

# 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 includes funds managed by third-party asset managers, and we are bolstering our governance efforts targeting these funds as well. (Please refer to "Overall ESG Product Governance System for the Investment Side" on Page 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 (RIOCI) 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 RIOCI 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

In August 2022 we clarified the above system-related initiatives as well as our definition of ESG funds.

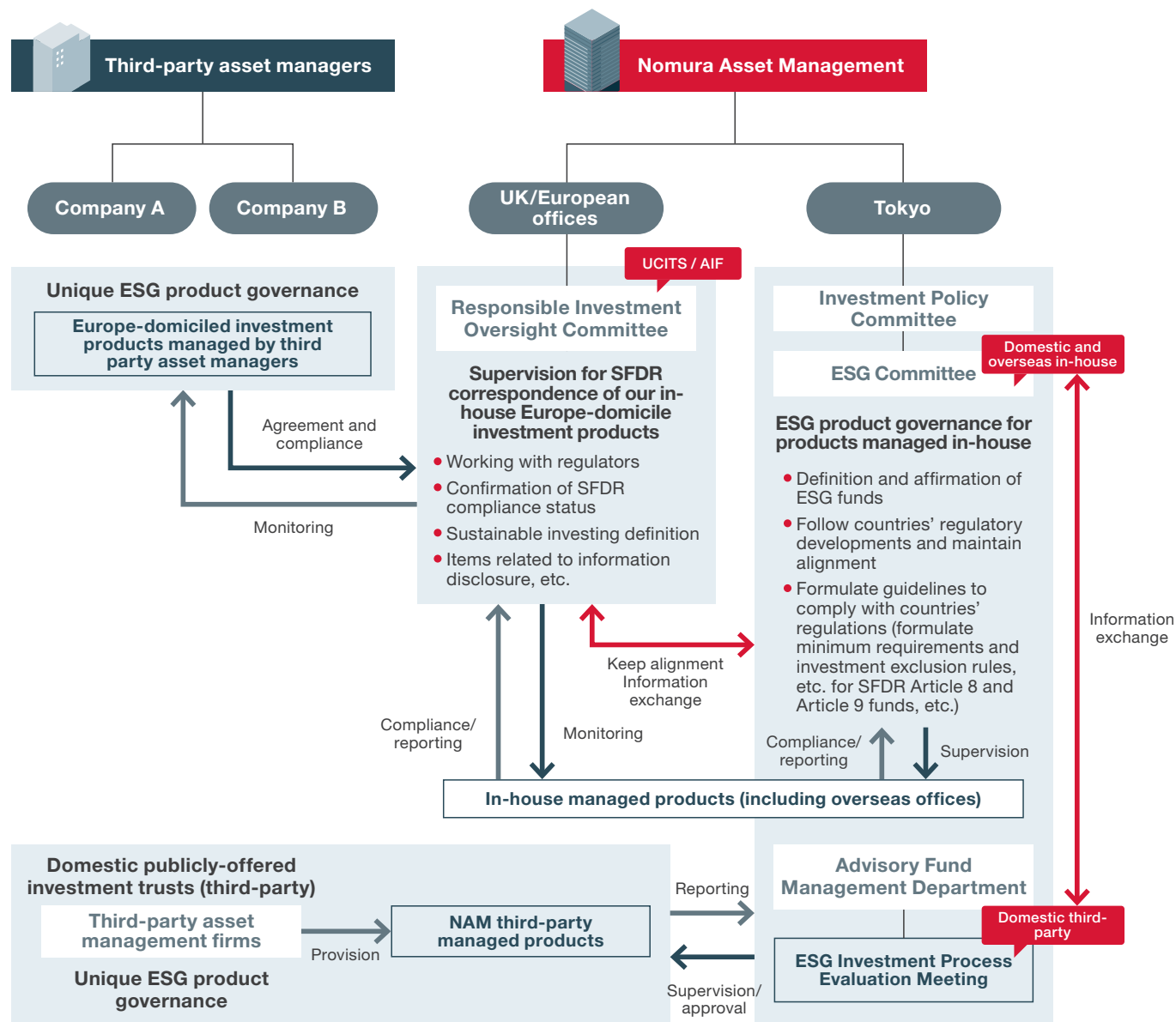
**Reference** > Please refer to the following link on our website for more information about our main ESG funds. (Japanese only)  
<https://www.nomura-am.co.jp/special/esg/strategy/esglineup.html>

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.

