



## 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

\*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.

# ZERO CO<sub>2</sub> BY 2050

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.

## 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](https://global.nomura-am.co.jp/responsibility-investment/pdf/ri_report_2022.pdf)



## Disclosure Based on the TCFD Recommendations

2022 Summary

### Governance



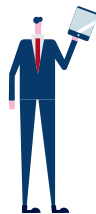
- We recognize that climate-related risks and opportunities have important impacts on our business and our medium- to long-term management targets, and we have therefore established an appropriate governance. The data compiled by the Responsible Investment Department, which acts as the TCFD Secretariat, 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).

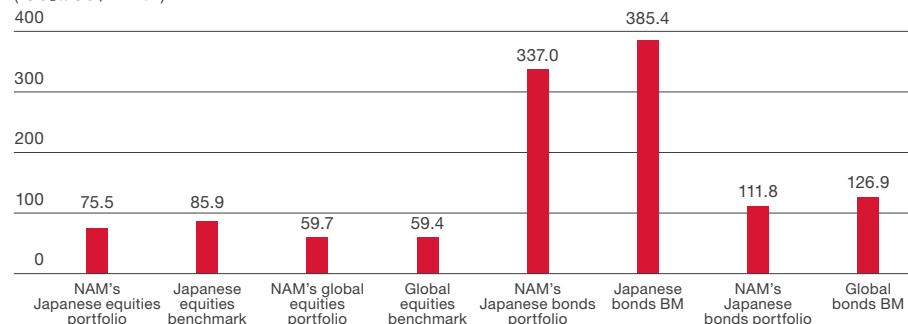
The analysis revealed that the total carbon emissions (Scope 1 and Scope 2) of our Japanese equities portfolio are less than the total carbon emissions of portfolios of the same monetary amount and comprising the same stocks and weightings as the benchmarks.

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.

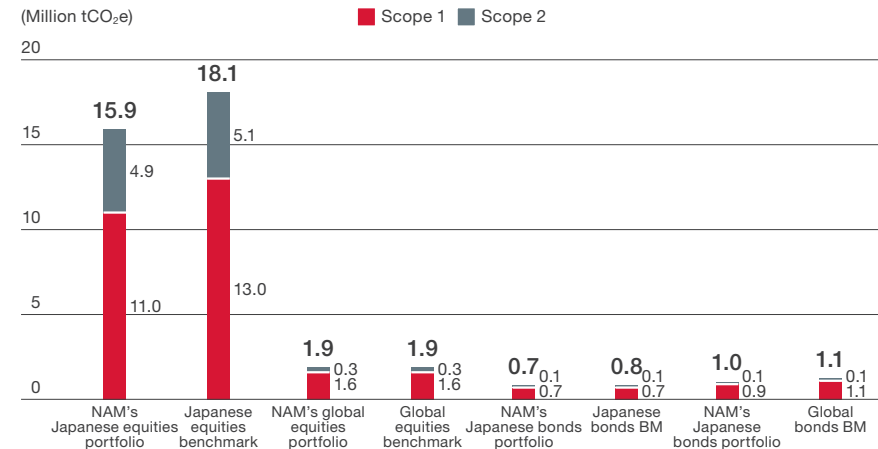
### Carbon Footprint

(tCO<sub>2</sub>e/US\$ million)



### Total Carbon Emissions

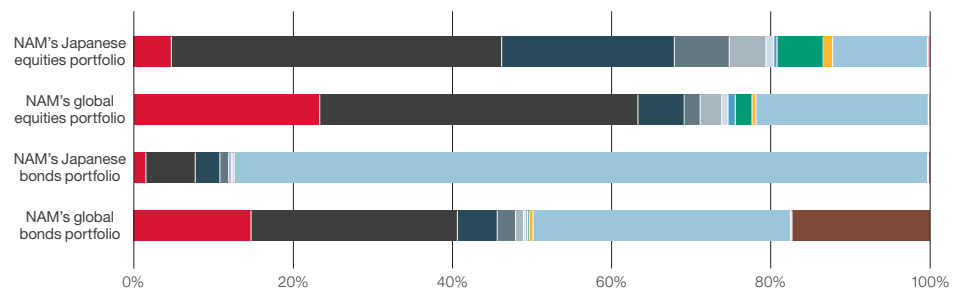
(Million tCO<sub>2</sub>e)



