ESG Integration

Nomura Asset Management recognizes risks and opportunities, and incorporates them into the investment process using different methods for each strategy based on our own ESG assessments.

Features of Integration

Equity Investment

When evaluating the ESG characteristics of portfolio companies, we focus not only on potential risks but also on opportunities to generate future earnings. Although the extent (if any) to which each equity strategy integrates ESG consideration into its investment decision-making process varies depends on each portfolio's strategy relating to sustainability, ESG research is made available to all strategies.

Fixed Income Investment

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

Integrating ESG factors into the investment process is critical, as we believe financial performance and ESG factors (non-financial information) are closely related and influence one another. We utilize proprietary ESG evaluations of portfolio companies when making investment decisions. In order to effectively incorporate ESG considerations and other nonfinancial information into the investment process to supplement the analysis of a company's fundamentals (financial information used to evaluate a company), we conduct our own ESG assessment for both equity investing and fixed income investing. This integration of ESG factors into the investment process not only helps reduce downside risk, but is also an essential component to improve returns.

ESG assessment is not limited to Japanese companies, as the scope also includes companies in developed countries in Europe and the Americas, as well as companies in Asia and emerging countries. In addition to global themes such as climate change and human rights, we assess specific material ESG considerations for individual industries and companies, and utilize information from multiple external sources to create our proprietary ESG scores. These ratings are made available to all portfolio managers for integration into the investment decision-making process.

Equity Integration

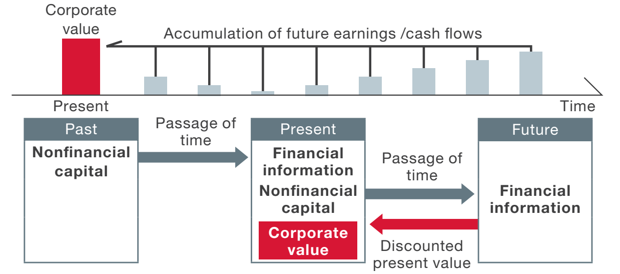
Equity Integration Approach

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

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

For "growth evaluation", the business impact of climate change, supply chain resilience, intellectual property, R&D capabilities and organizational strength, quality of human resources and diversity are among the sources of competitiveness that help differentiate a company from its peers. We consider these factors to be materialized in the future as financial information such as corporate profits and growth.

Investors' Basic Philosophy on Corporate Value



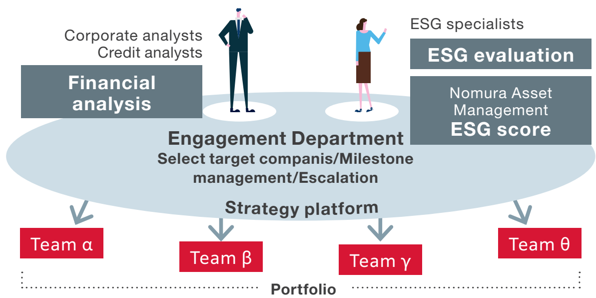
"Continuity between financial and non-financial" and the "Impact on long-term profits/cash flow generation" are of the upmost importance.

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

Equity Investment Process

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

Our ESG evaluation framework is also applied to our global equities investment. In addition to global themes such as climate change and human rights, we assess specific material ESG considerations for individual industries and companies and utilize information from multiple external sources to create our proprietary ESG ratings. These ratings are made available to all portfolio managers for incorporation into the investment decision-making process. For example, at our Singapore Office, country specialists (CS) are assigned to cover each country in this diverse region, and the main source of added value is the bottom up research conducted by meeting with companies (2656 meetings in 2023). Investment ratings are assigned to individual stocks based on the fundamental research carried out by CSs as well as the ESG evaluation. The portfolio is constructed based on these ratings.



Efforts to Advance ESG Integration

Senior Portfolio Manager
Yasuhiro Mimbuta

Issues such as climate change, human rights problems, and diversity are common issues that need to be addressed globally and over the long term. All of our main ESG funds published on our website (https://www.nomura-am.co.jp/special/esg/strategy/esglineup.html) incorporate ESG as an investment method regardless of whether they are domestic equities funds, overseas equities funds, or balanced funds. Aiming to improve and enhance this ESG integration is an important topic for our portfolio management and investment operations.

