › For further details on the event and the report published by Access to Medicine please visit
https://accesstomedicinefoundation.org/resource/investor-launch-event-for-new-analysis-of-major-generics-companies-meeting-report

At our Tokyo office, we play the role of a lead investor in engaging with DAIICHI SANKYO COMPANY, LIMITED, which is one of the companies evaluated in the Access to Medicine Index, and discuss the company's evaluation in the Access to Medicine Index and drug access plans. Please refer to page 64 for details.

Proxy Voting

Promoting the transition to monitoring boards through disciplined proxy voting

The Unique Aspects of Our proxy Voting

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 for actions beyond simple opposition**

Introduced standards to not only oppose a proposal in the case that initiatives are lagging in progress, but also to encourage average companies to aim for higher standards

Proxy Voting

The Outline of Proxy Voting

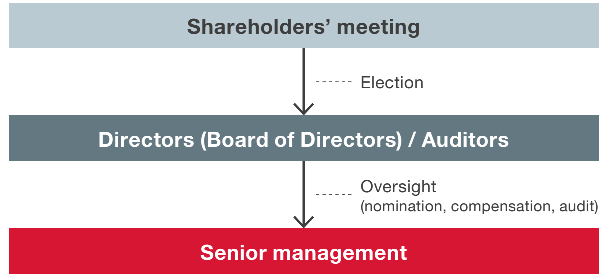
In proxy voting, we focus on the corporate governance of portfolio companies. The basic structure of corporate governance is that directors and auditors are elected at a shareholders' meeting, and directors (the board of directors) and auditors supervise senior management through nominations, compensation 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 page 77 are unique aspects of our proxy voting.

Basic Corporate Governance Structure

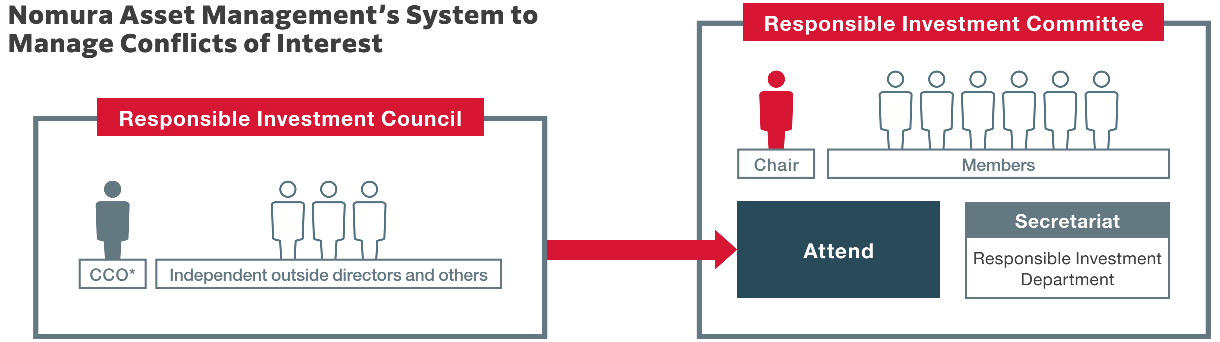


System to Manage Conflicts of Interest

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



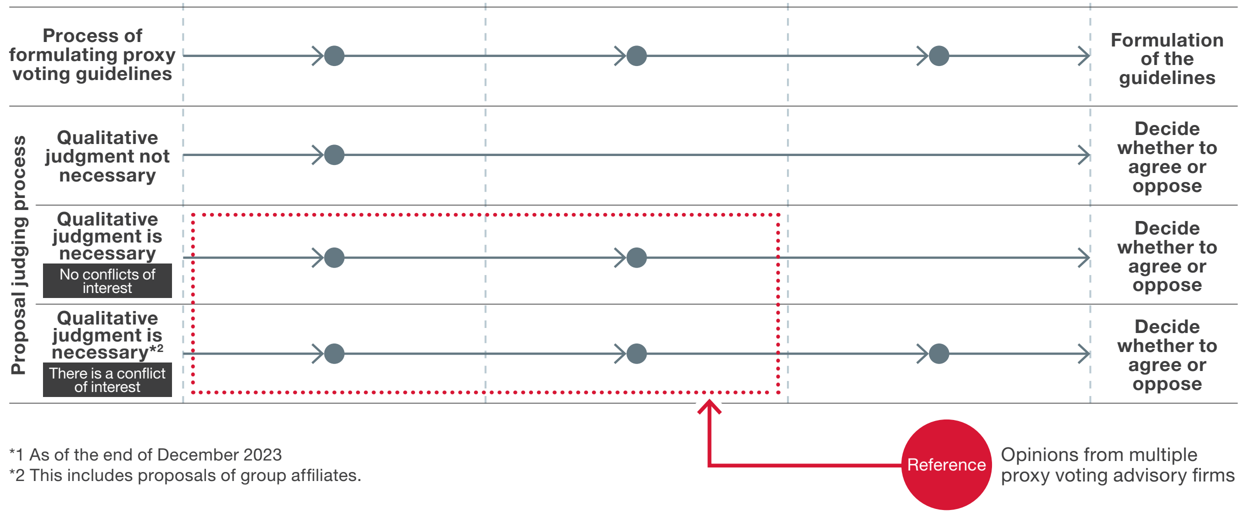
*Chief Conflict Officer

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).

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 conflicts of interest.

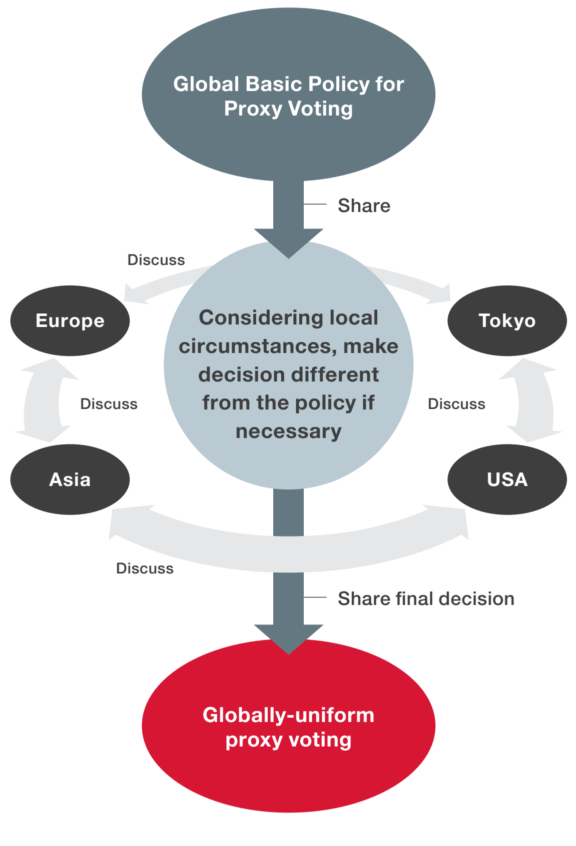
	Secretariat	Responsible Investment Committee	Responsible Investment Council
Members*1	Responsible Investment Department	Seven people including those responsible for investment and research (The Responsible Investment Council members participate in Responsible Investment Committee meetings)	Chief Conflict Officer Outside: 1 directors: 2 Outside experts: 1
Role	Preparation of proposals	Holds deliberations and makes decisions based on the secretariat's proposals Makes revisions to the secretariat's proposals as required	Reviews from the perspective of conflicts of interest Advises the Executive Management Committee and/ or the Responsible Investment Committee to make improvements as required and reports to the Board of Directors and the Audit and Supervisory Committee



*1 As of the end of December 2023
*2 This includes proposals of group affiliates.

Proxy Voting Process for Global Equities

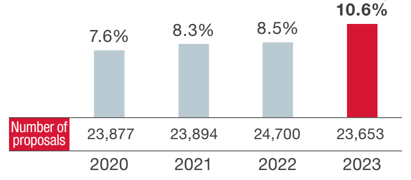
For proxy voting (excluding Japanese equities), we generally decide to vote for or against a proposal in accordance with our Global Basic Policy on Proxy Voting. However, if investment managers and analysts with a deep understanding of local conditions determine it to be necessary, we may, upon deliberation,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

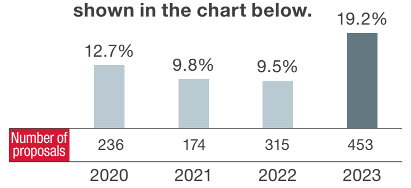
Total Company proposals

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



Total Shareholders' proposals

The ratio of votes for is shown in the chart below.



Our ratio of votes supporting proposals increased in 2023. The number of proposals increased, centered on proposals related to articles of incorporation and the election and dismissal of directors, and we voted for proposals in cases where we confirmed that they would increase shareholder value and/or bolster governance.

Reference

Results of Proxy Voting for Global Companies January-December 2023

	Company proposals	Shareholders' proposals	Total
Votes for	16,468	419	16,887
Votes against	1,555	251	1,806
Ratio of votes against	8.6%	37.5%	9.7%

* In addition to the above, in 2023 we voted on 78 proposals related to the election and dismissal of accounting auditors, and three other miscellaneous proposals. We voted against 0% for of these proposals.

*1 Revisions of executive compensation amounts, issuance of stock options, introduction/revision of performancelinked compensation plans, executive bonuses, etc.

*2 Mergers, business transfers/assumptions, share exchanges, stock transfers, company splits, etc.

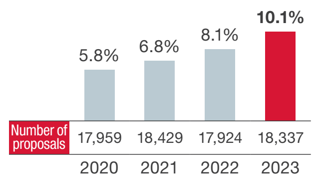
*3 Share buybacks, reduction in statutory reserves, capital increases via third-party allotment, capital reductions, share mergers, issuance of class shares, etc.

Proposals on company organizational structure

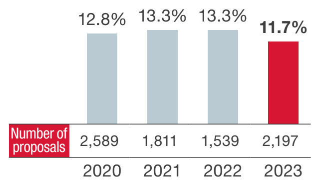
(Ratio of votes against, same as below)

Our ratio of votes against proposals increased in 2023. The main reasons for this were that in November 2022 we introduced a standard to vote against a proposal if there were no female directors as well as a standard that we would vote against a proposal if the number of cross-shareholdings was particularly high, and raising the threshold for performance standards.

Election and dismissal of directors



Election and dismissal of auditor

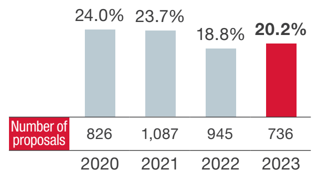


Main reasons for voting in opposition	
	■Unable to confirm the independence of outside officers ■A lack of female directors ■Insufficient number of outside directors

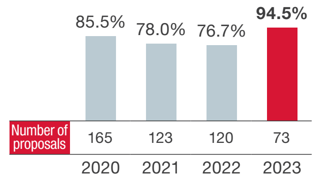
Proposals on executive compensation

The opposition ratio in 2023 has increased. The main reason for this was the increase in requirements related to remuneration governance in November 2022.

Executive compensation*1



Payment of retirement benefits to retiring executives

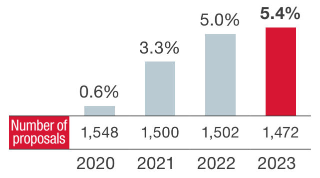


Main reasons for voting in opposition	
	■Recipients and conditions of stock compensation were inappropriate ■Compensation governance not in place

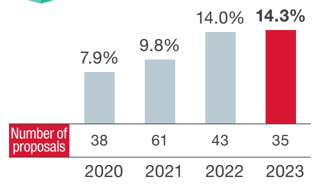
Proposals on capital policies (excluding proposals on articles of incorporation)

In 2023, our opposition ratio increased for dispositions of surplus and decreased for other capital policies. The main reason for the former is that from November 2022 we raised the ROE level required in our standard for the disposition of surplus. Regarding capital policies, the main factor was that there were fewer proposals for which we had concerns from the perspective of protecting the interests of minority shareholders. Please also refer to examples of reasons for our voting for and against proposals on Page 85.

