



# 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

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

Category	Topic	Ratio
Business	1 Integrate Business Strategy and Sustainability	2.7%
	2 Climate Change	14.3%
Environment	3 Natural Capital	1.2%
	4 Human Rights Risks	4.9%
Social	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

stakeholders in this way to encourage change in a company is important.

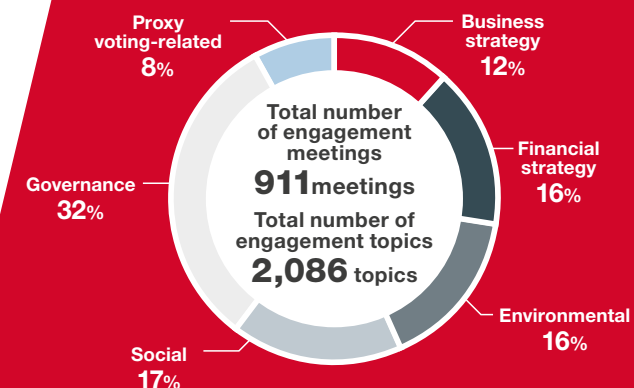
The roles that companies are expected to play in areas such as human rights due diligence, supply chain management, and well-being are becoming increasingly diverse. Following the Tokyo Stock Exchange's request in March 2023, companies' awareness of capital efficiency has changed. In line with these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

Head of Engagement Department

**Yosuke Uchida**



### 2023 Engagement Meetings



\*Breakdown of engagement meetings throughout 2023 (number of topics) **60**

# 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.”

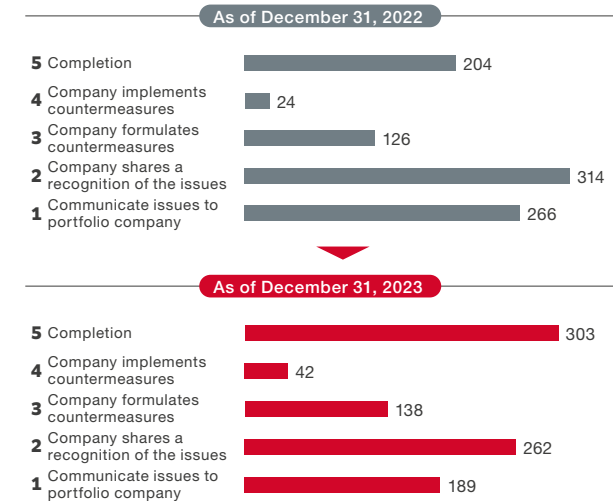
In addition to checking the progress of individual engagement activities in this way, our Innovation Lab Department is also measuring the effectiveness of our engagement activities as a whole.

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)

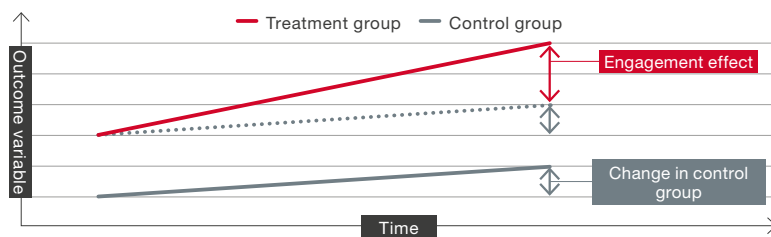
**Company implements countermeasures:** Countermeasures have been announced via press release, etc., but it is determined that it is necessary to examine that the company completes implementation of the countermeasures

**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.

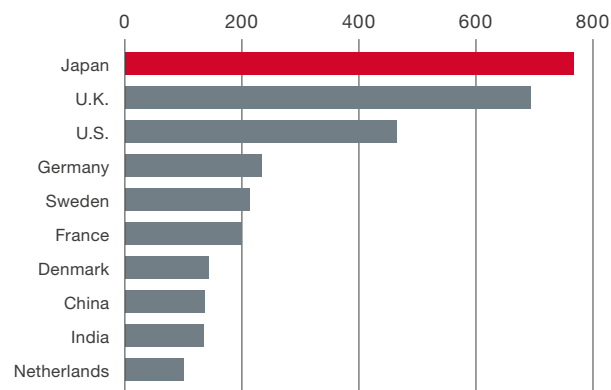
We believe that SBT certification is desirable in order to both educate investors and other stakeholders about Kyuden’s low-carbon and decarbonization efforts, and to increase its corporate value, and since 2021 we have been encouraging Kyuden to obtain SBT certification at IR and ESG meetings.