Our investment teams manage portfolios based on a stock selection process that takes various ESG factors into consideration (qualitative and quantitative decisions about ESG). When assessing a company as an investment target, managers of actively-managed portfolios must consistently ask "Is this a company that controls ESG risks and opportunities and can continue to grow in five or 10 years?" and manage the portfolio by examining portfolio companies from a long term perspective. In our investment process, in addition to ESG specialists, ESG investment managers and investment teams including portfolio managers are partially responsible for ESG assessments. When selecting or trading stocks, our portfolio managers make investment decisions after both referencing a variety of ESG data and information within the company as well as holding internal discussions.

Each investment manager controls the ESG risks and opportunities in the portfolio based on the ESG integration policy of the fund for which they are responsible. For example, when selecting a stock, we check the carbon footprint of the company in question and strive to keep the carbon footprint of the portfolio lower than the benchmark. In fact, there have been cases where we have chosen to invest in a different company in the same industry with the same investment grade, if that other company is actively working towards net zero. Moreover, in addition to improving our ESG governance score, we also sometimes assess a company's stance on building an ecosystem aimed at promoting good health, such as providing sporting goods, and increase the weighting of that stock in the portfolio. Meanwhile, there were also cases in which we sold stocks we had invested in, in light of the fact that quality fraud was discovered, leading to expectations for a delay in the recovery of business results longer than initially expected. In addition, we make it a point to systematically and carefully explain these ESG integration methods and specific points related to the evaluation of stocks and bonds to our customers.

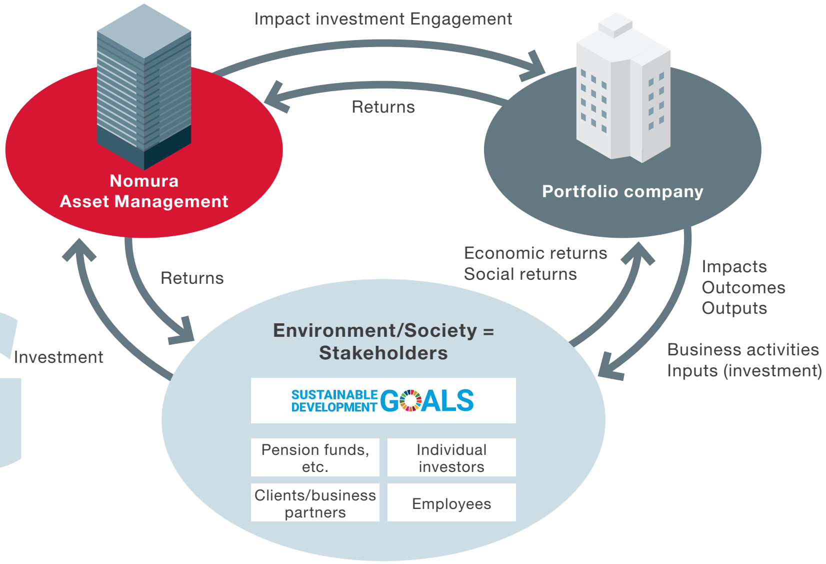
Coordination with engagement activities is also an important element of ESG integration. The reaction of top management during engagement meetings and the status of milestone achievements are also important signals for managers evaluating "opportunities." Therefore, many of our investment managers attend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

Portfolio Manager's ESG Viewpoint

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

IMPACT INVESTING

At Nomura Asset Management, we believe that impact investing is not limited to simply having an impact on the environment or society. We feel it is important for our impact to generate earnings and cash flows, which will ultimately be returned to asset owners and other stakeholders. In carrying out impact investing, we extensively analyze the impact that a portfolio company has on the environment and society, as well as the portfolio company's earnings/cash flows generated. At the same time, we engage with the portfolio company to help it set CPI and targets that generate impact, as well as proactively support business activities aimed at achieving them. Impact investment is generally defined as investment that aims to create environmental and/or social impact and an economic return on investment at the same time. As opposed to the conventional two-dimensional evaluation of risk and return, impact investment requires the advanced skill of three-dimensional evaluation covering risk, return and impact. Impact investing is defined as one category of ESG investment and sustainable investment given the fact that it is expected to bring about environmental and social improvements. The United Nations SDGs are often used as a framework for impact investing. Adopted by the United Nations in 2015, the SDGs set forth 17 goals and 169 targets. The SDGs indicate the enormous needs of the global market and effective risk management methods that lead to returns on investments in portfolio companies, and are viewed as useful indicators for measuring the impact on the environment and society.