		NAM's portfolio	BM	% of BM		NAM's portfolio	BM	% of BM
Scope 3 (Million tCO <sub>2</sub> e)	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 tCO <sub>2</sub> e)	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

Energy Materials Industrials Consumer Discretionary Consumer Staples Health Care Financials Information Technology Communication Services Utilities Real Estate Other





## 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)

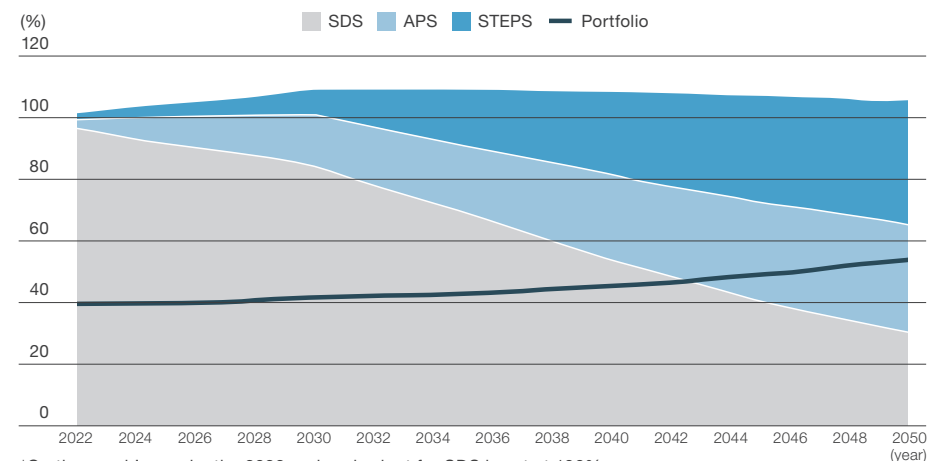
A scenario which assumes that countries carry out policy initiatives their governments have already announced, on the assumption that countries will keep ambitions and goals of the policies they are currently implementing. Under this scenario, the earth's temperature is expected to rise approximately 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%.

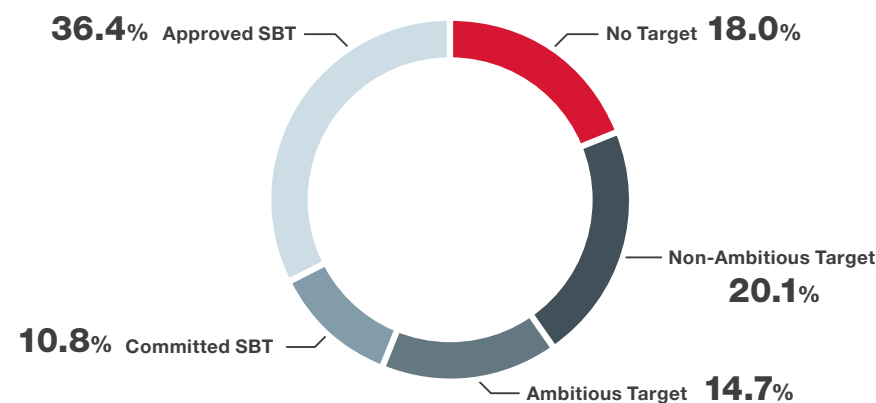
## Status of GHG Reductions by Portfolio Company 2022 Summary