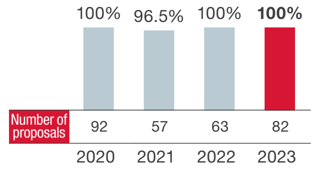
Appropriation of surplus



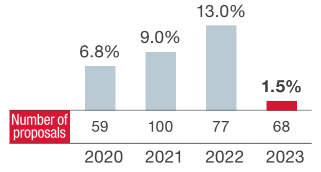
Organizational restructuringrelated*2



Introduction, update and abolition of takeover defense measures



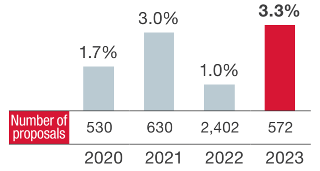
Other capital policies*3



Main reasons for voting in opposition	
	■Cash-rich, low capital efficiency, and insufficient shareholder returns ■Insufficient protection of minority shareholder interests ■Introduction/update of takeover defense measures

Proposals on articles of incorporation

Proposals on articles of incorporation



Main reasons for voting in opposition	
	■Board of directors' authorization of dividends that do not satisfy conditions ■Reverse progress on separation of Chairman and CEO

Overview of Proxy Voting Standards for Japanese Companies

We have established a Global Basic Policy for Proxy Voting, and, for Japanese companies, we apply the Proxy Voting Standards for Japanese Companies established in accordance with this policy. The outline of this is below, and please refer to our website for details.

Proxy Voting Guidelines Structure

Reference › https://www.nomura-am.co.jp/special/esg/responsibility_investment/vote.html (Japanese only)

Key Point	Thinking	We may vote against a company proposal in the cases below (Items in bold text were revised in November 2023)
Escalation*1	**Reflect the results of engagement targeting the realization of desirable management (refer to Pages 19-22)**	■ If a portfolio company has not made adequate efforts and improvements are not expected despite the fact that during engagement we pointed out that efforts to realize desirable management were insufficient and urged action.
Rigorously judge corporate actions, transactions involving a conflict of interest, and responsibility taken for outcomes	**Judgment made and the responsibility taken to deliver business results by the management and the board of directors will be scrutinized and rigorously judged.**	■ If actions that significantly damage shareholder value (misconduct, etc.) are found ■ **(New: from November 2024) For companies in the TOPIX100, if initiatives are clearly insufficient (refer to Page 82)** ■ If ROE is slumping. In the case of a monitoring board (please refer to page 24), if ROE is stagnating and there is no effort being made to improve management (business performance standard) ■ If cross-shareholdings are particularly large ■ If a financially-sound listed subsidiary with a large amount of net financial assets is lending money to the parent company ■ If minority shareholders' interests are not protected in M&A, etc.
Board of Directors Composition	**In order to oversee the management team, the board of directors must comprise an appropriate number of people and possess diversity and independence.**	■ **(New) When the number of directors is less than 5 or more than 20** ■ If the number of outside directors falls below the minimum level (below) Until October 2024: **1/3 for companies without a controlling shareholder.** However, for companies with a controlling shareholder, a majority. **From November 2024: A majority. However, 1/3 if a company has no controlling shareholder and has nomination governance in place*2.** ■ If there are no female directors ■ In a company with a board of corporate auditors, the term of office for directors is two years
Independence and Effectiveness of Board of Directors	**Highly-independent outside directors are required to effectively oversee the management team.**	■ If the term of office of an outside director is 12 years or more, if the notification as an independent director is not confirmed, or if the outside director has worked for a company that is a major shareholder ■ 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	**Because the process for determining executive compensation must be transparent, there must be appropriate supervision (compensation governance).**	■ **If, for a company that does not have compensation governance in place*2, there is a proposal on the agenda related to executive compensation or executive retirement benefits (Pre-revision: only applicable to these proposals above a certain level)**
Appropriate incentives	**Although stock compensation is important as a management incentive, it can be counterproductive if not properly designed.**	■ The stock compensation is designed so as to encourage the management team to be short-term oriented ■ The persons to whom stock compensation is given are not appropriate ■ The stock compensation could lead to excessive dilution
Effective utilization of financial assets	**It is essential that financial assets are utilized effectively to enhance corporate value.**	■ Financial assets are not utilized effectively, and shareholder returns (dividends and share buybacks) are not appropriate

*1 Measures taken to bolster involvement with a portfolio company if engagement is not successful within a specified period
*2 A case in which nomination and compensation governance is in place refers to the case where statutory or voluntary nomination and compensation committees have been established, the committee members include two or more outside directors, and the number of internal directors among the committee members is fewer than the number of outside directors.

November 2023 Revisions

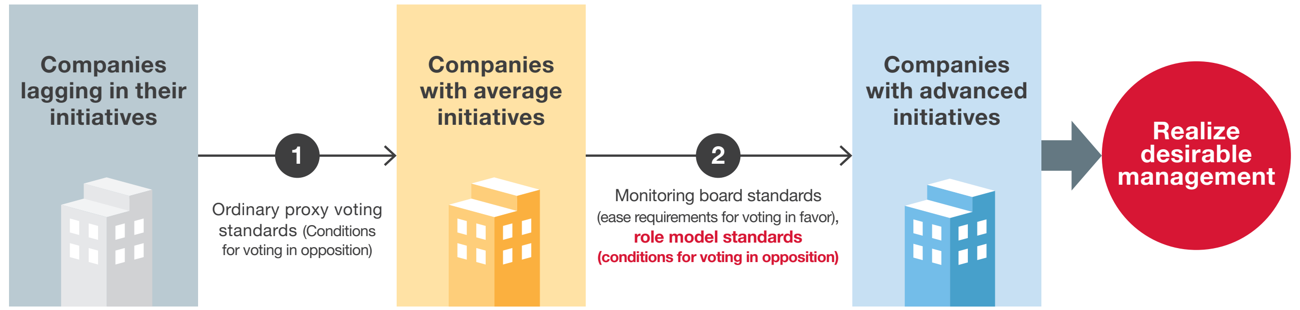
The main revisions were: ① Revision in order to further support the transition to monitoring boards; and ② Creation of role model standards. Please refer to Page23 for more information on ①. Please refer below for more information on ②. Please refer to Page 83 for information about other revisions.

The Aim of the Role Model Standards

In this revision, we have established new standards (role model standards) under which we expect companies that compose the TOPIX 100 (TOPIX 100 companies) to serve as role models. Here, we explain the aim behind this.

Ordinary proxy voting standards mainly establish conditions for opposing company proposals, and while they are effective in encouraging companies that are lagging behind in initiatives such as strengthening corporate governance (Figure ❶ below), in reality they do not function well as a means of encouraging companies that are currently implementing initiatives at an average level to aim for a higher level (Figure ❷ below). We believe that even average Japanese companies have a large gap between their efforts and what we view to be desirable management, and that we need to encourage them to aim to reach higher levels regarding their initiatives. To this end, we introduced standards (monitoring board standards) that make it easier to vote in favor of company proposals if the company satisfies the monitoring board requirements.

Like the monitoring board standards, the role model standards introduced this time around are intended to encourage TOPIX 100 companies to strive for higher levels of initiatives, and they communicate our expectation that we want them to become role models in order to achieve desirable management practices (Pages 19-22). Although the target group of companies for the standards is limited to TOPIX 100 companies, we hope that it will spur other portfolio companies to work more ambitiously to achieve desirable management practices. After November 2024, we may oppose the reappointment of a chairman, president, or other director depending on the status of efforts toward some of the management issues (1 to 3 on the right) related to our expectations for desirable management, but our aim is to encourage companies to strive for higher levels of efforts, so this will be limited to cases where it is determined that the company's efforts are clearly insufficient.



Initiatives of particular focus for role model standards

1

Information Disclosure Integrating ESG Issues

Disclose information in accordance with internationally agreed upon standards through appropriate media, including integrated reports, and obtain third-party assurances for numerical data to the extent possible.

2

Climate Change

Establish a medium- to long-term net-zero GHG emissions target and obtain SBT certification, as well as clarify risks and business opportunities due to climate change by disclosing information based on the TCFD final report.

3

Outside Directors with Effective Skills

The skills matrix is disclosed in general shareholder meeting materials, and indicates that the outside director possesses abilities and experience, including related to management/finance/ESG.

Changes to Proxy Voting Standards for Japanese Companies

Here, we introduce the changes to our Proxy Voting Standards over the years. For information prior to October 2020, please refer to our Responsible Investment Report 2022 (Page 80).

Reference › https://global.nomura-am.co.jp/responsibility-investment/pdf/ri_report_2022.pdf

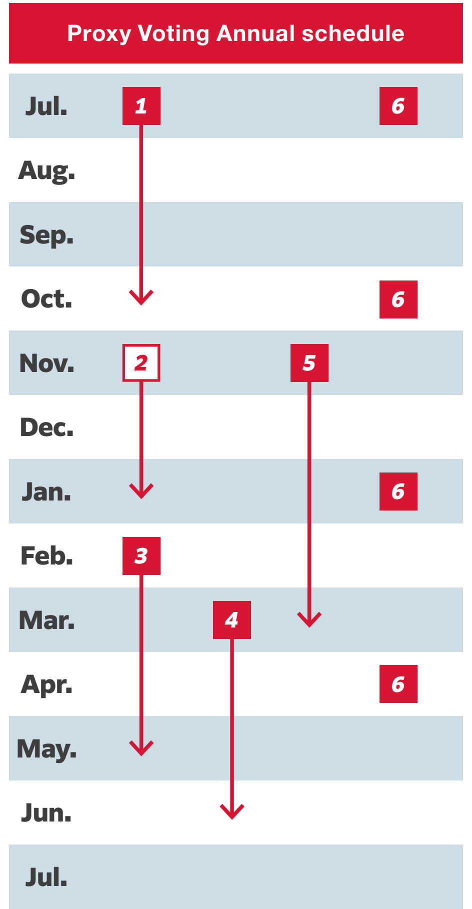
・Particularly important revisions are **highlighted.**

Month/Year of Revision	Proposal Category	Key Point	Key Change
November 2020	**Director election**	**Monitoring board requirements**	**NEW (Established eight requirements to be met, including gender diversity, cross-shareholdings, etc.) ▶ Support for the transition to monitoring boards**
		Number of outside directors	Raised the minimum for a company with a board of corporate auditors from two (2) to one-third
		Requirements for independence of outside directors	Added term in office (12 years)
	Executive compensation	Monitoring board requirements	NEW (Relaxed requirements related to business performance, etc., if company has a monitoring board)
			NEW (Vote in favor of making payment of stock compensation satisfying certain requirements to outside directors, etc., if company has a monitoring board)
June 2021	Director election/appropriation of surplus	COVID-19	Reinstated the application of some standards related to appropriation of surplus
November 2021	**Director election**	**Escalation**	**NEW Encourage the realization of desirable management (gender diversity, cross-shareholdings, etc., including initiatives targeting ESG issues)**
		Business performance standard based on ROE	Lowered threshold of comparative value to 25th percentile of industry median value Take management improvement efforts into consideration only when company has a monitoring board
		Number of outside directors	There is a controlling shareholder: Raised minimum from one-third ▶ majority
January 2022	Director election	COVID-19	Reinstated application of business performance standard
November 2022	**Director election**	Business performance standard based on ROE	Raised the comparison value threshold from 25th percentile to 33rd percentile in industry.
		Diversity of the board of directors	**NEW (We will vote against a proposal if there are no female directors**
		Cross-shareholdings	**NEW (We will vote against a proposal if there is a particularly large amount of cross-shareholdings)**
November 2023	**Director election**	Number of outside directors	(From November 2024) Raised the minimum number from 2 or 1/3 to a majority. However, it is 1/3 for companies without a controlling shareholder if nomination governance is in place
		Director term of office	**NEW (For a company with a board of corporate auditors, will oppose if the term of office for directors is 2 years)**
		Number of directors	**NEW (Will oppose if the number of directors is under 5 or more than 20)**
		Role model standards	**NEW (From November 2024, for companies in the TOPIX100, will oppose if initiatives are determined to be clearly insufficient)**
	Executive compensation/ Executive retirement benefits	Compensation governance	Expanded the scope of proposals we will oppose to all proposals if compensation governance is not in place

Column

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.



1 Revisions to Proxy Voting Guidelines

July – October

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.

2 Engagement to inform companies about the revisions to our Proxy Voting Guidelines

November – January

We conduct engagement mainly with the portfolio companies that we think will be significantly impacted by the revisions to our Proxy Voting Guidelines. We communicate our views and encourage them to strengthen their corporate governance. In addition to individual meetings with portfolio companies, we also explain our views at seminars.