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.

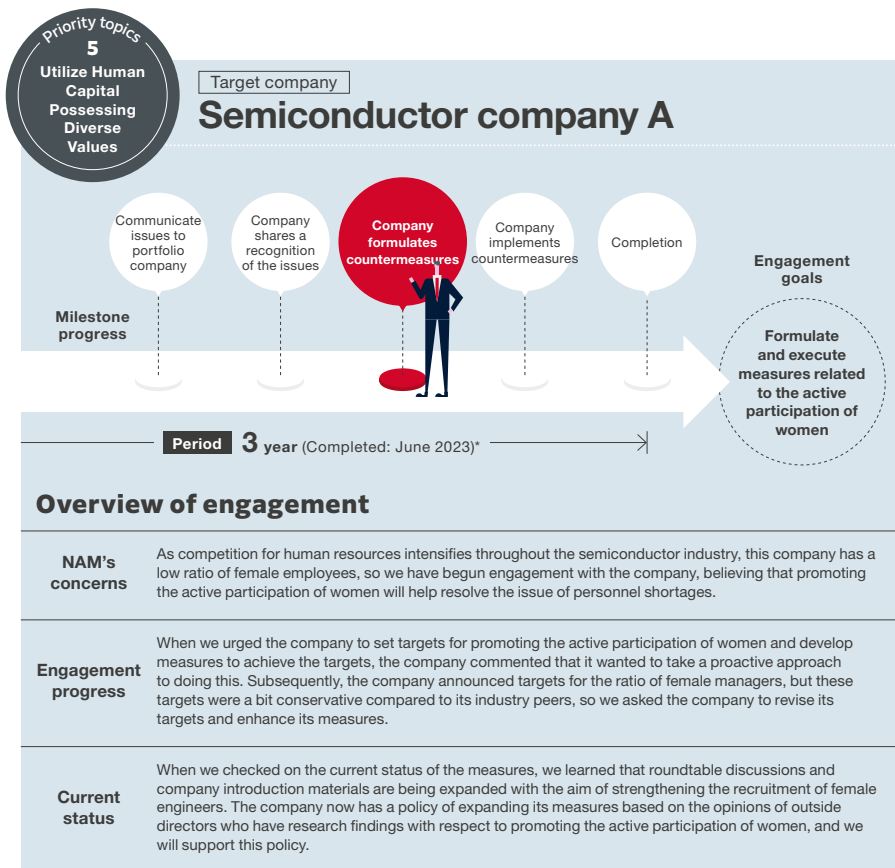
We think that our encouragement was one of the factors that led to Kyuden receiving its SBT certification.