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**



Source: Prepared by Nomura Asset Management based on TNFD website



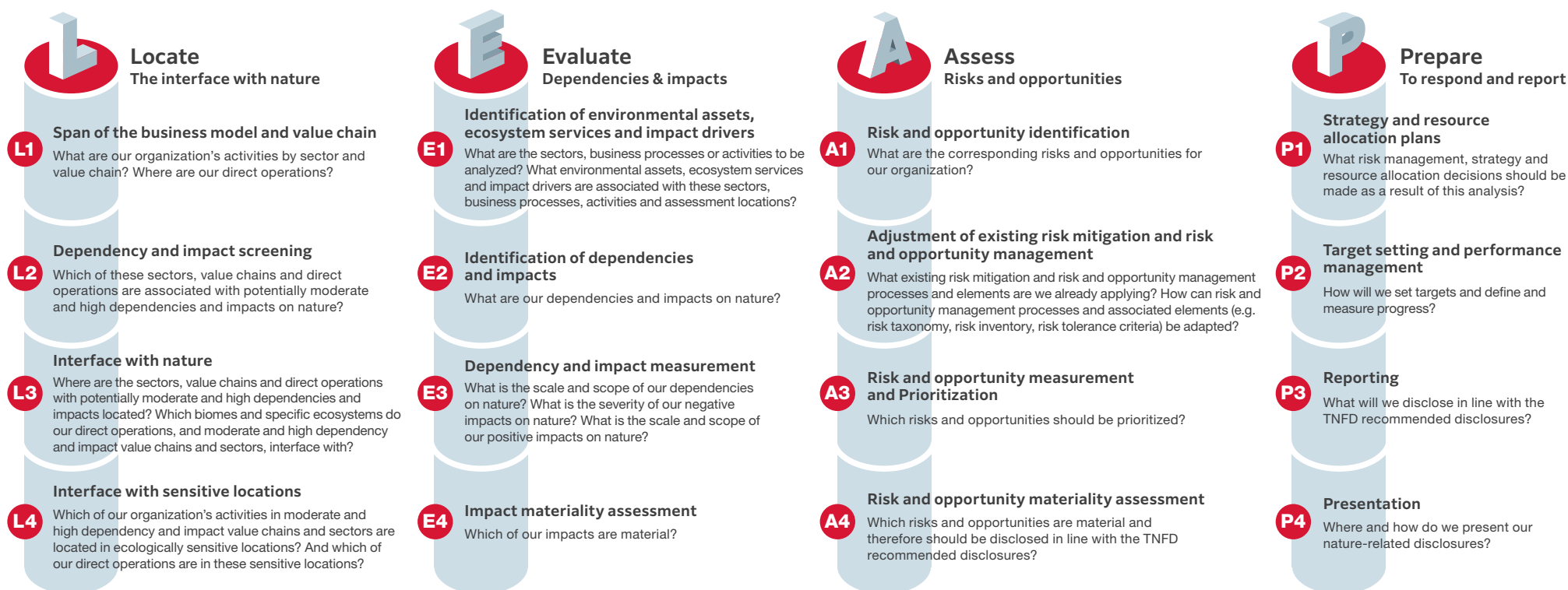
Meanwhile, there are also recommendations unique to the TNFD, which incorporate issues and perspectives specific to natural capital. In particular, in the field of natural capital, there is no single yardstick, and regional characteristics are strongly reflected, so measurement requires a more multi-sided 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



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.



### 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

# Column



# 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<sup>2</sup>.yr= 100% loss of  
biodiversity in 1 year over 100km<sup>2</sup>

**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<sup>2</sup>.yr/ mil. EUR

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

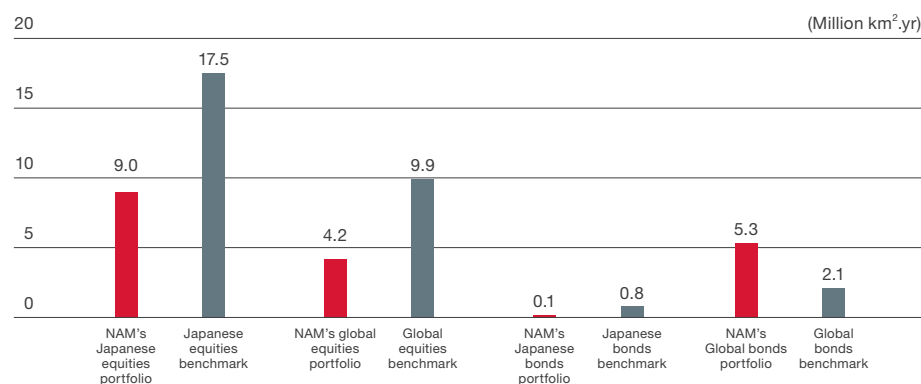
# Investment Portfolios' Impact and Dependence on Natural Capital

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).