3 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.

4 Period when most general shareholders' meetings are held

March – June

This is a period when we need to accurately judge a large number of proposals. We exercise voting rights for more than 100 companies per day during the peak period in June, so it also happens to be the period when we most want companies to provide information disclosures that are clear and easy to understand.

5 Engagement to strengthen corporate governance

All year, particularly November – March

We explain our proxy voting philosophy 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.

6 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.

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 we 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.

GSM Type	Proposer	Proposal classification	Voting result	Reason for proxy voting result
Ordinary GSM	Company	Director election/ dismissal	Voted against	Because we determined that the directors own the responsibility for the fact that business results do not meet our standards. This company's board of directors satisfies our standard related to a monitoring board, but there was an issue with the company's recognition of capital efficiency and there were large concerns related to effectiveness, so we applied our standards to the company as if it were not a company with a monitoring board.
Ordinary GSM	Company	Director election/ dismissal	Voted for	Although the company does not meet our standards for cross-shareholdings, we voted in favor after taking into account that the reduction status was confirmed through engagement.

Proposals we 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.

GSM Type	Proposer	Proposal classification	Voting result	Reason for proxy voting result
Ordinary GSM	Shareholder	Appropriation of surplus	Voted for	This was a proposal seeking additional shareholder returns. After considering the large amount of financial assets held relative to the scale of the business, the unclear use of financial assets, and the fact that the impact on financial soundness is minimal, we determined that it would contribute to the improvement of shareholder value, and voted for the proposal in accordance with our standards.
Ordinary GSM	Company	Organizational restructuring-related	Voted against	A proposal related to share exchanges with listed subsidiaries. Although the dilution ratio of voting rights was high, considering the fact that the initiatives to protect minority shareholders were insufficient, we voted against the proposal in accordance with our standards.

Retail sector Company A (Director election/dismissal: Company proposal/shareholder proposal)

Background

A certain shareholder (the "proposer") took issue with the company's conglomerate discount and proposed a spin-off of its core business, demanding a reexamination of its business portfolio. Company A indicated a strategy to pursue synergies and rejected the spin-off.

Although it was difficult for us to say that the spin-off proposal was clearly superior, the performance of non-core businesses had been sluggish for a long time, and there was an undeniable impression that the management team had been slow to respond, and there was a need to reexamine the business portfolio. We decided that we could agree on the need to reexamine the business portfolio.

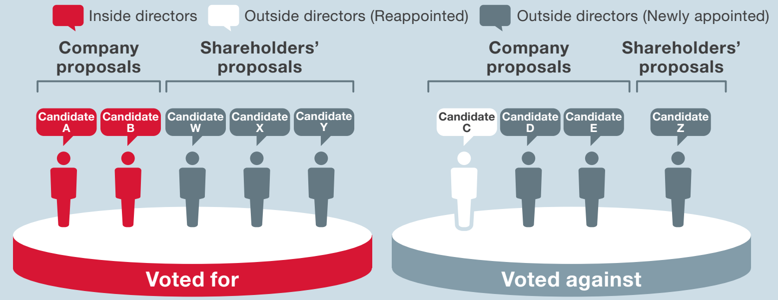
Proposal outline and voting result

In the company's proposal there were 15 candidates, while in the shareholder proposal there were 14 candidates, but both parties agreed to 10 of them (4 internal and 6 external candidates, all reappointed), so the selection of the remaining 9 candidates was at issue. Details are shown below.

Reason for proxy voting result

Company proposals Regarding Candidate C, we could not confirm that the candidate has the necessary skills to re-examine the business portfolio, and that this candidate may not have fulfilled the role expected as an outside director, so we voted against the proposal. Regarding Candidates D-E, considering the maximum number of directors as per the articles of incorporation (15 directors) and the history of the current outside directors implementing a Group strategy re-evaluation, we determined that the board of directors had not given a proper explanation for the necessity for electing additional new directors, so we voted against the proposal. In addition, the proposer was also opposed to the election of candidates A-B, but we determined that accountability had not been fulfilled regarding the need to replace the management team before a re-examination and consideration by the highly-independent nomination committee, so we voted for the proposal in accordance with our standards.

Shareholders' proposals Because we can agree with the need for re-examination, and considering the maximum number of directors as per the articles of incorporation as well as the skill and independence level of the candidates, we voted in favor of candidates W-Y, and voted against candidate Z.



In addition to explaining the reasons for the decisions made on each of the proposals submitted by shareholders with respect to the issue of climate change, we provided a comprehensive explanation about the background behind our decisions on climate change-related proposals as a whole.

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 an environmental and social issue that we believe to be particularly important for the sustainable improvement of corporate value, and we decided to deliberate positively on a proposal demanding enhancement of information disclosure.
- This time around, we carefully deliberated the reasons for the proposals, the companies' climate change initiatives, the impact on business execution, etc., and approved the proposals that we determined would contribute to sustainable enhancement of corporate value. On the other hand, we voted against proposals that were for the purpose of making social or political assertions, proposals related to individual, specific business execution, and proposals that we determined that the opinion of the board of directors should be respected, taking into consideration the reasons for the proposal and the initiatives of the company in question.
- 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.

GSM Type	Proposer	Proposal classification	Voting result	Reason for proxy voting result
Ordinary GSM	Shareholder	Proposal related to articles of incorporation	Voted against	This was a proposal to change the articles of incorporation regarding disclosure of public relations activities for climate change. Although we could agree with some of the points raised by the proposer, the proposer itself had highly evaluated the efforts of the company, and the company has indicated its intention to take further initiatives, so we determined that it was more reasonable to respect the board of directors' efforts, and we voted against the proposal in accordance with our standards.
Ordinary GSM	Shareholder	Proposal related to articles of incorporation	Voted for	This was a proposal to change the articles of incorporation regarding disclosure of efforts to address the problem of climate change. We determined that the impact on business execution would be limited, and considering the importance of the climate change issue on corporate value over the medium to long term, we determined that it would contribute to sustainable improvement of corporate value, so we voted for the proposal in accordance with our standards.
Ordinary GSM	Shareholder	Proposal related to articles of incorporation	Voted against	This was a proposal to change the articles of incorporation regarding disclosure of efforts to address the problem of climate change. Although we agree with the importance of the climate change issue with respect to medium-to long-term corporate value, we voted against the proposal in accordance with our standards, determining that the proposal included content that might add specific restrictions to business execution and so it would not be appropriate to add it to the articles of incorporation.

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 as the provider of global stock ownership plans, or acquisitions or organizational restructurings as a financial advisor or and third-party assessor.

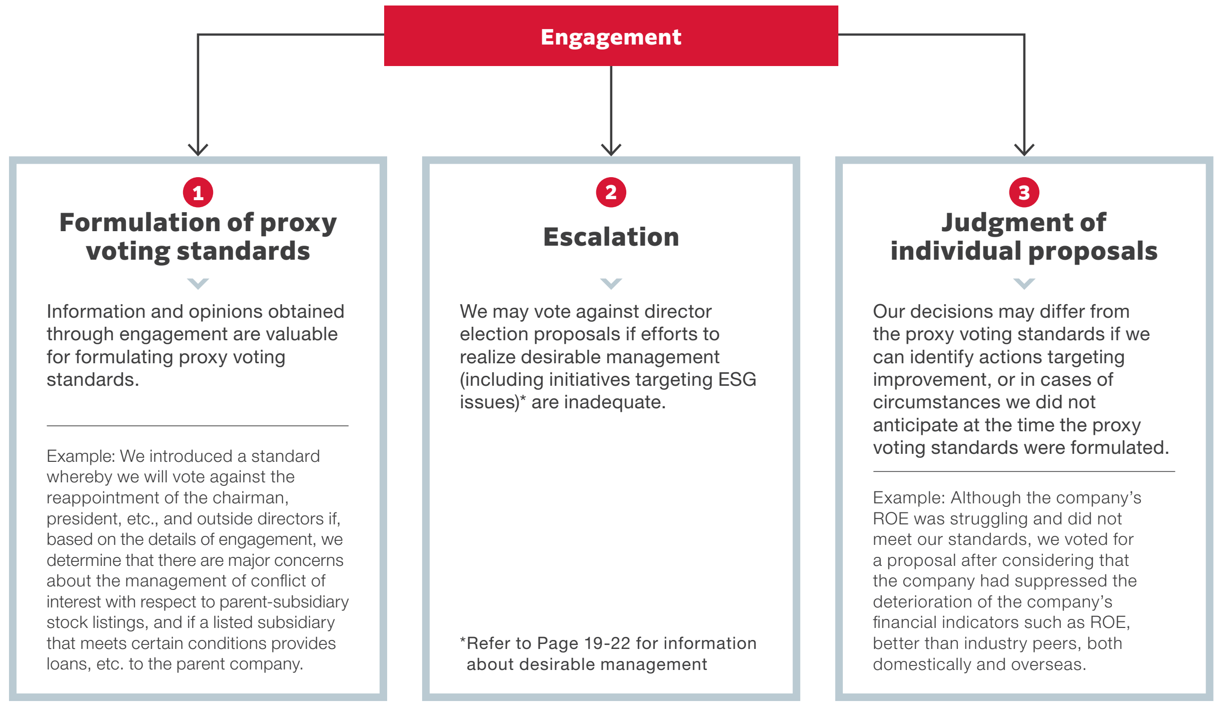
GSM Type	Proposer	Proposal classification	Voting result	Reason for proxy voting result
Ordinary GSM	Company	Executive compensation	Voted against	This was a proposal seeking approval for a global stock ownership plan in the US. Although we recognize the significance of advancing employee stock acquisition, we judged that the number of shares to be issued, etc. was not disclosed and accountability was not being fulfilled, so we voted against the proposal in accordance with our standards. Nomura Securities, a Nomura Group company, is involved in this matter as the provider of the global stock ownership plan.
Special GSM	Company	Organizational restructuring-related	Voted against	This was a proposal regarding a share exchange. The effort to protect the interests of minority shareholders was insufficient, and we determined that the board of directors had not fulfilled its accountability with respect to the economic terms being unfavorable, so we voted against the proposal in accordance with our standards. Nomura Securities, a Nomura Group company, was involved in this deal as a financial advisor and third-party assessor.
Special GSM	Company	Proposal related to other capital policy	Voted for	This was a proposal to squeeze out shareholders who did not tender their shares in a tender offer conducted for a management buyout (MBO). Although there were strong concerns about a conflict of interest with minority shareholders, we confirmed that sufficient efforts had been made to protect the interests of minority shareholders, and considering that the economic terms were reasonable, we voted for the proposal in accordance with our standards. Nomura Securities, a Nomura Group company, was involved in this deal as a financial advisor and third-party assessor.

Proxy Voting FAQ

Question Q Can engagement have an impact on proxy voting?

Answer A We carry out engagement and proxy voting so that portfolio companies implement desirable management (P.19-P.22), and to encourage them to improve corporate value and realize sustainable growth. We reflect the information about portfolio companies obtained through engagement in: 1 Revisions of our proxy voting standards; 2 Escalation; and 3 Proxy voting decisions on individual proposals.

Relationship between engagement and proxy voting



Question Q Do you have standards in order to realize effective initiatives for environmental and social issues?

Answer A We have established the following four standards related to environmental and social initiatives. 2 is proxy voting which is an extension of engagement. However, with respect to 1, 3 and 4, we carry out engagement as necessary which leads to effective proxy voting and we also urge companies to implement effective measures.

1 If we find a problematic action from the perspective of addressing ESG issues, and we determine that the action would significantly damage shareholder value, we will vote against a proposal to elect the person responsible for the action as a director.

2 We have established "appropriate efforts to address environmental and social issues" as part of the desirable management practices of portfolio companies, and we carry out engagement aimed at having these efforts put into practice. If, based on the situation, we determine it to be necessary to escalate to proxy voting, we will vote against the reappointment of the company's chairman, president, or other directors.