Our Impact Investment Process

In Nomura Asset Management's ESG statement, we aim to share with our stakeholders the direction of our ESG activities and awareness of environmental and social issues, as well as our aim for the realization of a sustainable environment and society. This ESG Statement is the starting point for our approach to impact investing. The statement identifies issues such as climate change, natural capital, and social responsibility (human rights, diversity, equity, inclusion and belonging, as well as value creation to realize well-being within society). Through internal discussions on the above issues, we have set impact goals, which we aim to achieve through our impact investment, appropriate to asset class and each impact investment strategy. These goals include urgent issues facing the world including mitigate climate change, mitigate natural capital depletion, access to healthcare, and social responsibility (for example, access to financial services and to drinking water). We then establish indicators (KPI: Key Performance Indicator) which serve as an indicator at a national and global level to measure the degree of improvement for each established impact goal. For example, for the impact goal "Eliminate Communicable Disease," we can evaluate the global progress by monitoring indicators such as mortality rates for HIV, tuberculosis, malaria, and other illnesses published by World Health Organization (WHO). Additionally, we specify further segmented areas of investment linked to these indicators, and then select companies in which to invest in that area in order to improve this KPI.

Companies included in the investment universe are linked with the 17 goals of the SDGs, and more detailed CPIs (Company Performance Indicators) are then set for each individual company. Carrying out detailed and continuous monitoring of the established CPIs allows us to not only appraise each company's impact, but also measure the extent of the improvement of the overall portfolio and the impact itself. For example, in the case of "climate change issues," by using CPIs such as GHG emission reductions and R&D investments to address climate change, it is possible to more specifically monitor individual companies' efforts to resolve issues. By engaging with investee companies based on what we learn from monitoring, we can advance initiatives aimed at creating impact. By repeating this process, we will be able to continue to generate impact that addresses social issues while also pursuing economic returns.

Our impact investment fund is constructed based on the so-called "outside-in" concept, whereby these kinds of social issues are applied to portfolio companies, and this concept is shared within our domestic and overseas impact investment strategies. In addition, we believe that publicly disclosing these initiatives in our Impact Report and sharing them with our stakeholders is essential in order to generate impact and address social issues.

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

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

Our Impact Investment Process

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

Nomura Asset Management's impact investing

Portfolio construction/management process

Social issues that should be solved

Establish impact goals and Key Performance Indicators (KPI)

Identify investment field
Select/Define portfolio companies

Identify SDGs topics

Establish CPI for individual companies

Engagement with portfolio companies

Our Impact Funds

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

GSE

GLOBAL SUSTAINABLE EQUITY STRATEGY

Global Utilities and ESG Analyst
Daniela Dorelova

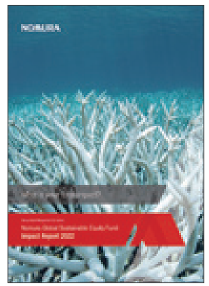
Nomura Global Sustainable Equity Strategy (GSE) Lead portfolio manager
Alex Rowe

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

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

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

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



Global Sustainable Equity Fund Impact Report 2022

Senior Portfolio Manager
Ken Nagano

Main Portfolio Manager
Jun Takahashi

Portfolio Manager
Kodai Sasaki

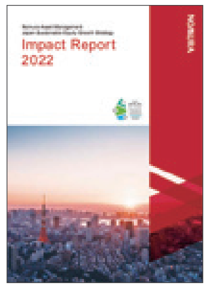
Portfolio Manager
Tatsuhira Matsushima

JSEG

JAPAN SUSTAINABLE EQUITY GROWTH STRATEGY

We began managing this strategy in 2016 based on the philosophy of companies addressing social issues through their core businesses. In the 2010s, a wide range of stakeholders started to become aware of the need for sustainability with respect to the environment and society. While the global turmoil spurred by the 2020 COVID-19 pandemic is settling down, other disruptions arising from geopolitical risks are expected to continue for a prolonged period. Therefore it is important not only to pay attention to various social issues caused by such turmoil, but also to take immediate action to address those social issues. As a part of this, “impact investing” is attracting attention as an investment method that addresses the environmental and social problems that we face. This is an investment method that, in asset management products, in addition to earning the usual investment returns, seeks to solve issues in society through the long-term holding of shares of companies engaged in business activities with an eye towards addressing social issues. Because ESG issues involve many topics to be addressed over the medium- to long-term, we believe that investing in companies on the premise of long-term ownership will allow us to make investments that seek both excess returns and aim to address ESG issues. Utilizing NAM’s proprietary ESG scoring for Japanese equities, this strategy invests in companies that, in addition to passing our fundamentals evaluation, we view as being able to create social value to contribute to achieving the SDGs.