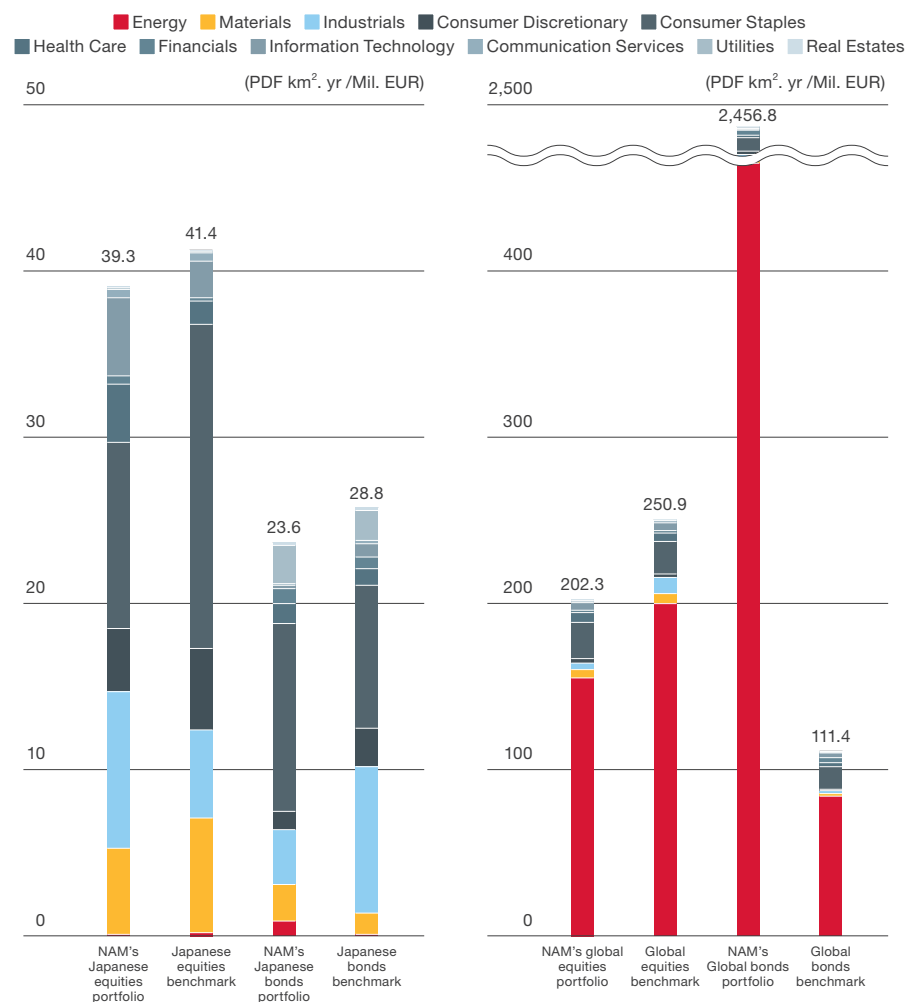
The analysis revealed that the PDF **Figure 3** of our portfolios were lower than the benchmark in the case of Japanese equities, global equities, and Japanese bonds. On the other hand, for global bonds, the analysis suggested that our PDF was higher than the benchmark as a result of being overweight (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**