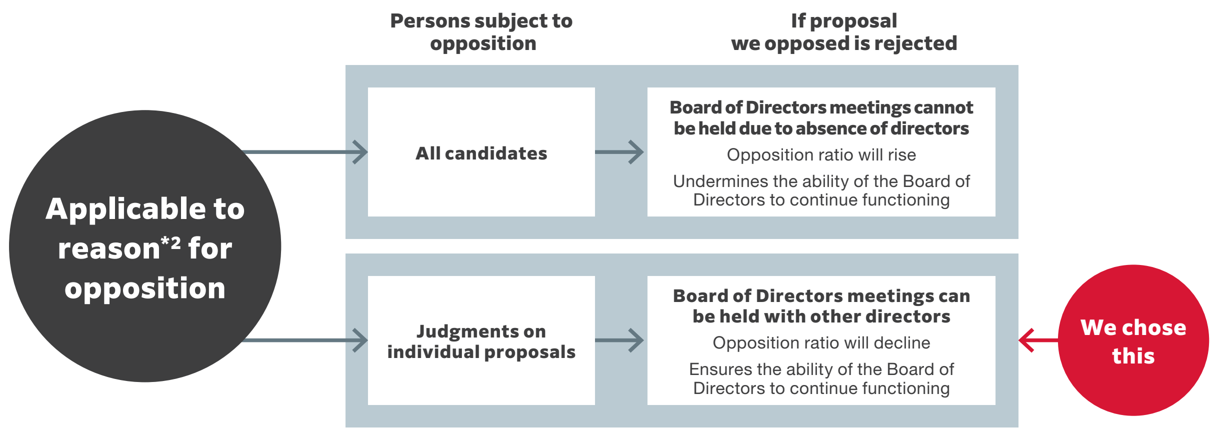
3 We expect the companies that compose the TOPIX100 to serve as role models for Japanese companies. From November 2024 onwards, if we determine a company in the TOPIX100 to be clearly insufficient in their disclosure of ESG-related information or their climate change-related efforts, we will vote against the reappointment of the chairman, president, or other directors.

4 With respect to shareholder proposals demanding changes to the articles of incorporation regarding basic policies about ESG and disclosure in accordance with the final report of the Task Force on Climate-related Financial Disclosures (TCFD), we will vote for such proposals, on the condition that they do not include content related to individual, specific business execution, etc.

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

Answer A 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[*1], we limit director election proposals we oppose to candidates holding the responsibility for individual matters. This is the reason why our opposition ratio looks relatively low (see chart below). In fact, for general meetings of shareholders held between April and June 2023, our opposition ratio for proposals to elect directors was 9.3%, but the percentage of companies for which we opposed one or more candidates within a proposal was 47.3%, 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 these 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 to do this, and we do not believe that our opposition rate is indicative of our stance.

Guideline for Director Election Proposals



*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.

Question Q Do you have standards to reflect the effectiveness of outside directors?

Answer A We have established the following three proxy voting standards. For 2, we exercise voting rights as a part of engagement, while for 1 and 3, we also implement engagement as necessary, and along with connecting these to effective proxy voting we urge companies to carry out effective initiatives.

1 We will oppose the reappointment of an outside director if it becomes clear that he or she has not adequately performed the roles expected of them. Past cases in which this standard has been applied include the following:

- A listed subsidiary with a large amount of net financial assets lent funds to the parent company.
- A tender offer was made for treasury stock at a price above the most recent share price, with the aim of acquiring shares held by a specific shareholder.
- Despite the finding of inappropriate related-party transactions by management, there was insufficient pursuit of responsibility.

2 We have defined "sufficient exercise of corporate governance functions" as the desirable form of management for portfolio companies, and engage with them to achieve this. If we determine that escalation to proxy voting is necessary based on the situation, we will oppose the reappointment of directors such as the chairman and president.

3 We expect TOPIX 100 companies to serve as role models for Japanese companies. From November 2024 onwards, if we determine that the skills of the outside directors are clearly insufficient, we will oppose the reappointment of the directors such as the chairman and president.

ESG Integration

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 the extent (if any) to which each equity strategy integrates ESG consideration into its investment decision-making process varies depends on each portfolio's strategy relating to sustainability, ESG research is made available to all strategies.

Fixed Income Investment

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

Integrating ESG factors into the investment process is critical, as we believe that financial performance and ESG factors (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

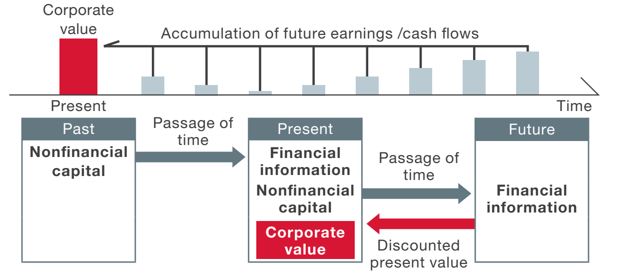
Equity Integration Approach

Corporate value is essentially the discounted present value of future free cash flows. The business assets that generate future free cash 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.

Investors' Basic Philosophy on Corporate Value



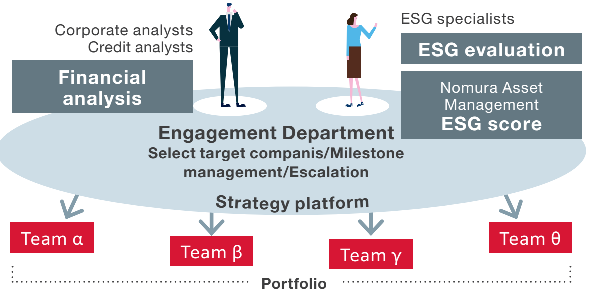
"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.

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

Equity Investment Process

An in-house proprietary ESG score, which is jointly produced by corporate analysts and ESG specialists under overall supervision of the ESG investment manager is utilized for ESG integration into our equity investments. The ESG score includes environmental, social, governance, and SDGs-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 (2656 meetings in 2023). 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. All of our main ESG funds published on our website (https://www.nomura-am.co.jp/special/esg/strategy/esglineup.html) incorporate ESG as an investment method regardless of whether they are domestic equities funds, overseas equities funds, or balanced funds. Aiming to improve and enhance this ESG integration is an important topic for our portfolio management and investment operations.

Our investment teams manage portfolios based on a stock selection process that takes various ESG factors into consideration (qualitative and quantitative decisions about ESG). When assessing a company as an investment target, managers of actively-managed portfolios must consistently ask "Is this a company that controls ESG risks and opportunities and can continue to grow in five or 10 years?" and manage the portfolio by examining portfolio companies from a long term perspective. In our investment process, in addition to ESG specialists, ESG investment managers and investment teams including portfolio managers are partially responsible for ESG assessments. When selecting 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 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 assess a company's stance on building an ecosystem aimed at promoting good health, such as providing sporting goods, and increase the weighting of that stock in the portfolio. Meanwhile, there were also cases in which we sold stocks we had invested in, in light of the fact that quality fraud was discovered, leading to expectations for a delay in the recovery of business results longer than initially expected. In addition, we make it a point to systematically and carefully explain these ESG integration methods and specific points related to the evaluation of stocks and bonds to our customers.

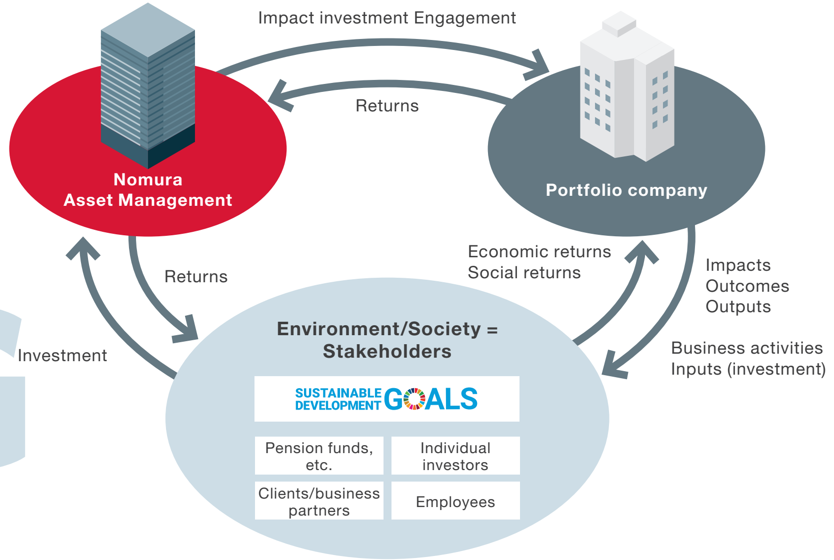
Coordination with engagement activities is also an important element of ESG integration. The reaction of top management during engagement meetings and the status of milestone achievements are also important signals for managers evaluating "opportunities." Therefore, many of our investment managers attend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

Portfolio Manager's ESG Viewpoint

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

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 CPI 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.



Our Impact Investment Process

In Nomura Asset Management's ESG statement, we aim to share with our stakeholders the direction of our ESG activities and awareness of environmental and social issues, as well as our aim for the realization of a sustainable environment and society. This 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). Through internal discussions on the above issues, we have set impact goals, which we aim to achieve through our impact investment, appropriate to asset class and each impact investment strategy. These goals include urgent issues facing the world including mitigate climate change, mitigate natural capital depletion, access to healthcare, and social responsibility (for example, access to financial services and to drinking water). We then establish indicators (KPI: Key Performance Indicator) which serve as an indicator at a national and global level 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 in order to improve this KPI.

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 for each individual company. 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. For example, in the case of "climate change issues," by using CPIs such as GHG emission reductions and R&D investments to address climate change, it is possible to more specifically monitor individual companies' efforts to resolve issues. By engaging with investee companies based on what we learn from monitoring, we can advance initiatives aimed at creating impact. 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 with 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.

Example of impact by investee companies of our impact funds (3 funds)

GSE	Mitigate Climate Change	Contributed to the reduction of CO_2 by selling products with strong environmental performance	11.74 million tons
GSE	Eliminate Communicable Disease	R&D investment related to communicable disease	US$ 22 billion
JSEG	Mitigate Climate Change	Sold EV traction motors, which strongly curb greenhouse gas emissions	226,000 units
JSEG	Mitigate Natural Capital Depletion	Volume handled by recycling business in the metal field, such as collecting and processing renewable resources	6.34 million tons
ASE	Mitigate Climate Change	Contributed to the reduction of CO_2 by selling products with strong environmental performance	241,000 tons
ASE	Eliminate Communicable Disease	Healthcare R&D investment	US$ 7.67 billion

Our Impact Investment Process

	Environment		Society			
Setting issues based on ESG statements	Climate Change	Natural Capital	Access to Healthcare		Social Responsibility	
Establish impact goals	Mitigate Climate Change Keep global warming to below 1.5°c	Mitigate Natural Capital Depletion	Mitigate the Obesity Epidemic	Eliminate Communicable Disease	Global Access to Basic Financial Service	Global Access to Clean Drinking Water
Key Performance Indicators (KPI)	Global Renewable Energy Output Atmospheric CO_2 Levels	Material Consumption per Capita Global Annual Tree Cover Loss	Mortality rate according to WHO Cardiovascular disease, cancer, diabetes, chronic respiratory disease	Deaths due to HIV, TB and Malaria according to WHO	Percentage of low-income households with access to banks	Percentage of Global Population with Access to Safe Drinking Water
Identify investment field	■ Renewable energy developers ■ Manufacturers possessing technologies ■ EV/OEM manufacturers ■ Highly-efficient office building construction and management	■ Sustainable raw material management ■ Efficient use of raw materials	■ Medicine-related businesses ■ Companies related to the healthcare value chain		■ Business that provides payment methods through fintech ■ Lending business for socially vulnerable groups	■ Businesses related to the provision of water and sewage services ■ Businesses that provide clean drinking water
Alignment with the UN SDGs	**SDGs7.2** Increase global percentage of renewable energy **SDGs7.3** Double the improvement in energy efficiency	**SDGs12.2** Achieve the sustainable management and efficient use of raw materials	**SDGs3.4** Reduce premature mortality from non-communicable diseases through prevention and treatment	**SDGs3.3** End the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases	**SDGs1.4** Ensure all have equal rights to economic resources **SDGs9a** Promote sustainable and resilient infrastructure development in developing countries through enhanced support for finance, technology, and technology	**SDGs6.1** Achieve universal and equitable access to safe and affordable drinking water for all
CPI for individual companies	■ Contribution to GHG reduction through product sales ■ Sales volume of EV traction motors ■ Purchase amount of renewable energy	■ Amount of resources reused through recycling ■ Reduction in virgin raw material usage through recycling	■ Number of patients with heart disease and diabetes ■ Research and development expenses related to the same field	■ Status of development and information dissemination related to three major infectious disease drugs ■ Development and production of new infectious disease drugs ■ Research and development expenses related to the same field	■ Loan amount for economically weak and low-income people ■ Number of users of payment services for people without bank accounts	■ Amount of safe drinking water provided by water purifiers and chemicals ■ Amount of drinking water filtered and purified by water purification equipment
Engagement with portfolio companies	Ongoing engagement with target companies					

Nomura Asset Management's impact investing

Portfolio construction/management process

Social issues that should be solved

Establish impact goals and Key Performance Indicators (KPI)

Identify investment field
Select/Define portfolio companies

Identify SDGs topics

Establish CPI for individual companies

Engagement with portfolio companies

Our Impact Funds

Nomura Asset Management manages impact funds in the UK, Tokyo, and Singapore based on our impact investment philosophy.