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



JSEG Impact Report 2022

ASE

ASIA SUSTAINABLE EQUITY STRATEGY

Head of ESG Asia
Viresh Mehta

Assistant Portfolio Manager
Stacy Kuah

Senior Portfolio Manager
Shigeto Kasahara

In April 2022, Singapore office began managing the Asia Sustainable Equity Strategy based on our impact investing philosophy. This strategy invests in companies, primarily those in Asia, that the team believes to have an overall positive impact. Approximately one-half of the world's population lives in Asia, and Asia is both an important manufacturing hub as well as an indispensable region in global supply chains. As ESG investing and impact investing receive attention globally, focusing on companies' activities to solve social problems in Asia, where growth is expected going forward, represents an important investment opportunity. In addition, We believe that focusing on companies that the team deems to have a positive impact will help tackle environmental and social challenges. Given the fact that Asia is a manufacturing hub and a key region in global supply chains, environment and related social issues are a top priority sustainability theme for the region.

However, ESG initiatives by companies in Asia (excluding Japan), including the disclosure of related information and the details of the initiatives themselves, are not yet well-established compared to those in developed countries. Our Singapore office employs a country-specific approach to portfolio management using country specialists, enabling us to conduct detailed and differentiated analysis of ESG factors and portfolio stocks. To incorporate these stocks into their portfolios, our country specialists conduct research including ESG issues and continuous engagement. We believe that by doing this, we can raise Asian companies' awareness and responsibility towards ESG.

ESG Scores for Japanese Equities

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

ESG Score Content

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

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

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

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

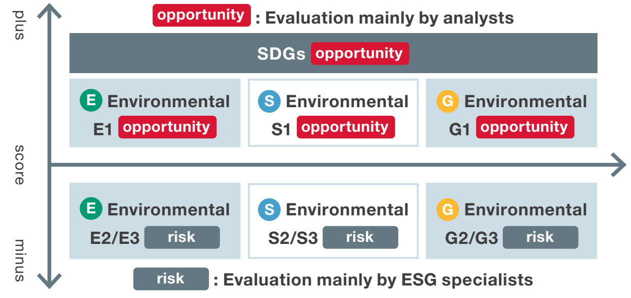
Under overall supervision of the ESG investment manager, corporate analysts who have frequent contact with companies and possess extensive knowledge of the companies they cover collaborate with ESG specialists who analyze ESG from a cross-industry perspective. They work together, identifying items where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

Revision of ESG Score

Since our portfolio companies are improving their ESG-related disclosures and their actual initiatives, we revise the ESG scores for Japanese equities on a regular basis, thereby raising the effectiveness of company evaluations using ESG scores. In the 2021 revisions, we started financial analyses using carbon pricing, and in the 2022 revision we included the amount of GHG absorption (the total of GHG removals, avoided emissions, and offsets using carbon credits) in the evaluation. Furthermore, in the 2023 revision, we are taking it a step further by estimating the economic value of the GHG removals and avoided emissions, and reflecting this in the climate change assessment. In the 2024 revision, we added evaluations of companies' efforts to respond to the TNFD issued in September 2023. In addition, we are reviewing some of the other environmental, social, and governance evaluation items, taking into consideration changes in regulations, etc., based on the current situation of Japanese companies attained through engagement and proxy voting.

New ESG Scoring Framework

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



Utilizing ESG Scores

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

Utilizing ESG score data in engagement

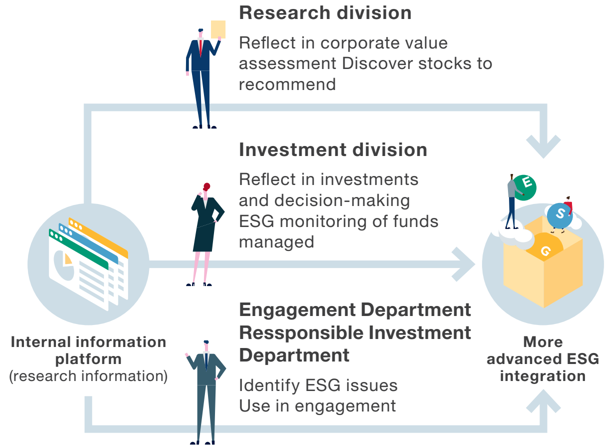
ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities. By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores in engagement such as discussing future course of action.