**Number of SBT-certified companies by country (As of December 2023)**

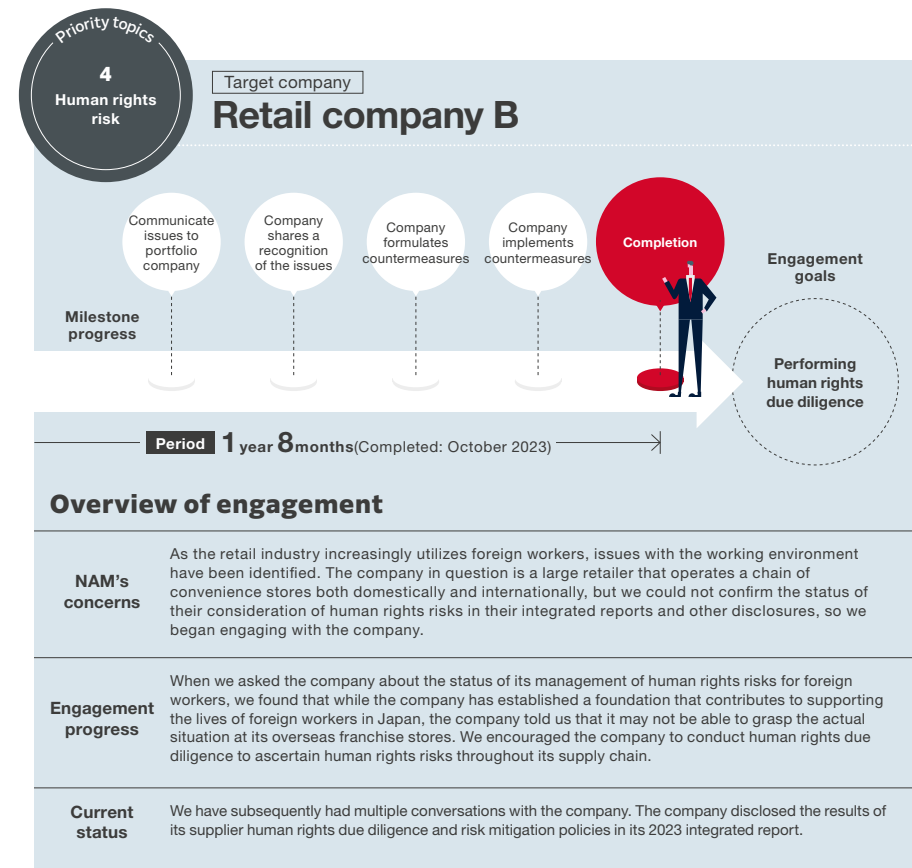


# Engagement Activities Targeting Human Rights Risk Management, Utilization of Human Capital

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.



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



# 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.

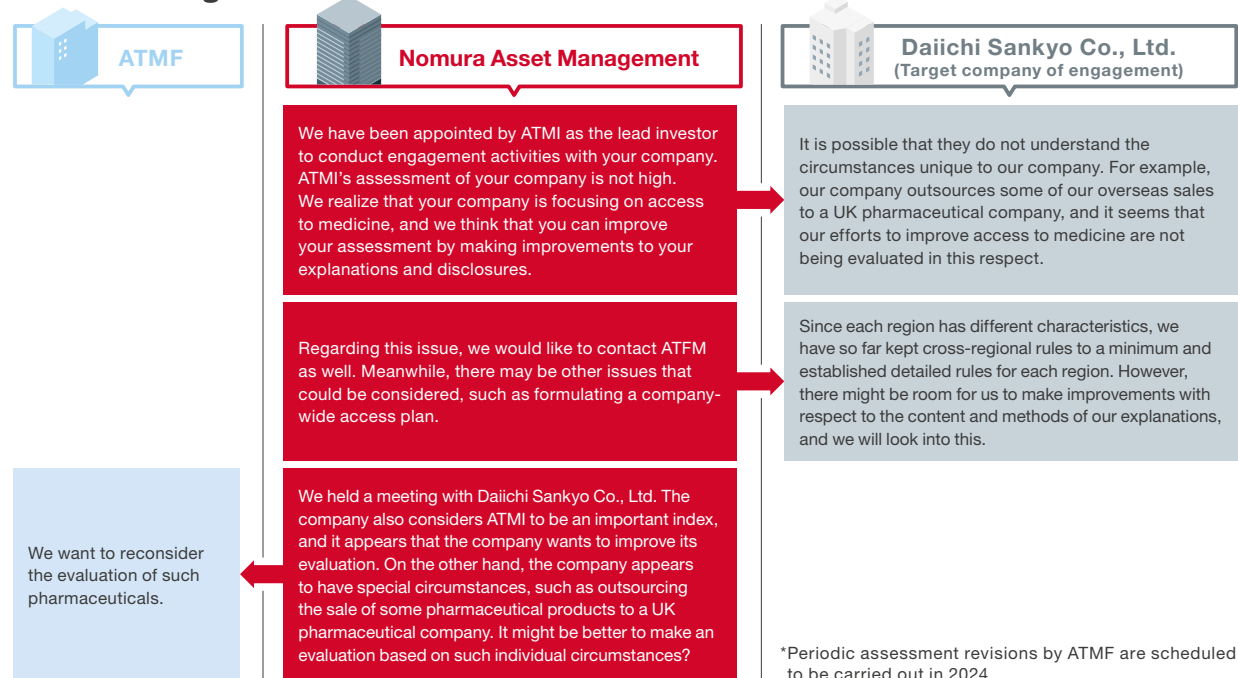
## Participating companies

- 142 institutional investors around the world (\$22 trillion in assets under management) refer to investors.
- 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



