ENGAGEMENT

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

Basic stance on engagement

- Engage in dialogue with a cordial and constructive attitude
- Work to understand non-financial information, including companies' efforts to address ESG issues, and the strategies and philosophies behind them
- Listen to the views of portfolio companies on the efficient use of capital, and communicate our thoughts
- 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.

Summary

In order to promote engagement activities, we established the Engagement Department in 2021 (which was restructured as the Sustainable Investment Strategy Department in 2025). Over the past three years since its establishment, we have generally set engagement goals for more than 350 key target companies, and we have steadily observed the results of our engagement efforts. The chart below shows the progress of our milestones for 2024. This year, we have also seen over 100 new engagement goals progress to the "completed" status, along with the "corporate change" that we were hoping for.

On the other hand, there is a growing expectation for the engagement activities of institutional investors to enhance the corporate value of Japanese companies as a whole. In light of these voices, we are not just keeping our engagement activities as they are but continuously updating and improving them on a daily basis.

To enhance the effectiveness of our engagement activities, we are advancing escalation measures. We are fostering "corporate change" not only through dialogue with IR representatives and the management team (executive side) but also through discussions with outside directors who lead the "supervision of management" and by reflecting these insights in our proxy voting.

This year, we focused on initiatives known as "deep engagement." With anticipated statutory amendments and other developments, we expect to be able to undertake more in-depth engagement activities. Therefore, we have set key target companies for engagement by sector and are advancing discussions with each company regarding industry restructuring and business portfolio reform. In this report, we introduce engagement examples from the chemicals and watch industries as symbolic cases.

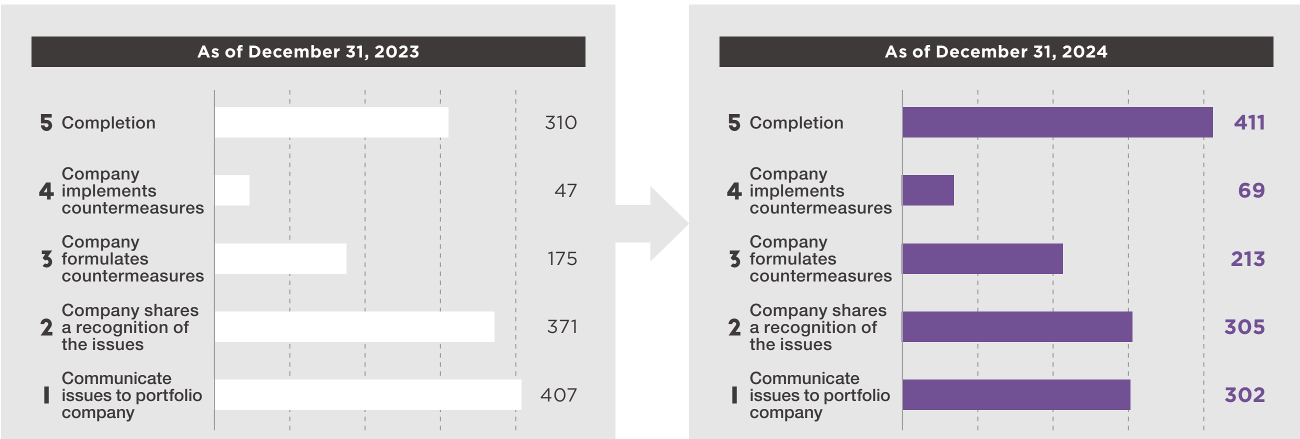
Regarding impact measurement, which has garnered high interest from diverse stakeholders, we are continuously improving our measurement model and other aspects. This year, we take pride in having achieved statistical significance using Tobin's Q, a key indicator of corporate value, as one of our accomplishments.

As attention on institutional investors' engagement activities continues to grow, we will continue to review and enhance our activities. With the advancement of digital transformation (DX) in companies, the impact of digital risk management on corporate value is increasing more than ever. Therefore, we have added "Digital Risk Management in a Digital Society" as a new focus theme for 2024.

Additionally, as we expect an increase in dialogue between Japanese companies and institutional investors, we are undertaking initiatives that will help facilitate communication opportunities for small and medium-sized enterprises (SMEs), which have typically had limited access to such dialogue.