GSE

GLOBAL SUSTAINABLE EQUITY STRATEGY

Global Utilities and ESG Analyst
Daniela Dorelova

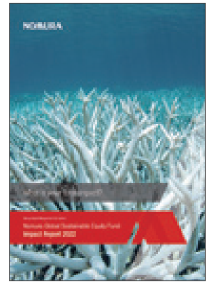
Nomura Global Sustainable Equity Strategy (GSE) Lead portfolio manager
Alex Rowe

UK Office manages Nomura Global Sustainable Equity Fund based on the concept of impact investing. This strategy is characterized by a global equity strategy that aims to not only generate investment returns but also have a high positive impact on the environment and society through investment in companies and engagement activities. In addition, we select investee companies using a unique stock selection process that combines SDGs (Sustainable Development Goals) analysis, which also allows us to evaluate their efforts toward SDGs.

We measure impact by setting environmental and social goals (targets) with clear policies and evaluating progress toward achieving those goals. The impact investment process sets monitoring indicators (Key Performance Indicators: KPIs) to measure the degree of improvement toward goals, identifies investee companies that contribute to goal improvement, and sets monitoring indicators (Company Performance Indicators: CPI) to measure the degree of goal achievement for each company.

In addition to monitoring both KPI and CPI indicators, we also engage in dialogue (engagement activities) with companies to contribute to "Impact Goals" and encourage their efforts to achieve "Impact Goals." We regularly create and publish reports on impact data such as KPIs and CPIs, which are monitoring indicators, and dialogue with companies (engagement activities).

This strategy not only encourages companies to tackle the key challenges facing the world today, but also imparts social impact on a variety stakeholders by encouraging them to address the sustainability of their businesses.



Global Sustainable Equity Fund Impact Report 2022

JSEG

JAPAN SUSTAINABLE EQUITY GROWTH STRATEGY

Senior Portfolio Manager
Ken Nagano

Main Portfolio Manager
Jun Takahashi

Portfolio Manager
Kodai Sasaki

Portfolio Manager
Tatsuhira Matsushima

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, 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 that 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 for Japanese equities, 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.

Furthermore, we believe that it is essential to share portfolio companies’ outcomes and broad and cumulative impacts through impact reports.

JSEG Impact Report 2022

ASE

ASIA SUSTAINABLE EQUITY STRATEGY

Head of ESG Asia
Viresh Mehta

Assistant Portfolio Manager
Stacy Kuah

Senior Portfolio Manager
Shigeto Kasahara

In April 2022, Singapore office began managing the Asia Sustainable Equity Strategy based on our impact investing philosophy. This strategy invests in companies, primarily those in Asia, that the team believes to 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 focusing on companies that the team deems to have a positive impact will help tackle environmental and social challenges. Given the fact that Asia is a manufacturing hub and a key region in global supply chains, environment and related social issues are a top priority sustainability theme for the region.

However, ESG initiatives by companies in Asia (excluding Japan), including the disclosure of related information and the details of the initiatives themselves, are not yet well-established compared to those in developed countries. 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 including ESG issues and continuous engagement. We believe that by doing this, we can raise Asian companies’ awareness and responsibility towards ESG.

ESG Scores for Japanese Equities

Nomura Asset Management computes proprietary ESG scores which represent Japanese companies' true ESG abilities, under the overall supervision of the ESG investment manager, in collaboration with our analysts and ESG specialists. 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, we use materiality (important management issues) to take into account differences in industry attributes for each company.

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.

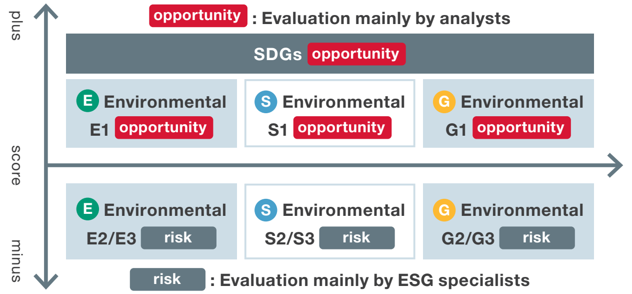
Under overall supervision of the ESG investment manager, corporate analysts who have frequent contact with companies and possess extensive knowledge of the companies they cover collaborate with ESG specialists who analyze ESG from a cross-industry perspective. They work together, identifying items where one or the other possess particular expertise and comparative advantage. Ultimately, the Responsible Investment Department is responsible for the final scores, which are then shared with the related departments.

Revision of ESG Score

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 the 2024 revision, we added evaluations of companies' efforts to respond to the TNFD issued in September 2023. 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.

New ESG Scoring Framework

Main category	E Environmental 25% of total		S Social 25% of total		G Governance 25% of total		SDGs 25% of total
Sub-category	E1: Environmental strategy, senior management's initiatives	opportunity	S1: Social strategy, senior management's initiatives	opportunity	G1: Top management (evaluation of senior management)	opportunity	opportunity
	E2: climate change	risk	S2: Working environment, human capital	risk	G2: Evaluation of board of directors	risk	
	E3: Natural capital, other environmental issues	risk	S3: Human rights, other social issues	risk	G3: Other governance items	risk	
Sub-items	Sub-items are individually evaluated in accordance with sub-category themes. Importance (materiality) is reflected in scores, taking into account the specific characteristics of the industry for each company.						



Utilizing ESG Scores

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

Utilizing ESG score data in engagement

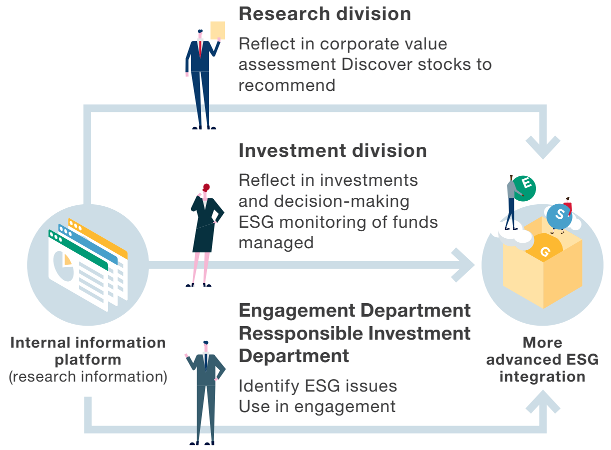
ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities. By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores in engagement such as discussing future course of action.

Utilizing ESG score data in investment activity

ESG scores are posted on an internal research-sharing system. The materials used by investment committees and others to evaluate investment value for individual companies contain regular 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.



Green Bonds and Sustainable Bonds

Head of Sustainable Investment, Fixed Income
Jason Mortimer

NAM's assessment framework Green and Sustainable Bonds

Companies, regulators, and markets are increasingly focused on the question of how to deliver an efficient and orderly Net Zero climate transition. Green and Sustainable bonds, which are fixed income securities that fund projects and assets with positive climate benefits, are an important way for capital markets to channel finance for realizing this goal. Companies that issue Green and Sustainable bonds can accelerate their Net Zero transition and potentially reduce climate related-risks to investors.

Nomura Asset Management applies a consistent assessment framework for determining the relative attractiveness of Green and Sustainable bonds for investment in sustainable fixed income portfolios. The underlying concept for NAM's evaluation is that these bonds must meaningfully contribute to climate goals and the issuer's investment attractiveness. In practice, this means that Green and Sustainable bond use of proceeds should directly relate to the issuer's core business activity and credit profile, with a particular focus on green projects or assets that material risks and directly improve the issuer's market competitiveness.

The five pillars of Nomura AM's Green and Sustainable Bond qualitative assessment process are shown in the right table. Each pillar contains multiple sub-categories that are assessed on a Pass/Fail basis. If a single category is marked "Fail" then the Green or Sustainable bond framework is deemed ineligible as an impact investment. This structured and repeatable process results in clear and consistent assessments, which is useful for communicating to issuers for pre- and post-issuance due-diligence and engagement.

For example, under the Use of Proceeds pillar, only capital expenditures on asset and projects, research and development for eligible projects, or operating expenditures that increase the value or lifetime of eligible assets are acceptable. Operating expenditures for the procurement of green raw materials would be ineligible, because they do not increase the value of corporate assets. Under Impact Ambition, the allowable rate of use of proceeds for Green Buildings is capped at 20% for non-Financial and Real Estate issuers and disallowed for Utility sector Green Bonds. The rationale here is that utility companies should have ready access to higher-impact projects – such as for Renewable Energy or Clean Grids. Setting strict standards reduces the number of Green Bonds eligible for NAM sustainable fixed income portfolios, but can also contributes to a more high quality and credible Green bond market place.

Overview of Nomura Asset Management's Green and Sustainable Bond Assessment Framework

Market Standards
Is the framework coherent and aligned to standards? Is a second party opinion provided?

Use of Proceeds
Are the use of proceeds relevant to the issuer, and for eligible categories? Is the use of refinancing reasonable limited?

Impact Ambition
Is the impact investment efficiency (intensity) rate sufficiently high given the nature and location of the projects?

Impact Reporting
Is timely impact reporting available and transparent? Are the use of proceeds as described in the offering documents?

Strategic Alignment
Does the issuer have a credible Sustainability strategy, ambitious Net Zero commitment, and potential for engagement in case problems arise?

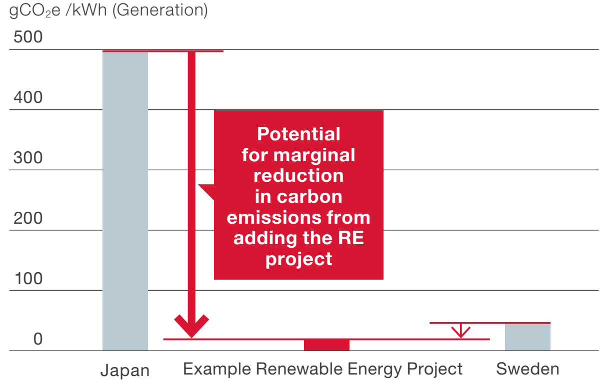
Using "Impact Intensity per Dollar Invested" to efficiently allocate impact capital

NAM prioritizes investment in green and sustainable bonds based on their level of impact and potential contribution to environmental and climate objectives. Inter alia, projects with high assessed positive impact are likely to be more valued by investors and represent lower risk. By allocating scarce capital to those projects and issuers that are best at generating sustainable impact, investors can efficiently identify attractive investment opportunities and contribute to global climate goals. One way of assessing the attractiveness of such sustainable investments is by measuring their "impact intensity per dollar invested".

Focusing only on projects that deliver GHG emission reductions, it is possible to see significant differences in impact intensity across project types, industries, and countries where the green projects are located or developed. For example, consider equivalent renewable energy develop projects in Sweden and Japan. Both projects are "green" because they emit zero carbon at the point of generation. But the Swedish renewable energy project in this example has a significantly lower "impact intensity" of GHG reduction due to the significantly lower baseline carbon intensity of electrical generation in Sweden, where most electricity is already generated from low-carbon sources. Significantly more capital would have to be invested in the Swedish vs Japanese renewable energy project to achieve the same absolute level of GHG emission reduction impact. Sweden has already substantially decarbonized its electric grid, so the marginal reduction in carbon emissions from a new Renewable Energy generation project would be relatively low compared to the potential marginal reduction in Japan

From a climate impact perspective, the implication for green bond investors would be to prioritize investment in the Japanese RE project while looking to finance more high impact project types in Sweden such as decarbonized transport or energy efficiency. This approach can help sustainable investors analyze and prioritize fixed income impact investments by applying impact data as an investment performance indicator and lead to greater overall impact.