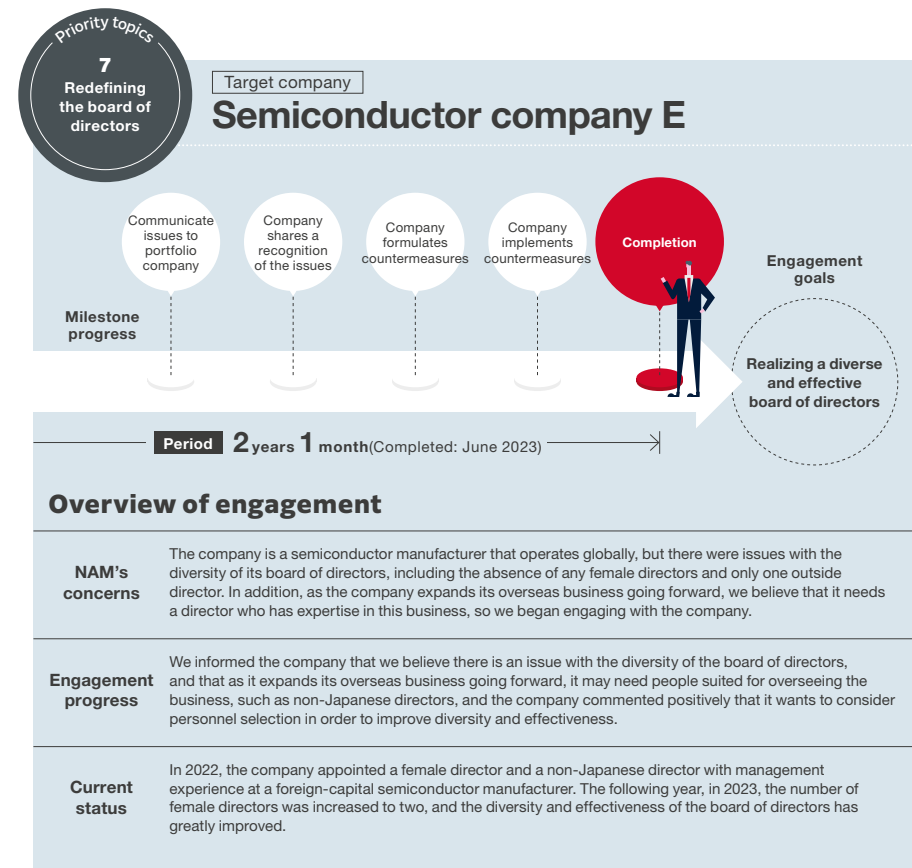
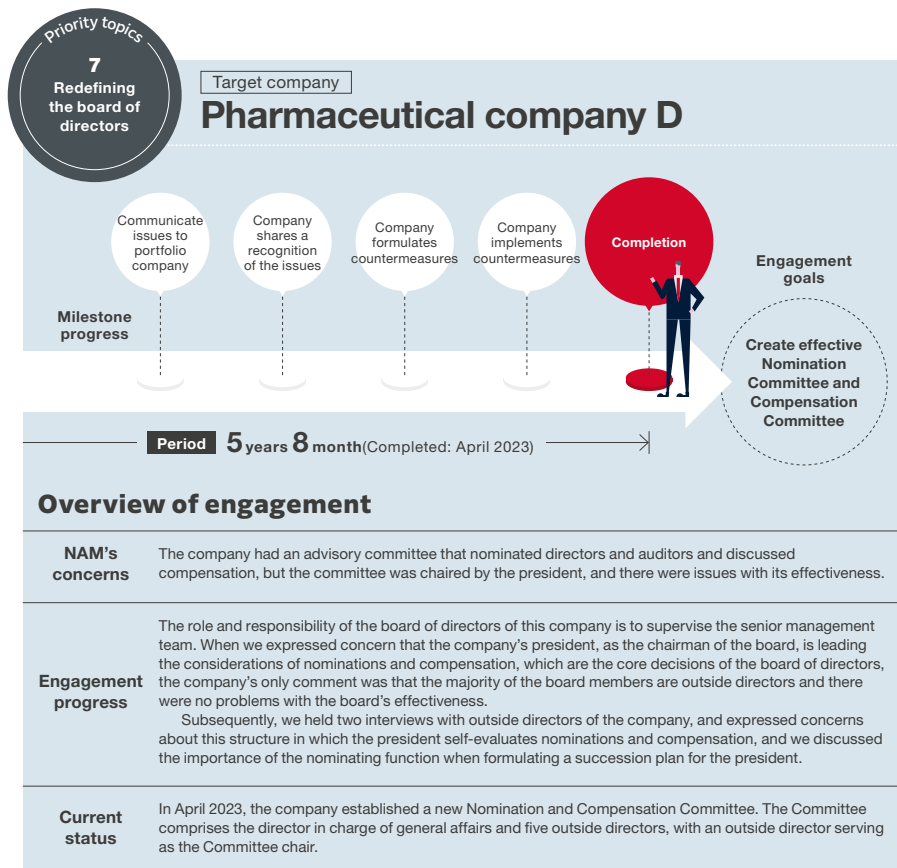
## Daiichi Sankyo's comment