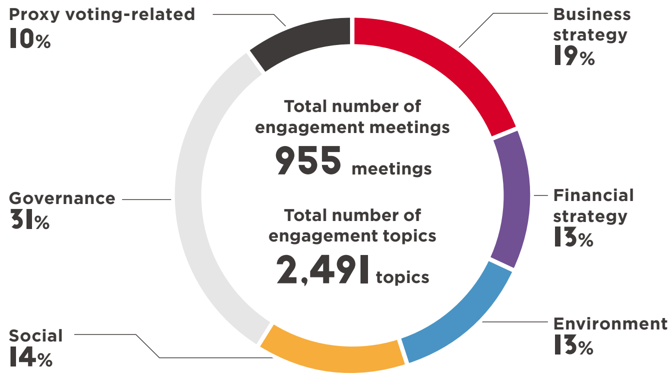
In fulfilling our stewardship responsibilities, the importance of engagement activities is becoming increasingly clear. Moving forward, we will continue to enhance the level of sophistication of our engagement activities by promoting them while simultaneously closely examining and expanding the content of these activities.

Status of Milestone Management*



*Check the progress of milestones regarding engagement goals that have been set as of the end of December 2023.

2024 Engagement Meetings



*Breakdown of engagement meetings throughout 2024 (number of topics)

Engagement Process

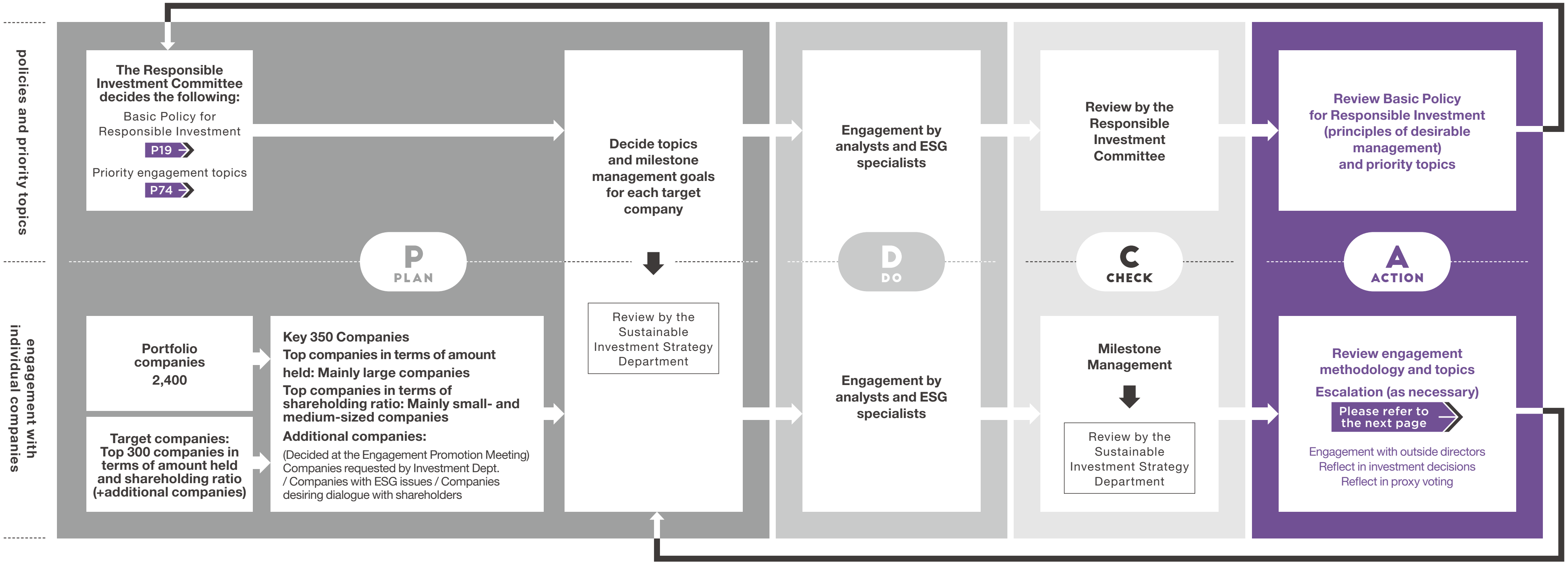
Our engagement activities are driven based on the "Basic Policy for Responsible Investment" and the "Priority Engagement Topics," which have been established by the Responsible Investment Committee. These priority topics encompass a wide range of topics, spanning from business and financial strategies to ESG issues such as environmental, social, and governance challenges.