### 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

<p><b>FTSE4Good Developed 100 Index</b></p>	<p>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.</p> <p>*The FTSE4Good Index series is a series of stock indices targeting companies that meet globally recognized and accepted ESG selection criteria.</p>
<p><b>MSCI Japan Empowering Women (WIN) Select Index</b></p>	<p>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.</p>
<p><b>S&amp;P500ESG Index</b></p>	<p>A stock index that incorporates ESG factors into the selection criteria of constituent stocks and aims to provide performance comparable to the S&amp;P 500 and maintain sector weights similar to the S&amp;P 500. In selecting stocks, constituent stocks are determined based on the S&amp;P Global ESG Scores (calculated based on the quantified status of companies' sustainability initiatives and comprehensive ESG performance evaluation data).</p>
<p><b>MSCI Japan Country ESG Leaders Index</b></p>	<p>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.</p>
<p><b>Solactive Japan ESG Core Index</b></p>	<p>An ESG-focused stock index that uses the Solactive GBS Japan Large &amp; 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<sub>2</sub> and other greenhouse gases. The index composition ratios are determined by taking into account each stock's ESG scores and market capitalization.</p>

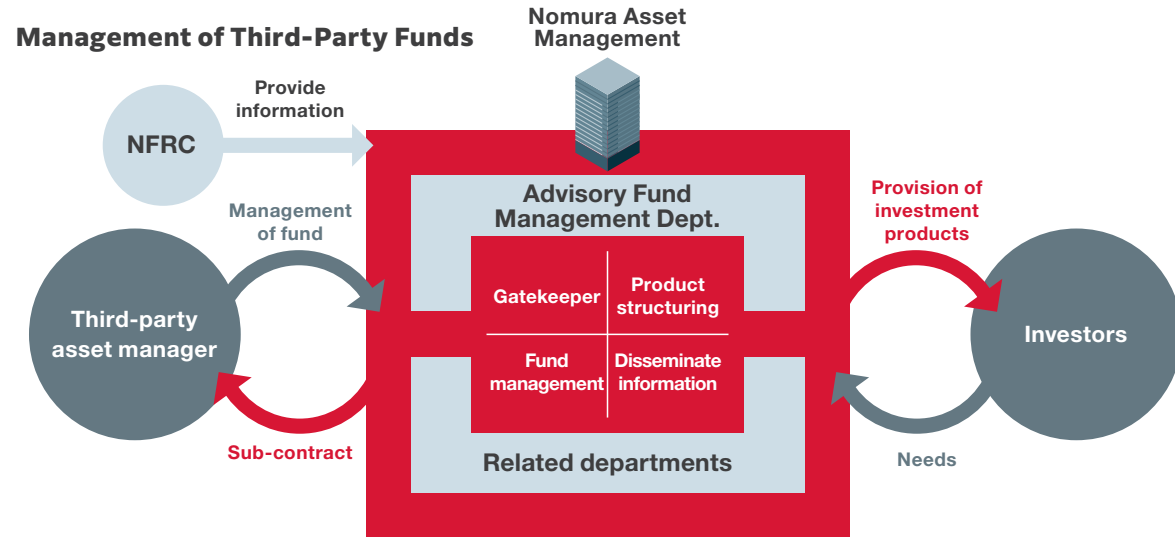


# Governance of Third-Party Asset Managers' ESG Products

## 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.

## 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