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.





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.

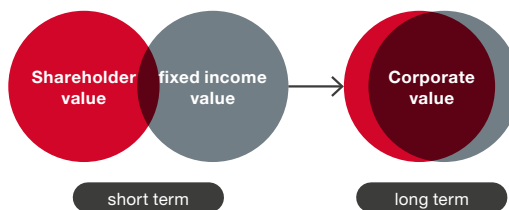
## Dialogue extending beyond conflicts of interest

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.

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



### 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.

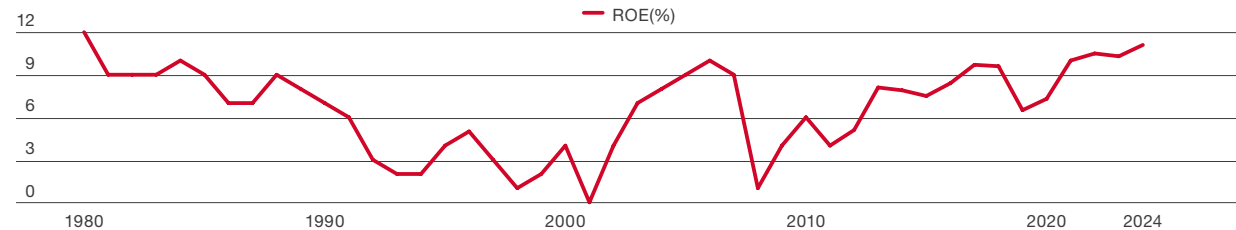
To improve capital efficiency, one of the most common measures being taken by Japanese companies these days is to bolster their shareholder return policies. Many Japanese companies still hold more cash and deposits than is appropriate, and reducing surplus cash and deposits through enhanced shareholder 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\***

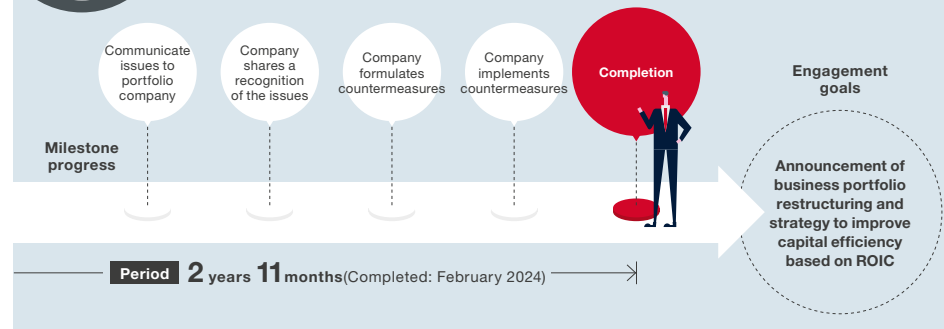
\*Aggregate value for companies in TOPIX