Engagement with individual companies is carried out in accordance with these basic policy and priority topics. For the "Key 350 Companies", which are selected taking into account factors such as market capitalization, we establish engagement activity policies (engagement goals) for each company. Analysts, ESG specialists, and portfolio managers participate in the Engagement Promotion Meeting, where multi-faceted discussions are held to set goals.

After the engagement goals are set, engagement is carried out by the assigned analysts and ESG specialists. The progress of the engagement is monitored and managed through milestones, and for goals that are showing insufficient progress, we will review the goals and change the engagement methods (such as escalation measures).

The "Basic Policy for Responsible Investment" and the "Priority Engagement Topics" are regularly reviewed based on the industry environment and our engagement progress. Both the "policies and priority topics" and "engagement with individual companies" follow a PDCA (Plan-Do-Check-Act) cycle to ensure a structured and effective process.

Promoting the PDCA Cycle in Engagement Activities



Escalation Process

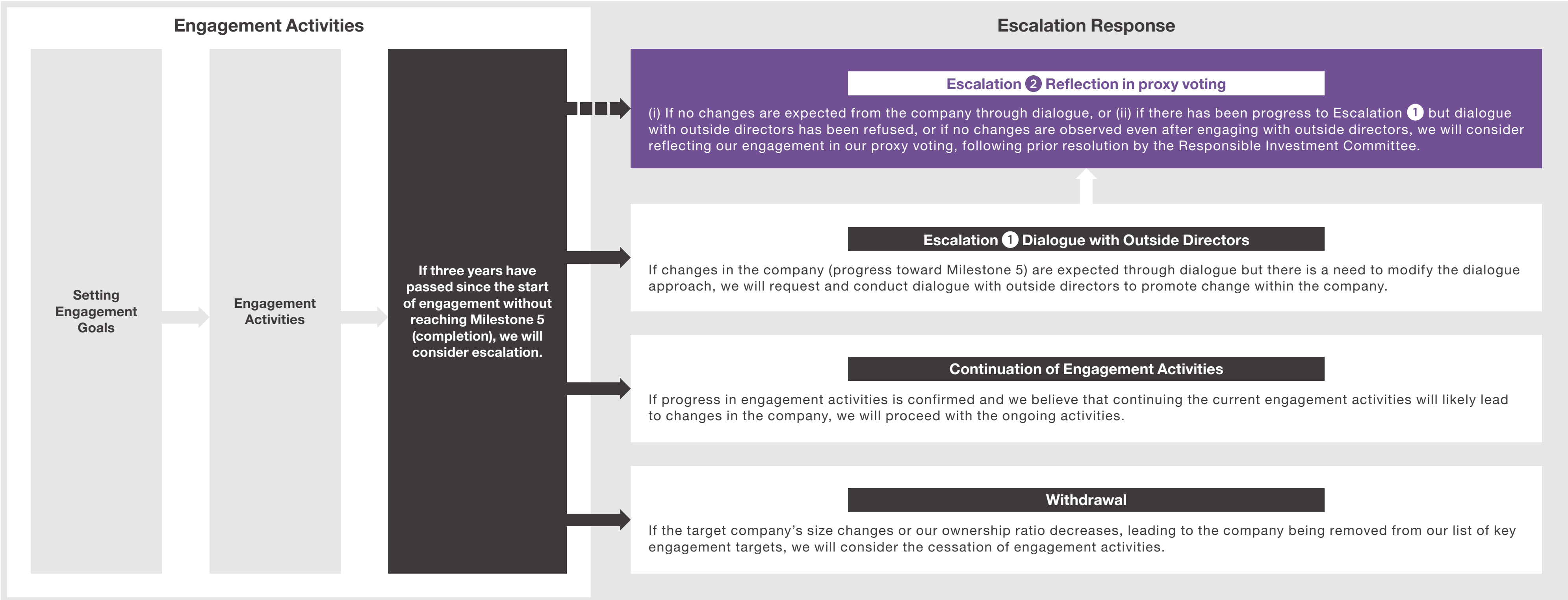
The foundation of our engagement activities is constructive dialogue with the target companies. However, if no changes are expected from the companies after the engagement activities have been implemented, we will consider changing our engagement approach.