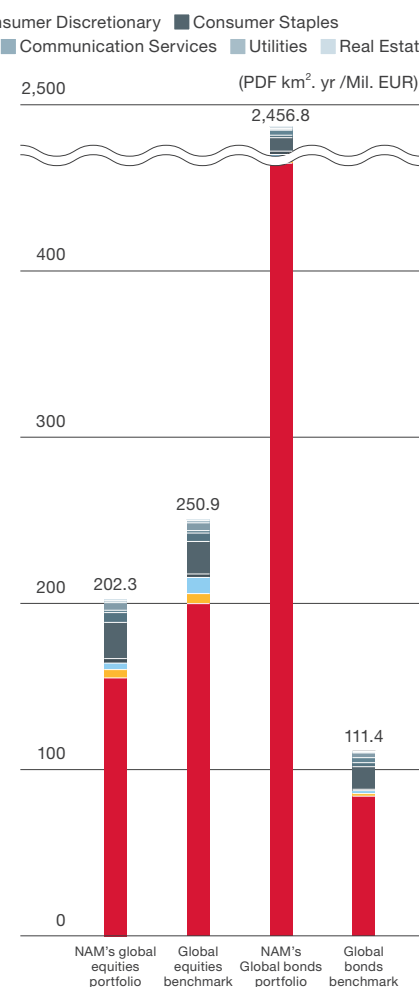


**Figure 4**

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

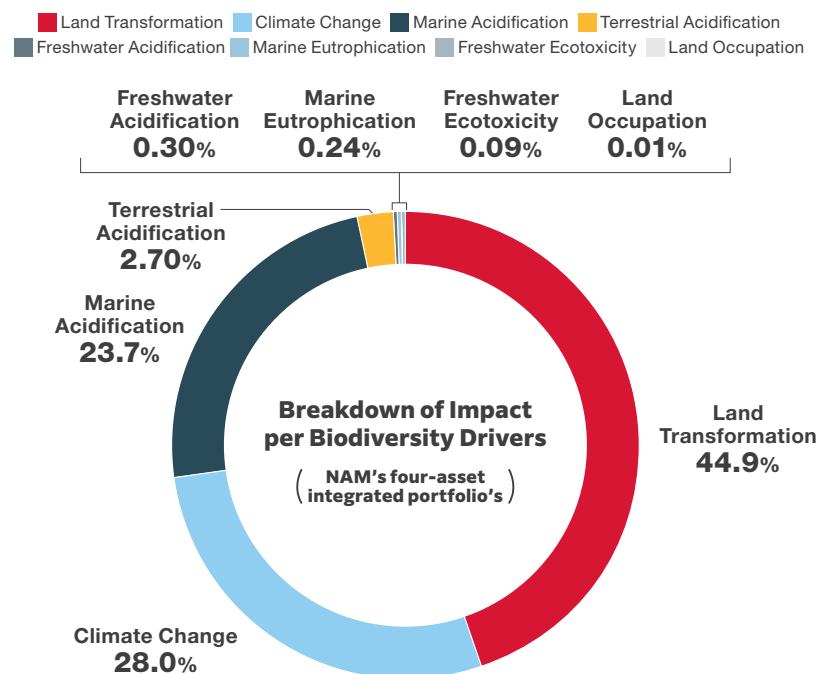


**Weighted Average PDF Intensity by Industry (Global equities and bonds)**



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

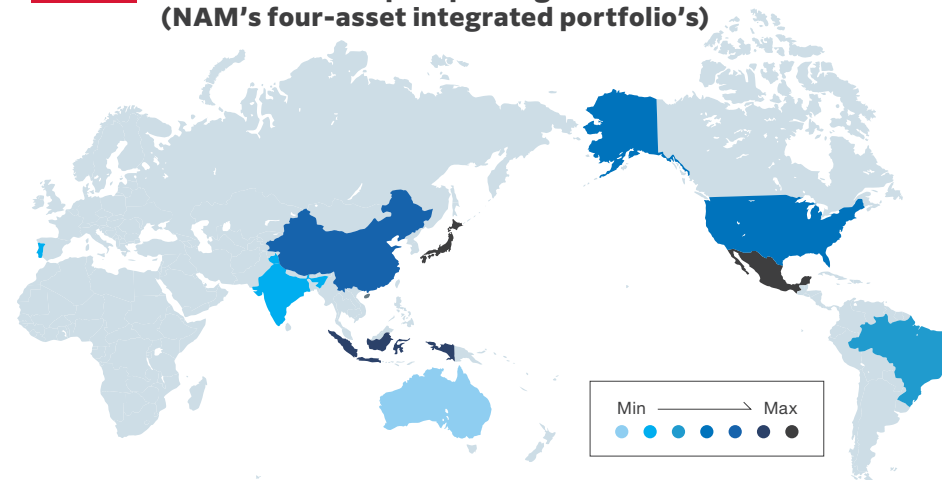
**Figure 5-2 Benchmark comparison**

	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)**



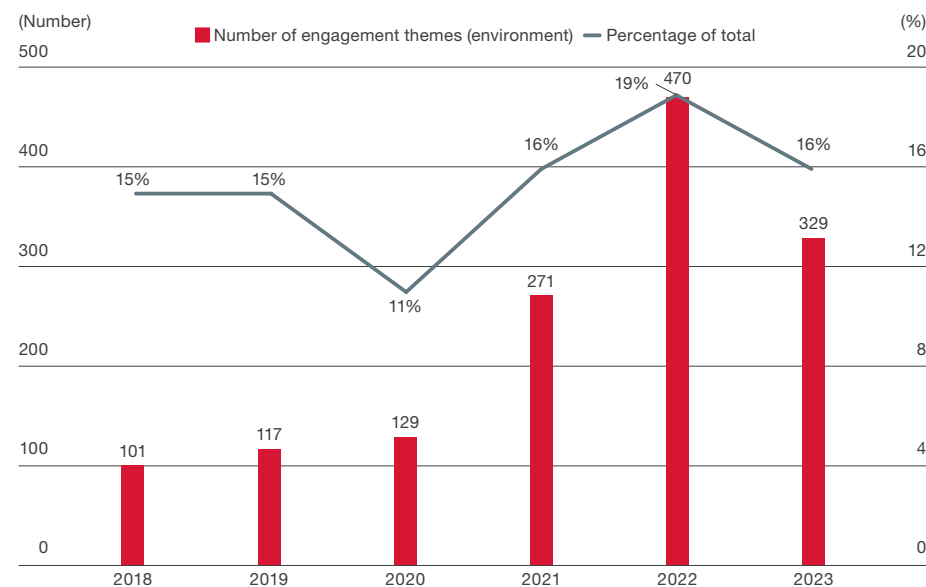
## Quantitative Understanding of Environmental Engagement

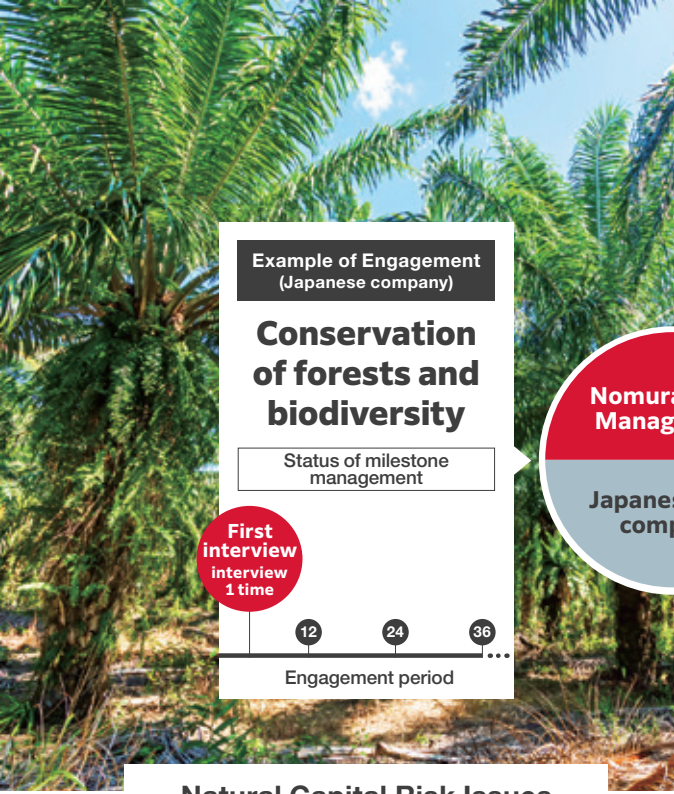
We check whether or not companies are undertaking initiatives towards sustainable production and procurement, especially companies where sales are highly dependent on commodities that have a significant impact on biodiversity, such as companies in the consumer staples, consumer discretionary, and materials 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  
1 time

12 24 36 ...

Engagement period

Nomura Asset  
Management

Japanese food  
company

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.

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

Switzerland  
consumer staple  
company

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.

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.