Priority topics  
**8**  
Bolstering the commitment to capital efficiency

Target company

## Heavy machinery company G



### Overview of engagement

<b>NAM's concerns</b>	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.
<b>Engagement progress</b>	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.
<b>Current status</b>	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

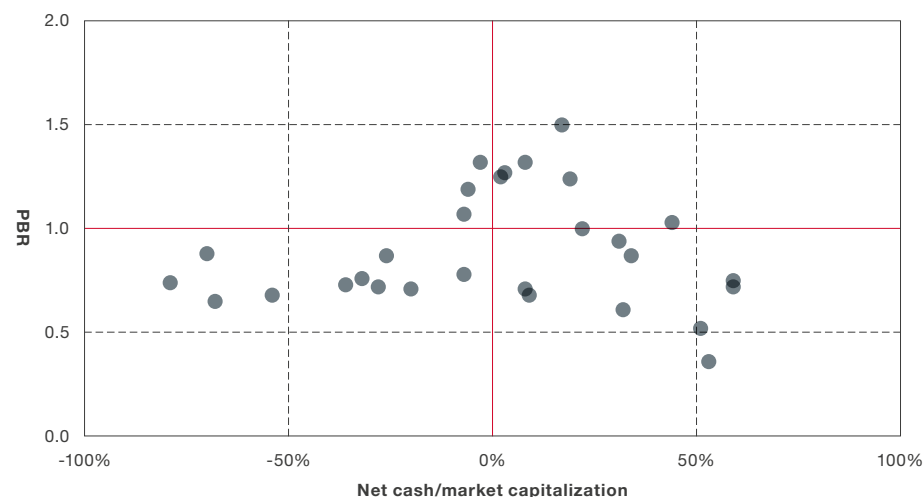
The automobile industry has been one of the industries that has attracted attention since March 2023, when the Tokyo Stock Exchange requested that listed companies take “Action to implement management that is conscious of cost of capital and stock price.” There are many companies in the automobile industry 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 holding shares					
		Automaker A	Parts supplier B	Parts supplier C	Parts supplier D	Parts supplier E	Parts supplier F
Company whose shares are being held	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.

### 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.



Senior Equity Analyst  
**Yoshinori Eguchi**

# 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 being 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 engagements 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



	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.