The chart below outlines our escalation process. If no expected changes are observed in a company after three years of engagement, we will consider escalation.

Escalation 1 involves dialogue with outside directors. Compared to executive officers and inside directors, outside directors hold a more neutral position. The goal here is to share the challenges faced by the company and the necessity of promoting solutions through discussions with outside directors, who lead the "supervision of management."

Escalation 2 involves reflecting our engagement in proxy voting. If ongoing dialogue with various company representatives (inside and outside directors, the president/CEO, and IR officers) do not lead to expected changes, we will consider reflecting our engagement in proxy voting, following prior resolution by the Responsible Investment Committee. As mentioned earlier, escalation measures are a last resort in engagement activities, and instances of escalation are infrequent; however, we have already carried out proxy voting based on our engagement activities.

Overview of Our Escalation Process



Deep Engagement

(Industry Restructuring) Chemical Industry

– Challenges and Strategies in the Chemical Sector

Capital Efficiency

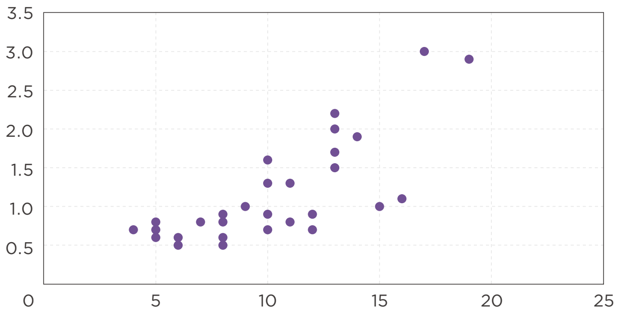
In the chemical industry, particularly among diversified chemical manufacturers comprising a wide range of supply chains from upstream to downstream, low capital efficiency has resulted in stagnant corporate value, with many companies facing a price-to-book ratio (PBR) below 1.0.

This issue can be attributed to a lack of effective transition from an era characterized by "if you produce it, it will sell" to one focused on "quality over quantity." We believe that collaboration across the industry is essential for the future development of a platform and the greening of naphtha cracker operations.

Nomura Asset Management, as a medium- to long-term investor, is promoting engagement aimed at improving asset efficiency across the entire Japanese materials industry and enhancing capital efficiency through business portfolio reforms. Our goal is to increase the corporate value of the chemical industry, the backbone of Japan's materials sector. Additionally, we are advocating for the incorporation of capital efficiency indicators such as ROE and ROIC into performance-linked KPIs for director compensation, aiming to enhance governance.

ROE and PBR in the Chemical Industry

PBR (Times: Vertical Axis) vs. ROE (%: Horizontal Axis)



Medium-Term Growth

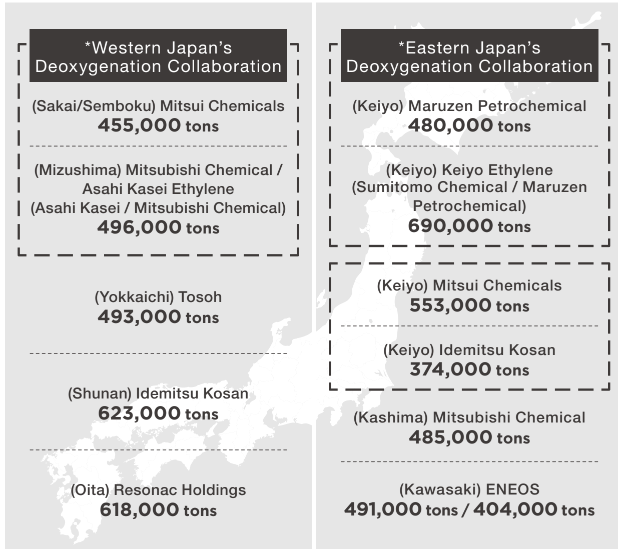
We have performed analysis concluding that chemical manufacturers possess various technologies from upstream to downstream and not only provide their materials to a wide range of industries but can create innovations by combining their materials to generate new added value.