Utilizing ESG score data in investment activity

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

Utilizing ESG scores in portfolio construction and monitoring

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



Green Bonds and Sustainable Bonds

Head of Sustainable Investment, Fixed Income
Jason Mortimer

NAM's assessment framework Green and Sustainable Bonds

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

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

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

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

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

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

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

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

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

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

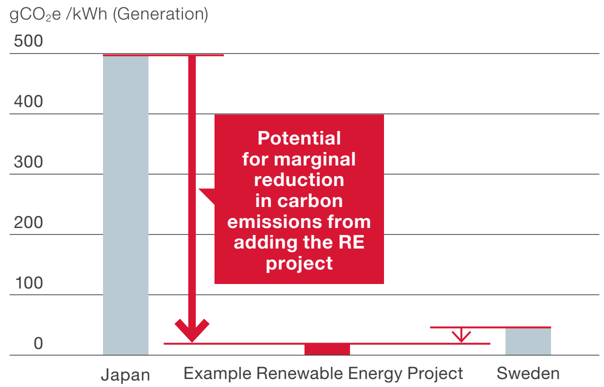
Using "Impact Intensity per Dollar Invested" to efficiently allocate impact capital

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

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

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

Weighted Average Carbon Intensity of Electric Generation (2022)



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

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

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

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

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

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

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

What Makes NAM's approach to Sustainable Fixed Income unique

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

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

Senior Portfolio Manager
Hiroshi Matsumoto

Introduction to NAM’s Corporate Credit ESG Scoring Model

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

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

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

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

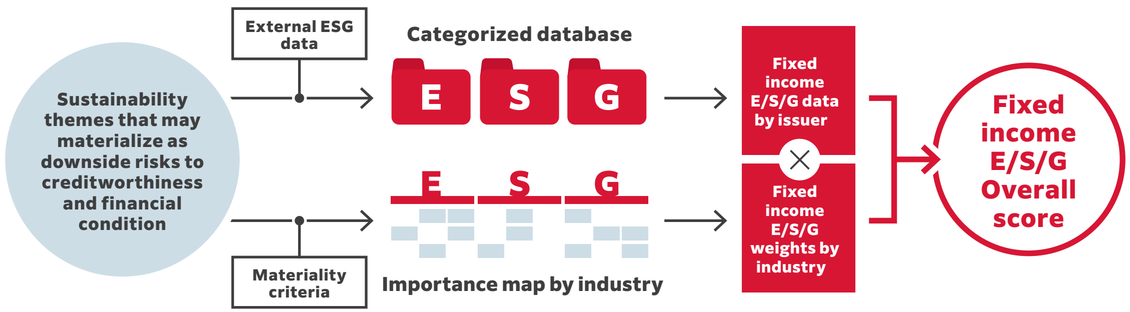
Claim	Evidence	Results
ESG data is potential source of fixed income investment alpha	Since 2018 NAM has developed proprietary, back-tested Credit and Sovereign ESG scoring models, and customized our fixed income ESG integration for investment performance	Our quantamental NAM FI ESG funds excluded Wirecard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

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

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

Corporate Credit ESG Scoring Model Framework

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



Column

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

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

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

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

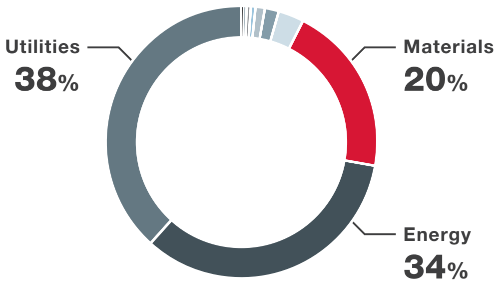
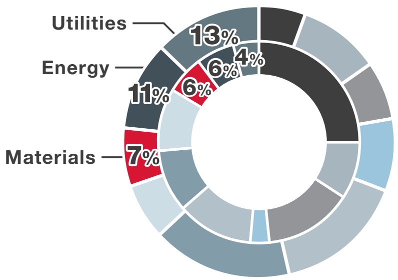


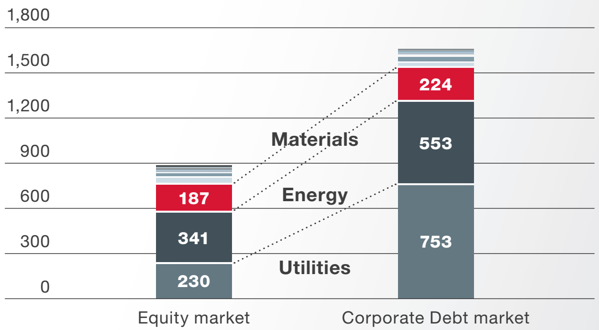
Figure 2 **Relative Exposure to High Emissions Sectors Corporate Debt (outer ring) and Equities (inner ring)**



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

Technology Communications Healthcare Real Estate Consumer Discretionary
Industrials Consumer Staples Materials Energy Utilities

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



Source: Prepared by Nomura Asset Management