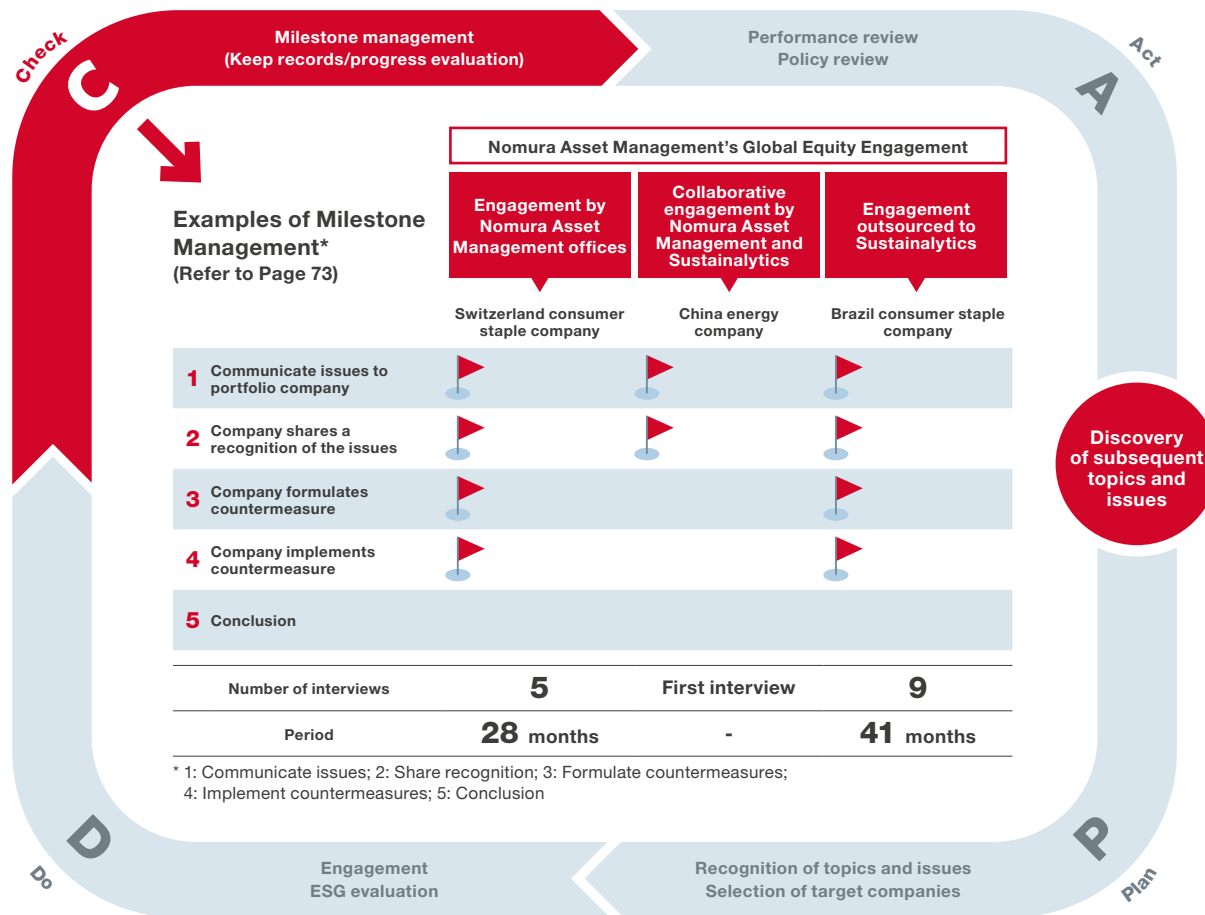
# Global Equity Milestone Management

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

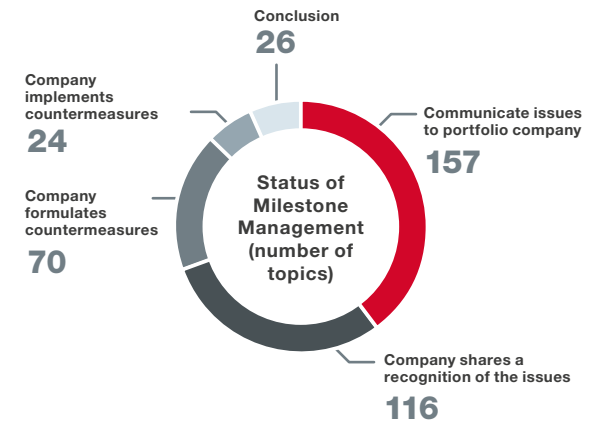
collaborative engagement with Sustainalytics. As with milestone management for Japanese companies, milestones are divided into five stages with an engagement period of three years. By establishing clear goals and having a set timeline, and then evaluating the engagement process, we are able to

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



## 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

Milestone Progress

Engagement Goal

Respond to instances of deforestation occurring in the supply chain, and curb future deforestation

**Period** 2 years and 4 months  
Most recent interview/ September 2023\*

<b>Overview of engagement</b>	
<b>NAM's Concerns</b>	Monitoring system and traceability in the supply chain, initiatives to prevent deforestation
<b>Engagement progress</b>	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.
<b>Current situation</b>	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.

Priority Topics

Treating unions fairly

Target company

## Taiwan Semiconductor company B

Milestone Progress

Engagement Goal

Fewer disputes over fair treatment of trade unions

**Period** 4 months  
Completed : December 2023

<b>Overview of engagement</b>	
<b>NAM's Concerns</b>	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.
<b>Engagement progress</b>	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.
<b>Current situation</b>	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.

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

# 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

**ESG**

### 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

**ESG**

### Engagement Policy

Encourages companies with financially material 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



**ES**

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

### 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](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 manufacturers 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.