However, recently announced structural reforms have often focused on short-term profits, leading to cuts in research and development budgets and investments necessary for future growth, as well as restructuring that undermines the overall strength of the supply chain. This trend has a strong correlation with the stock market's propensity to support short-term restructuring measures, which poses a risk of diminishing Japan's overall materials supply capabilities.

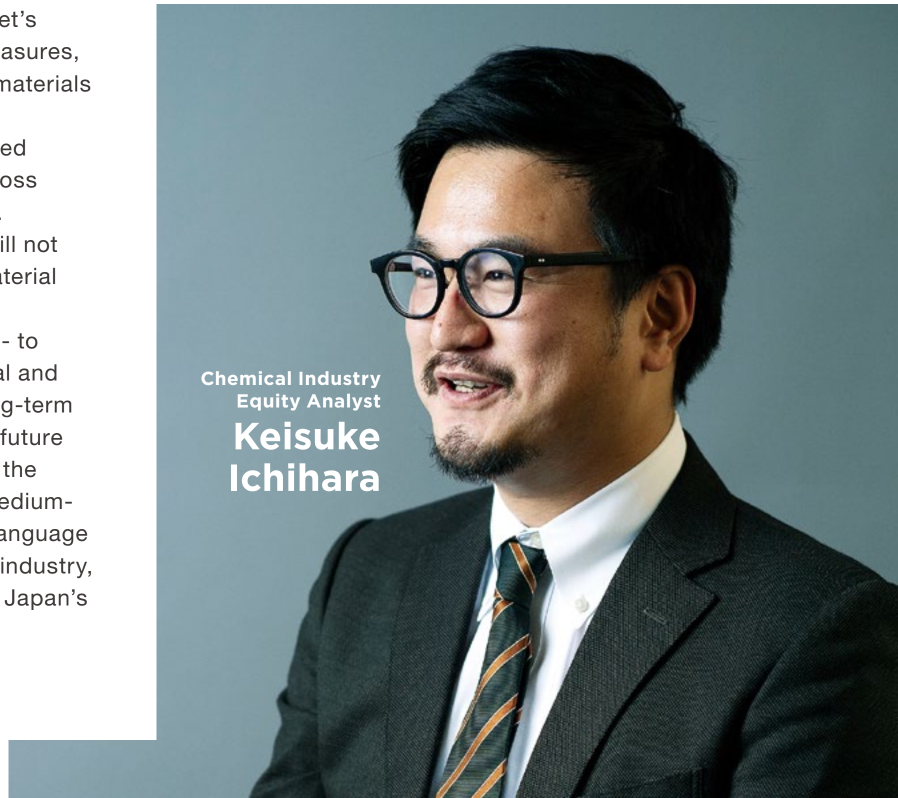
The chemical industry is intricately interconnected within its integrated manufacturing complexes across upstream, midstream, and downstream segments. Consequently, simply halting certain operations will not achieve medium-term profit growth, as various material balances must be maintained.

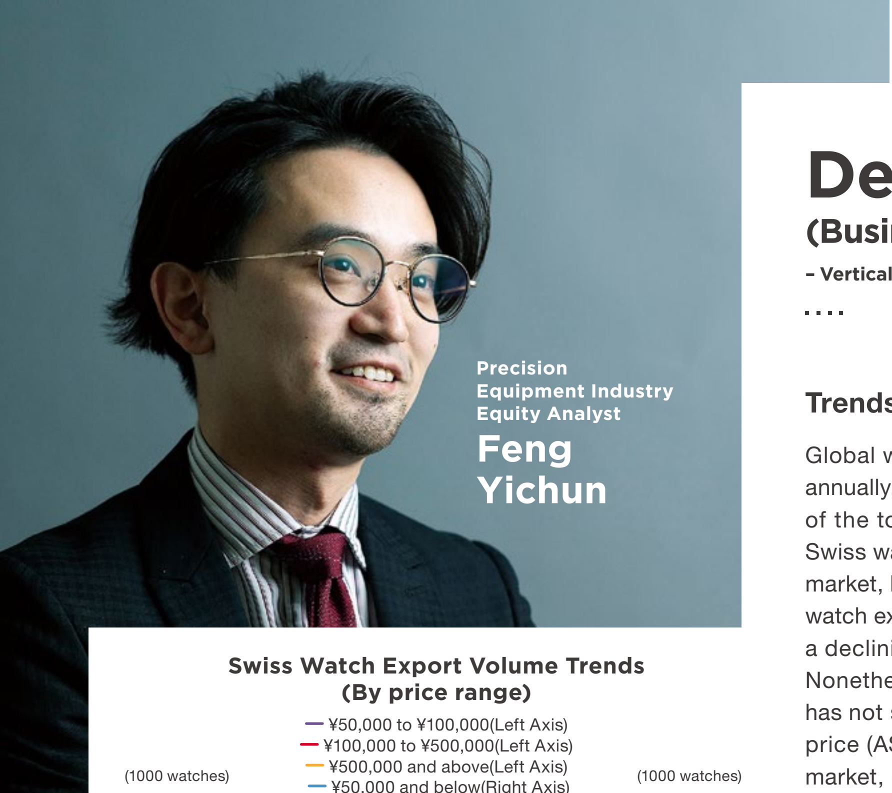
Nomura Asset Management engages in medium- to long-term dialogue with companies in the chemical and materials sectors, discussing their medium- to long-term strategies, core technological competencies, and future growth stories. Our analysts, with backgrounds in the chemical industry, facilitate the development of medium- to long-term growth narratives by translating the language of the capital markets and the chemical/materials industry, thereby striving to enhance the corporate value of Japan's entire chemical and materials sector.