Weighted Average Carbon Intensity of Electric Generation (2022)



Source: Carbon intensity of electricity generation, 2022 (ourworldindata.org)

Nomura Asset Management's Systematic Approach to Sustainable Fixed Income Investment

NAM's approach to sustainable investment in global fixed income and corporate credit

Innovative approaches to fixed income sustainable investment research and integration are a key area of focus at Nomura Asset Management. We believe that a systematic and objective assessment of issuer sustainability performance is fundamental to credit analysis and accurate risk pricing, through which mainstream investors can deliver real-world impact. To implement this sustainable investment philosophy, we have used a proprietary data-driven approach for evaluating credit issuer sustainability since 2018. NAM's approach to sustainable fixed income is driven by three considerations that reflect our ultimate objective of improving risk-adjusted returns through the integration of material extra-financial (ESG) data:

1 Downside Risk Focus: We incorporate sustainability risks to issuer creditworthiness primarily from a downside perspective. The integration of ESG data as particularly relevant for fixed income strategies, where loss-avoidance and downside risk protection are key.

2 Sustainability Scoring Models: We selectively incorporate forward-looking, material ESG factors for our proprietary sustainability data models. The resulting scores are back-tested analyzed against price returns for real-world effectiveness in a variety of market conditions.

3 Investment team-led Approach: Portfolio managers and credit analysts are directly responsible for driving the integration of sustainability risk factors in the investment process. Having this "skin-in-the-game" encourages meaningful and results-focused ESG integration.

What Makes NAM's approach to Sustainable Fixed Income unique

Most sustainable investment products available in the market seek to deliver investment out-performance and contribute to real-world sustainability outcomes. But investors are increasingly scrutinizing these claims, which in some cases may appear mutually exclusive. Here, NAM's approach to sustainable investment in fixed income is unique because our explicit goal is to embed sustainability in the investment process with the aim of raising risk-adjusted returns for clients first and foremost. This reflects a belief that markets can most efficiently achieve real-world sustainable outcomes though better "pricing" of material sustainability risks, and is the key to NAM's approach to sustainable fixed income investment.

For an investment strategy to be "sustainable" it must deliver attractive returns over the investment cycle, reliably and transparently. We aim to achieve this with clarity of purpose and a focus on real-world outcomes.

Senior Portfolio Manager
Hiroshi Matsumoto

Introduction to NAM's Corporate Credit ESG Scoring Model

A systematic, data-driven model for integrating sustainability performance is a crucial component for a consistent and high-quality sustainable fixed income investment approach. NAM has achieved this by developing a globally-relevant set of sustainability performance factors, with data coverage for substantially all issuers in the global corporate credit market. The result is a system that is both comprehensive and flexible, with objectivity and relevancy for any investment strategy.

Our corporate credit ESG scoring model integrates over 50 data factors into 12 "Sustainability Issues" that comprise 3 ESG risk-scoring pillars (Environmental, Social, and Governance) at the issuer level. These ESG data factors are carefully selected and screened based on their materiality to credit quality and financial performance, plus the clear potential to manifest as ESG downside to the issuer.

For example, these ESG data factors include "voluntary efforts to reduce greenhouse gases" for E (environment), "human resources development and training" for S (society), and "board of directors governance system" for G (governance). "Upside" ESG factors such as revenue exposure to electric vehicles and renewable energy are stripped out from this model, reflecting the greater importance of downside risks to credit investors. The resulting issuer E, S, and G risk scores are multiplied by industry-specific E, S and G weights derived from the proprietary NAM Corporate Credit Materiality Matrix for internal consistency and analytical objectivity. Based on the belief that the relative importance of E, S, and G varies depending on the business content of a company, the weight of E, S, and G is determined for each industry based on an industry-specific evaluation of the importance of each factor. The more items judged to be important, the higher the weight.

The model covers over 6000 global names, with monthly updates based on entirely externally observed data. These resulting score outputs are then tailored to each fixed income strategy's unique characteristics and investment goals. For certain strategies, NAM Credit ESG scores are used as a downside risk screening tool based on long-term market performance back-testing. Investment strategies that emphasize environmental factors focus on specific indicators such as the "environmental score" and "climate change risk

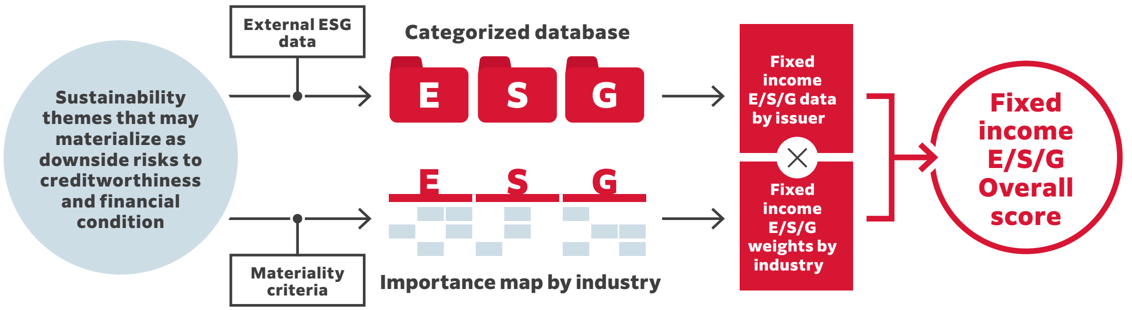
Claim	Evidence	Results
ESG data is potential source of fixed income investment alpha	Since 2018 NAM has developed proprietary, back-tested Credit and Sovereign ESG scoring models, and customized our fixed income ESG integration for investment performance	Our quantamental NAM FI ESG funds excluded Wirecard debt in 2020 and Russian sovereign dollar debt in 2022 based on NAM FI ESG scores
Investors must focus on key issues that will drive market pricing	In early 2020 NAM identified "Resiliency Factors" such as Supply Chains, Cybersecurity, Geopolitics, and Energy Security as emerging key drivers of fixed income market risk	Recent global events revealed the importance of Resiliency, which is now at the top of mind for policy makers, businesses, and investors globally
ESG integration is asset-class and investment-style specific	NAM tailors the integration and analysis of sustainability data with consideration for the unique characteristics of each fixed income market and to reflect investor goals	Our FI ESG platform has avoided sector bias and delivered attractive risk-adjusted returns over the investment cycle with a consistent investment philosophy and customized approach

score" and exclude stocks whose scores fall below a certain level.

In other strategies, NAM Credit ESG scores are used as an input in issuer credit analysis for a sustainability-integrated relative value assessments for investment attractiveness. Ultimately, the goal of NAM's system is to support credit analysts and fixed income portfolio managers to quickly home in on the most material sustainability risks to their portfolios. This allows for more targeted and efficient research and engagement, potentially leading to improved risk-adjusted-returns and sustainability outcomes.

Corporate Credit ESG Scoring Model Framework

NAM Credit ESG Scoring Model	Sustainability Issue	Measurement of...
Environment =Negative Externality Risk "How severe are the environmental negative externalities from operations?"	GHG Emissions	How Carbon intensive is the business
	Climate Resilience	How resilient is the company to climate physical risk
	Waste Intensity	How waste intensive is the business
	Natural Capital	Does the business use natural capital sustainability
Social =Reputational Risk "What is the net social value of the company?"	Extended Responsibility	Does the business show responsibility for product safety/liability
	SDG Contribution	Does the business make a net contribution to society and SDGs
	Social License to Operate	Does the business have a social license to operate
	Human Capital Management	Are labor/workforce policies a reputational risk to the business
Governance =Governance Risk "Is the business model sustainable and resilient?"	Sustainability Strategy	Does the business have a credible climate transition strategy
	Corporate Disclosure	Does the business in a transparent and ethical way
	Governance Quality	Does the business have well-functioning board oversight and accounting
	Regulatory Scrutiny	Is the business at risk from increased regulation or regulatory scrutiny



Column

Why corporate debt markets are key to achieving the Net Zero transition

Corporate bond markets are significantly more exposed to carbon emissions than equity markets, representing both risks and opportunities to debt investors from the Net Zero transition. To understand why, consider the relative emissions intensity of industrial sectors and exposures to these sectors by different asset classes. Based on the non-overlapping Scope 1 and 2 carbon emissions data reported by global listed non-financial corporates, just three out of ten industrial sectors account for approximately 92% of emissions: Utilities, Energy, and Materials Figure 1. And based on their relative structural market composition, corporate debt markets have approximately twice the exposure to these high-GHG emissions sectors than that of equities Figure 2. The reason for this is simple: higher growth, asset-light companies such as technology and healthcare tend to fund themselves by issuing equity, while slower growth asset-heavy industries like utilities tend to fund themselves by issuing debt. In portfolio terms, this means that the average weighted Scope 1 and 2 emissions of a representative global corporate debt portfolio is approximately 86% higher than the representative global equity portfolio Figure 3.

This leads to two important implications for investors: First, carbon transition risks to corporate bond portfolios must be managed carefully due to the asset class's structural exposure to highly emitting sectors of the economy. Second, corporate bond investors have a unique investment opportunity to lead the Net Zero transition. Rather than excluding sectors to achieve portfolio-level decarbonization, corporate debt investors should look for ways to provide qualified climate-aligned financing and constructively engage with corporate issuers central to at the realizing decarbonization in the real-world.

Figure 1 Share of Total Scope 1 + 2 Emissions by industry sector

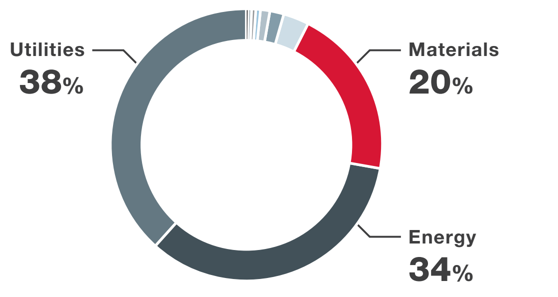
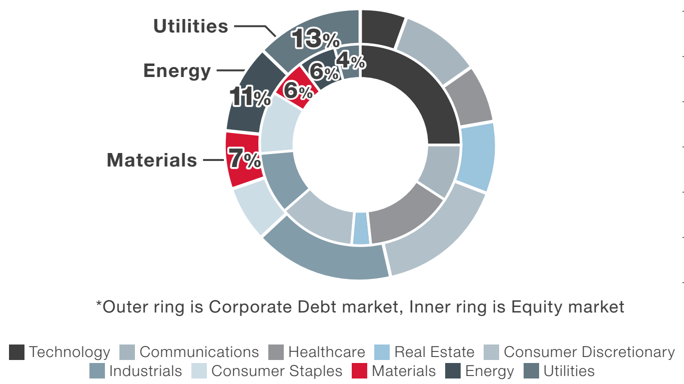
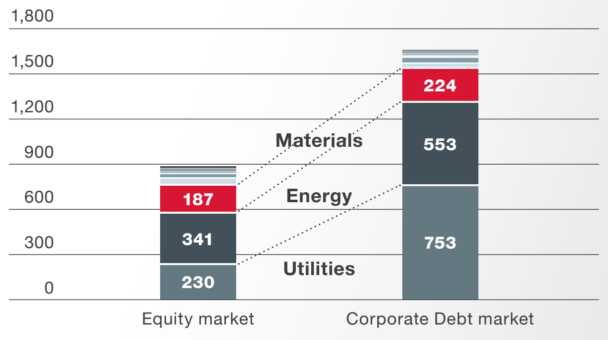


Figure 2 Relative Exposure to High Emissions Sectors Corporate Debt (outer ring) and Equities (inner ring)



*Outer ring is Corporate Debt market, Inner ring is Equity market

Figure 3 Weighted Average Sector Scope 1+2 Corporate Debt vs Equity market



Source: Prepared by Nomura Asset Management

DISCUSSION

Messages from the Responsible Investment Council

01 Theme Role of the Responsible Investment Council / Impressions after being appointed/Discussions during Council meetings

Over seven years have passed since the Responsible Investment Council was established, and the content of discussions have changed over those years. Director Kimura*, you have been a member of the Responsible Investment Council since its establishment. How do you assess Nomura Asset Management (NAM)'s responsible investment initiatives?