Ethylene Complexes in Japan



*As of March 2025





Precision Equipment Industry Equity Analyst

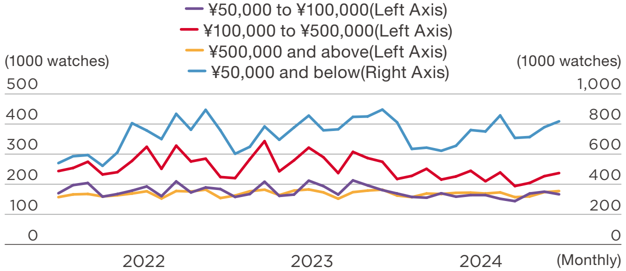
Feng Yichun

Deep Engagement

(Business Portfolio Reform) Precision Equipment Industry

– Vertical Integration Strategy in the Watch Industry

Swiss Watch Export Volume Trends (By price range)



(Source) Created by Nomura Asset Management based on data from the Swiss Federal Customs Administration's foreign trade statistics.

Current Challenges

- Company S: Profitability of non-premium products is difficult to improve due to low in-house production rates.
- Company E: The watch business primarily focuses on OEM for Company S, making it challenging to raise margins.

Our Proposal

As a hypothesis to address this issue, we propose that Company S acquire Company E's watch business.

Expected Benefits

- Company S: Improvement in the profitability of non-premium products due to an increase in the in-house production ratio.
- Company E: Shed low-profitability businesses and then can focus management resources on growth businesses

Trends in the Wristwatch Market

Global wristwatch production is just over one billion units annually, of which Swiss exports account for about 10-20% of the total volume. However, in terms of monetary value, Swiss watches represent more than 50% of the global market, highlighting their high added value. Looking at Swiss watch export volumes over the past decade, there has been a declining trend since peaking between 2011 and 2014. Nonetheless, the export quantity of mechanical watches has not significantly decreased, and the average selling price (ASP) has been rising. This indicates that the watch market, especially the luxury watch segment, still holds potential for growth.

Analyzing market trends by price range, sales of mid-range watches priced between ¥100,000 and ¥500,000 have shown a decreasing trend, while sales volumes of luxury watches priced over ¥500,000 and affordable watches priced below ¥100,000 remain robust. Even if 2024 turns out to be a market correction year, this polarized market trend is expected to continue. Consequently, strategies are needed for high-end product offerings in the middle-to-high price range and a focus on cost performance for products in the middle-to-low price range.

Example of Proposal from Nomura Asset Management

The luxury watch market is already consolidated among several brands, with each brand's strategy functioning effectively, resulting in no significant issues. On the other hand, companies producing watches in the mid-price range and below need industry-wide structural reforms to enhance growth potential and profitability.

In the Japanese watch market, while there are companies with strengths in high-priced products, some companies continue their watch business without improving profit margins. One such example is Company S.