* Director Kimura retired on March 31 2024. The interview took place in January 2024.

Both the Responsible Investment Council and the Responsible Investment Committee have become more effective in conjunction with the changes in what is deliberated upon

Kimura NAM was the first company in the industry to establish a Responsible Investment Committee ("Committee") and a Responsible Investment Council ("Council"), and at the beginning we were still finding our way. That was a time when conflicts of interest between asset management companies and other companies in the same corporate group were being identified and criticized. The main purpose of the Council is to manage conflicts of interest, and the Committee has been operating appropriately based on stringent proxy voting standards.

A recent topic of discussion has been the management of conflicts of interest between controlling shareholders and minority shareholders when exercising voting rights regarding corporate restructuring and M&A. The number of shareholder proposals is increasing, as are the number of complex and difficult to judge agenda items. The structure of the Committee has changed along with this, and two women in charge of ESG have recently joined the Committee, enabling progress in terms of diversity. Also, more appropriate stewardship activities are being carried out. Both the Committee and the Council were established from scratch, and I feel that both have become considerably more effective over the past few years.

The manner in which the Council monitors the Committee in real time is unique to NAM. As the company continues to manage conflicts of interest, our reputation has steadily improved. It re-emphasizes the point that for asset management firms, trust is paramount. Professor Miwa and Director Maeda, you both joined the Council after the discourse and activities of both bodies had already advanced to a certain point. Was there a gap between your expectations before your appointment and what you have observed and experienced since joining the Council?

Miwa I was appointed to the Council in May 2020. When I attended my first Committee meeting, I was surprised to see how Director Kimura* actively spoke up, and was not just there as an observer. I learned that the Council actively oversees and commits not only to managing conflicts of interest, but also to stewardship activities and proxy voting decisions. Before I took office, I had the impression that NAM would not oppose proposals if the parent company was involved, but once I joined the Council, I found that conflicts of interest were being appropriately managed.

As a member of the Council, I have told the Committee members that I would like to see NAM be more conscious of its role in society and for them to be leaders in proxy voting standards. I do feel that the Committee's decisions have changed, and I believe that NAM has an effective system in place to ensure responsible investment.

Maeda In March 2014, I stepped down as President and CEO of a Japanese asset management company and became Chairman of that company. Despite being away from executive duties for a few years, I was appointed as a member of NAM's Council in June 2021. In the Committee meetings, detailed and lively discussions took place based on standards, not only regarding managing potential conflicts of interest regarding matters involving Nomura Securities, but also regarding proxy voting decisions. I found it challenging just listening to the conversations and understanding them with respect to making a decision on whether to approve or oppose specific proposals. There were also new elements about sustainability and ESG for me, so I have certainly learned a lot over the past two and a half years.

It seems that other asset management companies have similar types of committees, but the committee members in those companies are mainly from the investment divisions, so I doubt they have a two-tiered structure with an independent committee and council like we have. NAM is well ahead of the curve, including with respect to stewardship activities. I think the company should actually do more to promote this fact.

02 Theme The role that institutional investors play in the capital markets and society

When you look at global trends, how do you see the role that Japanese institutional investors play in capital markets and society?

Asset management firms will play a central role in Japan becoming a Leading Asset Management Center

Miwa Looking back at history, since the 1990s, assets in advanced capitalist countries have been concentrated among institutional investors such as asset owners and asset managers. The financial sector then became larger than the real economy, and in the 2000s the actions of institutional investors were believed to be having a negative impact on the real economy. This is referred to as money manager capitalism or investor capitalism. To rectify this, in 2010 the UK established the Corporate Governance Code and the Stewardship Code. In response to the excessive market behavior, debate emerged about responsible investment, whereby investors take responsibility for the environment, social transformation, and corporate change. I think NAM is the leader in Japan when it comes to responsible investment.

In recent years, Japan has been encouraging change among various entities in the investment chain, with the aim of turning Japan into a Leading Asset Management Center. Leading companies in Japan's asset management industry are now handling proxy voting and implementing engagement on a level on par with firms in Europe and the U.S. Asset management companies are in a position to play a central role in making Japan a Leading Asset Management Center, working with individuals, end beneficiaries, and asset owners to improve and enhance the investment chain.

Maeda I agree that NAM is the leader when it comes to stewardship activities. If we link stewardship activities with investment operations and can achieve top-class investment returns in the industry, we will firmly be number one both in name and reality. At the same time, it is important for asset owners to accept and appreciate the initiatives that asset managers are pursuing. From that point of view, I think asset ownership reform is a very important topic.

While deliberating on proxy voting proposals, more emphasis is now being placed on what is important to minority shareholders. Director Maeda, amid the growing awareness that economic value is not the only thing that matters, and with your background working in an asset management firm, how do you view NAM's role?

We are entering an era in which robust engagement is required to be a competitive asset manager

Maeda In recent years, not only has there been growing awareness of the importance improving corporate value, but also as PBRs of less than 1 are being corrected, engagement has become more important than ever. I see a lot of potential in the fact that not only financial information, but also non-financial information, is now a determining factor in improving corporate value. I firmly believe that we are now in an era in which asset managers cannot be competitive unless they have a strong engagement program.

Engagement involves having companies focus on addressing the environmental and social issues suggested by investors, which in turn increases corporate value. The purpose of engagement is to ultimately benefit minority and general shareholders. We must continue to bolster our engagement platform in line with global trends.

Miwa Overseas, investors proactively conduct so-called policy engagement, whereby they engage not only with clients and issuers, but also with regulators and rule-making organizations. I would like to see NAM create its own soft policies in order to encourage change within society, and play an active role in creating a better future.

Increasing attention is being focused on ESG collaborative engagement, in which multiple investors work together to influence companies. When Japanese investors act as a bridge between overseas investors and Japanese companies, the language barrier disappears and some success stories are beginning to emerge.

Miwa Asset managers are able to conduct proxy voting and engage directly with companies. It is important to develop collaborative ESG engagement schemes with universal owners around the world.

03 Theme The future of responsible investment

Professor Miwa mentioned that control is concentrated in the hands of institutional investors. Director Kimura*, what kind of contributions do you think NAM has made to the capital markets? And what are some areas for improvement?

Progressively revise proxy voting standards to make large contributions to the market

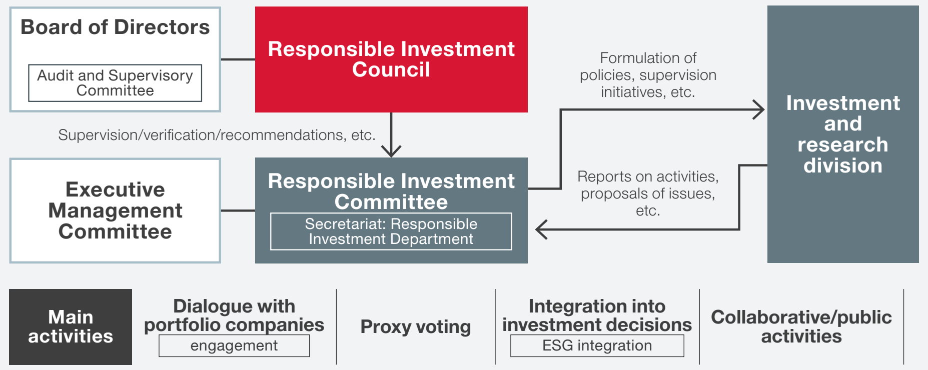
Kimura Our ultimate beneficiaries are entrusting us with an enormous number of voting rights. Therefore, we have the power to raise the corporate value of our portfolio companies and promote ESG. The reality is that NAM is practicing responsible investment and, in recent years, has been carrying out engagement on a wide scale. Going forward, if NAM continues to revise its proxy voting standards in a progressive manner, it will surely have a positive impact on Japanese companies as a whole. NAM makes significant contributions to the Japanese equity market overall, and I believe it is our responsibility.

In the capital markets, while the traditional type of stock trading is important, non-financial information is becoming increasingly important, and we are entering an era where economic returns are no longer all that matters. The Committee and the Council must continue to come to terms with this.

Asset owners, particularly those overseas, are now looking for asset managers who can outperform even with ESG constraints. However, it can be difficult to align the viewpoints of investment managers and analysts regarding what to ask of companies with respect to share price returns and ESG-related efforts.

Kimura Japan is entering a very challenging period. Until recently, if you invested in an ESG fund, the performance and returns were good, and the prevailing wisdom has been that if a company earnestly addresses ESG issues, its financial performance will improve and its stock price will rise. However, the global situation been changing over the past year or so, and there has been a net outflow of money from ESG funds, making it hard to launch new funds. However, the importance of ESG remains clear despite these developments, so NAM must take a long-term perspective and persevere in its efforts address ESG issues.

Organizational Structure for Responsible Investment



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 78).
Meetings held	Since its establishment in September 2016, the Responsible Investment Council has met a total of 53 times through December 31, 2023. 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.

Maeda If beneficiaries demand that ESG factors be included in the investment approach even if the returns are poor, it is the asset manager's duty to invest in accordance with that demand. Meanwhile, I think it is necessary to evaluate fund managers holistically, including qualitatively evaluating them while considering ESG constraints.

Responsible investment is becoming the investment business itself

NAM invests in approximately 2,400 Japanese companies. We are entering an era in which overseas companies will no longer invest in Japanese companies if these 2,400 companies do not promote ESG. There is also a risk that Japan's capital markets will go into decline, which would also mean a downturn in Japan's asset management sector. Additionally, ESG regulations are becoming stricter overseas, making it difficult to engage in the asset management business overseas without a strong focus on ESG. For NAM, responsible investment has become synonymous with the asset management business itself.

Miwa I think that statement really hits the mark. I would like to see NAM pour substantial resources in linking investment and research, and focus on increasing corporate value through systematic engagement. Overseas, especially in Europe, the approach to ESG is very proactive, so unless you systematically create a system, you cannot develop an effective business model. Another important point is linking non-financial information to employee compensation. One concern I have about NAM is the slow pace of its DX (digital transformation). In order to avoid falling behind our peers, non-financial information is an area in which we should use DX to make advances.

04 Theme Expectations for NAM

I think Japan must move forward with its plan to become a Leading Asset Management Center, with the mindset that if we fail to do it now there will be no second chance. With this in mind, what are your hopes and expectations for NAM, especially in the responsible investment domain?

Determining the future direction of ESG

Kimura NAM was historically not very good at presenting its efforts to the outside world, and when I first joined the Council, the company's website mainly focused on sales information for funds. This has improved significantly in recent years, with more space being devoted to information about responsible investing. For example, our proxy voting standards are now clearly presented on the website. I am very encouraged by the progress being made in hiring and promoting young people and women, especially in the Responsible Investment Department. Human capital is critical. Going forward, I hope to see further progress in appointing women as investment managers and increasing diversity in general.

Maeda As Japan aims to become a leading asset management center and is on the cusp of becoming an inflationary economy, the asset management industry is at a critical juncture. We should increase the level of organizational freedom to avoid falling behind in the competition with other companies. This year, we may see shareholder proposals not only related to ESG, but also regarding capital efficiency and rectifying PBRs below 1. As a frontrunner in the industry, I would like NAM to engage in stewardship activities more actively than ever before. The Council will support such efforts.

Miwa Recently, there has been a debate about where ESG is heading. I would like to see NAM vigorously promote ESG, aiming to chart its future, instead of simply observing and reacting.

Outside director **Akiko Kimura**

Appointed in 2016

April 1973	Certified as an attorney (Dai-Ichi Tokyo Bar Association) Joined Nishimura, Komatsu & Tomotsune (now Anderson Mori & Tomotsune)
January 1977	Partner, Nishimura, Komatsu & Tomotsune
June 1978	Harvard Law School (LL.M.)
January 2011	Of Counsel, Anderson Mori & Tomotsune (current)
June 2015	Outside Director, Nomura Asset Management Co., Ltd.
March 2024	Retired from Outside Director, Nomura Asset Management Co., Ltd.

Outside director **Ryoji Maeda**

Appointed in 2021

April 1977	Joined Sumitomo Life Insurance Company
April 2002	Executive Officer, CIO of Investment Headquarters, Sumitomo Life Investment Co.,Ltd.
December 2002	Operating officer, Sumitomo Mitsui Asset Management Co., Ltd.
June 2007	President and CEO, (Chairman of the company from April 2014), Sumitomo Mitsui Asset Management Co., Ltd.
April 2018	Permanent Audit & Supervisory Board Member, Allianz Global Investors Japan Co., Ltd.
June 2021	Outside Director, Nomura Asset Management Co., Ltd. (current)

Outside Expert **Yumiko Miwa**

Appointed in 2020

April 1996	Full-time Assistant, School of Commerce, Meiji University (Assistant Professor from April 2000)
April 2002	Member, Fund Management Committee, Pension Fund Association for Local Government Officials
October 2005	Professor, School of Commerce, Meiji University (current)
April 2006	Visiting Professor, School of Business, University of Michigan
April 2020	Member, Fund Management Committee, National Federation of Mutual Aid Associations for Municipal Personnel (current)
June 2020	Outside Director, Eisai Co., Ltd. (current)
March 2022	Outside Director, Pigeon Corporation (current)

Results of Self-Evaluation of 2023 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 2023 (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.

1 Self-Evaluation Methodology

We conducted a survey of mainly members of the Responsible Investment Committee, the highest decision-making body for our stewardship activities, and held discussions based on the results of the survey. 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 survey and in subsequent discussions.

Survey Overview

Target

The following people responded according to the questions.

Responsible Investment Committee members	Responsible Investment Committee Secretariat members	Responsible Investment Council members
7	6	4
Comprises 7 members from the investment and research functions		Comprises one Chief Conflict Officer, two independent outside directors and one outside expert

Survey timing	Period covered	Response format
December 2023	January-December 2023	Signed Multiple choice (4 choices) Wrote comments freely

2 Results of self-assessment (overall)

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 survey and comments received, and the final assessment was we were generally able to carry out appropriate stewardship activities, including evaluation of activities in 2023 and our response to the points identified in the previous year as areas to be strengthened.

Particularly outstanding initiatives among 2023 stewardship activities

- **Improved the diversity of the Responsible Investment Committee and enhanced its materials and operations**
- **Revised the Basic Policy for Responsible Investment and Proxy Voting Standards for forward-looking investment**
- **Reviewed priority engagement topics to reflect trends**
- **Made progress in collaborative engagement in accordance with international initiatives**
- **Enhanced information disclosure**

3 Future Actions

The following points were identified as areas that need bolstering to further enhance the effectiveness of our stewardship activities.

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.

- **Bolster two-way information sharing and communication between personnel to enhance synergies between engagement and investment decisions**
- **Systematically increase the level of understanding of those in charge with respect to the policies established by the Responsible Investment Committee in order to improve stewardship activities as an organization**
- **Improve the methods for measuring the effectiveness of engagement, so as to quantitatively understand the relationship between the policies established by the Responsible Investment Committee and the results of engagement activities, which will then lead to process improvements.**

Furthermore, considering that more than seven years have passed since the establishment of the Responsible Investment Council, we will re-examine the Council's structure.

Please refer to the link below for the results of our self-evaluation of our activities corresponding to each principle in Japan's Stewardship Code.

https://www.nomura-am.co.jp/special/esg/pdf/self_assessment_2023.pdf
(Japanese only)

Nomura Asset Management’s ESG Communication Activities

Nomura Asset Management is also focusing on delivering information related to ESG. NAM employees give presentations and participate as panelists at seminars to help people gain a better understanding of ESG.

Also, we work with initiatives as well as public institutions to discuss ESG issues.

Furthermore, by participating in efforts to establish standards for ESG reporting, we convey our knowledge and insights about ESG to various stakeholders in an easy-to-understand manner.

Collaboration with initiatives, domestic and overseas public institutions, etc.

- Japan Stewardship Initiative (JSI) Steering Committee member
- Member of the Industry Advisory Panel (IAP) and Co-chair of the Working Group on the ASEAN Taxonomy &Transition established by the ASEAN regulatory authority
- Committee member, Constructive Dialogue Promotion Working Group, Committee on Financial and Capital Markets, Japan Business Federation (Keidanren)
- Committee member, “Impact Investing Roundtable” cohosted by GSG and FSA
- Advisory Committee member for “Advance,” the PRI’s collaborative initiative for human rights and social issues
- Advisory Committee member for “Spring,” the PRI’s collaborative initiative for nature
- Member of Ministry of the Environment’s Working Group on the Green List
- PRI Japan Advisory Committee member
- PRI Sustainable Systems Investment Managers Reference Group (SSIMRG) member
- ICGN Global Stewardship Committee member
- Ministry of Economy, Trade and Industry: Skills Development and Responsible Business Conduct for Transition – Member of the project working group to develop business and human rights materials

Internal Seminars in NAM

- Miko Oyama of Keidanren gave an internal presentation about “What kind of global diversity competencies are required of us now? - Key points for management and changing individuals’ mindsets”
- Held a talk session where Professor Masako Egawa, Chancellor of Seikei Gakuen, and Professor Yumiko Miwa of the School of Commerce, Meiji University, spoke with employees about what is expected of Nomura Asset Management as an asset management company
- Held workshops for the Investment and Research Unit on “Natural Capital,” “Corporate Governance and Monitoring Boards,” “Well-Being: ATM and ATN,” “Human Capital/Human Rights Risks,” and “Sustainability Governance and Risk Management”
- Held workshop for NAM employees about revisions to NAM’s Proxy Voting Standards
- Lecture for young employees on ESG investing

External Activities in 2023

Jan.	■ Delivered explanatory video at ICJ about NAM’s Proxy Voting Standards to issuer companies ■ Delivered explanatory video about NAM’s proxy voting at Listed company board member’s governance forum
Feb.	■ Participated in panel discussion on “ASEAN+3 Sustainable Finance’s Future Direction” at the 36th ASEAN+3 Bond Market Forum (“ABMF”), a project to consider commonality and standardization in Asia’s bond market (held in Manilla, Philippines) ■ Participated in panel discussion at the Moody’s event “Next-Generation Sustainability and ESG” forum
Mar.	■ Spoke on the topic of “Investors’ analysis and evaluation perspective on transition finance” at the Nomura Securities/Bloomberg co-sponsored seminar “GX Frontline / Changing Capital Markets Towards Carbon Neutrality (webinar)” ■ Presented a paper on “Why Cybersecurity is the Biggest Hidden ESG Risk” on Nomura Connect ■ Gave lecture on “ESG Investment Opportunities” at the China-Japan Finance and Economic Forum hosted by CICC ■ Presented a paper titled “Automated Evaluation of Integrated Reports Considering Interpretability” at the Financial Informatics Study Group of the Japanese Society for Artificial Intelligence
May.	■ Presented at Nikkei SDGs Forum “Non-Financial Information Disclosure and Desirable Human Capital Management as Seen by Institutional Investors” ■ Participated in a discussion with the Ministry of Economy, Trade and Industry regarding the use of GX transition bond proceeds ■ Presented at an annual meeting for investors about sustainable bonds hosted by Nomura Asset Management Malaysia. ■ Participated in a panel discussion about “Sustainable Investment in Government Bonds” at the World Bank’s Global Borrowers Forum (Stockholm, Sweden)
Jun.	■ Presented at the “Sustainable Bonds and Net Zero Investment” seminar jointly sponsored by the Central Bank of Indonesia, Indonesia’s Ministry of Finance, the Market Supervisory Authority, and the Asian Development Bank (Jakarta, Indonesia)
Aug.	■ Gave presentations on “Challenges and efforts in human capital investment by Japanese companies” and “Initiatives in which NAM participates and collaborative engagement” at the institutional investor seminar “PROJECT BRIDGE/Invigorate with Japanese Equities” ■ Spoke at the United Nations Development Program (UNDP) Sustainable Finance Consultation (participated online, Jakarta, Indonesia) ■ Contributed an article to the Japan Association of Corporate Directors’ August 2023 issue of Corporate Governance on the topic of “Corporate human capital management expected by institutional investors”
Sep.	■ Served as moderator for the PRI webinar “The Big Picture on Sustainability” ■ Gave lecture on academic research using ESG under the topic of “The Latest in AI/FinTech: ESG Quants Edition” for the Waseda Fund Management Course
Oct.	■ Participated in a panel discussion and opinion exchange hosted by the Regional Banks Association of Japan ■ Participated in panel discussion (natural capital, human rights) at PRI in Person 2023 (Tokyo) ■ Participated in panel discussion at the Tokyo Sustainable Seafood Summit ■ Served as moderator for the PRI in Person 2023 (Tokyo) official side event “Investor-Company Dialogue Forum: Serious Sustainability Management” ■ Participated in a panel discussion at the 2nd “Putting the TCFD Scenario Analysis into Practice,” a workshop on climate-related financial information disclosure and nature-related financial information disclosure for businesses, held by the Ministry of the Environment ■ Participated as a speaker in the panel discussion on the topic of “Corporate problem-solving ability and avoided emissions” at the GGX x TCFD Summit ■ Participated as a speaker at the PRI in Person 2023 (Tokyo) official side event “Bond Net-Zero Investment Framework” ■ Presented at the Asian Development Bank’s Consultation on the Development of Blue Bonds in the Asian Market ■ Released a paper titled “Sustainable Investment Functions and Application to Portfolio Selection” in the October 2023 issue of the Securities Analyst Journal ■ Presented at the Financial Informatics Study Group of the Japanese Society for Artificial Intelligence with the title “Automated Evaluation of Integrated Reports Considering Interpretability” ■ Presented at the Financial Informatics Study Group of the Japanese Society for Artificial Intelligence with the title “Automated Generation of Improvement Plans for Environmental Activities in Companies”
Nov.	■ Spoke in panel discussion about proxy voting at the Osaka Stock Council ■ Presented at the Nikkei ESG Management Forum ■ Lectured in the Sustainable Investment Course at Sunway University in Malaysia ■ Participated in a panel discussion on “Using Sustainability Data in Investment Decision-Making” at FISD ■ Spoke at “Japan’s Energy Issues” presented by the Economist Intelligence Corporate Network
Dec.	■ Presented at the Japan Academy of Business Administration’s symposium ■ Participated as a panelist in the Blue Bond Seminar hosted by the Asian Development Bank (Philippines) (participated online) ■ Participated in a panel discussion for the “Appropriate evaluation of avoided emissions toward a net-zero society” seminar hosted by the Ministry of Economy, Trade and Industry at the COP28 Japan Pavilion ■ Submitted a paper titled “Stochastic ESG Score and Capital Asset Pricing Model” to SSRN (a global collaborative organization that evaluates and shares research papers)

2023 Review of 2023

In recent years, international collaborative engagement has become increasingly important. In particular, there has been a growing trend for Japanese companies to be the target of such engagement, and the role of Japanese institutional investors and their responsibilities have also grown in importance. Japanese asset management firms are becoming indispensable in acting as a bridge between global investors and Japanese companies, improving corporate disclosure and solving ESG issues, leading to increased corporate value. As a Japanese asset manager, Nomura Asset Management is an advisory member for two PRI initiatives: Advance, PRI’s human rights collaborative engagement; and Spring, PRI’s collaborative engagement on natural capital just launched in 2023, and we are playing a central role in both programs. We also participated in Triple I for GH, which aims to promote impact investing in the field of global health, and we have bolstered international collaboration, especially in order to solve medical problems in developing countries. We have worked to strengthen our initiative-based efforts, because demonstrating the impact of those initiatives in the international community is important to enhancing our competitiveness as an asset management firm.

Head of the Responsible Investment Department
Toshiyuki Imamura

2024 2024 and Beyond

Responsible investment is now at the very heart of Nomura Asset Management’s investment business. In particular, our investment assets have become increasingly passive in recent years, and the sustainable growth of portfolio companies has become essential to our business. Stewardship activities targeting portfolio companies are becoming more and more important. In addition, Nomura Asset Management operates a global asset management business, so it is impossible for us to do business without addressing individual countries’ increasingly stringent ESG-related regulations, as well as the demands from our customers.

Also, our vantage point has been shifting from Japan to overseas. In recent years, in response to these changes in the business environment, we have focused on enhancing our own ESG product governance, expanding the ESG domains we address, and we have been endeavoring to play a central role in global ESG initiatives. Responsible investment and ESG have no national borders, and we are now in an era where only globally competitive asset management firms can be successful in Japan. We will continue to evolve our efforts to become an asset management firm that is trusted by investors and portfolio companies around the world.