Company S has seen a profitability improvement in its watch division in recent years, attributed to an larger proportion of premium products (high-priced items). Company S has successfully implemented its high-end watch strategy, resulting in overall performance improvement. However, profitability improvements for non-premium products have been slow, particularly due to low in-house production rates, which negatively affect cost efficiency. Company E supplies watches to Company S through OEM. Company E primarily operates three business segments, but the watch-related segment has been sluggish. This situation creates a contradiction, leading to challenges where Company S's non-premium products struggle to improve profitability due to low in-house production rates, while Company E's watch business, largely based on OEM for Company S, faces difficulties in improving margins.

In this regard, we proposed a strategy where Company S acquires Company E's watch business. This acquisition is expected to improve the profitability of non-premium products for Company S through an increase in in-house production rates. On the other hand, by separating from the low-profitability business, Company E would be able to concentrate its management resources on growth businesses.

Initiatives for Enhancing Dialogue with Small- and Medium-Sized Enterprises

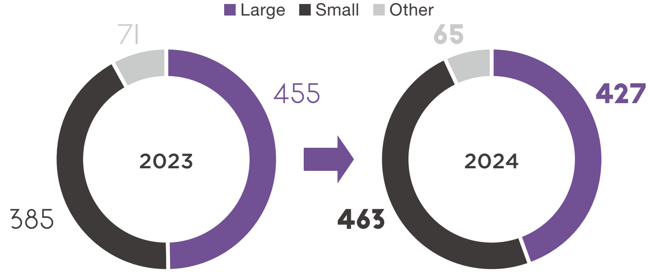
We have primarily focused our engagement efforts on the “Key 300 Companies,” which are significant for us due to our high ownership stakes in them. Consequently, this has mainly involved large companies whose shares are heavily held by passive funds. However, we are now expanding our target to include approximately 50 small- and medium-sized enterprises (SMEs) that have requested engagement from active funds. Following recent legislative changes, we have begun to encourage initiatives aimed at enhancing corporate value through more in-depth dialogue and recommendations. SMEs are more significantly affected by individual factors than by semi-macro or industry-wide factors, and we believe that our company can leverage its strength, given the wealth of experience among our Japanese equity investment and research professionals.

Currently, with the revision of market classifications on the Tokyo Stock Exchange, listed companies are expected to address capital costs and stock prices more effectively. However, SMEs have expressed difficulty in obtaining opportunities for dialogue with institutional investors. At present, our company is committed to receiving essentially all requests for dialogue and engagement from individual companies. In practice, many SMEs seek advice on better information disclosure and integrated reports. Our small-cap investment managers and engagement specialists actively engage with SMEs by participating in seminars to introduce proxy voting standards and stock selection perspectives. In our efforts to revitalize the Tokyo Stock Exchange’s Growth Market, we are beginning to provide advice on equity story development prior to listing, as well as follow-up post-IPO, thereby helping to energize Japan’s IPO market.

The Current State of Dialogue with Small and Medium-sized Enterprises and Solutions

Current Challenges	In the Japanese equity market, there is an ongoing initiative to enhance dialogue between issuing companies and institutional investors. However, the following issues have emerged: 1 Some issuing companies, particularly small- and medium-sized enterprises (SMEs), have reported a lack of opportunities for dialogue with institutional investors. 2 Institutional investors are unable to allocate resources (such as time to spend on pre-research and individual interviews) to companies that offer limited investment potential or appeal.
To address these challenges, we suggest the following:	■ Equity Story Development: Issuing companies prepare equity stories that resonate with institutional investors, including the formulation of medium-term management plans or comparable disclosures. ■ Targeting Small-Cap Fund Managers: Instead of reaching out to analysts who cover a wide range of stocks, companies aim to contact small-cap fund managers who may express interest.
Our Support Measures for Problem Solving	■ Host Workshops: We will hold workshops featuring our investment managers. During these sessions, we will share insights on stock selection criteria with issuing companies, providing them with guidance for crafting their equity stories. ■ Crossover Engagement: For companies before and after their IPOs, we will implement crossover engagement that includes advice before listing and follow-up support afterward.

Engagement Count by Company Size Based on Russell/Nomura Classification* Engagement Count



*Russell/Nomura Japan Equity Index
This index consists of stocks that account for the top 98% of cumulative free-float adjusted market capitalization among all listed companies. Stocks in the top approximately 85% by free-float adjusted market capitalization are classified as Large Cap, while those in the bottom 15% are classified as Small Cap.

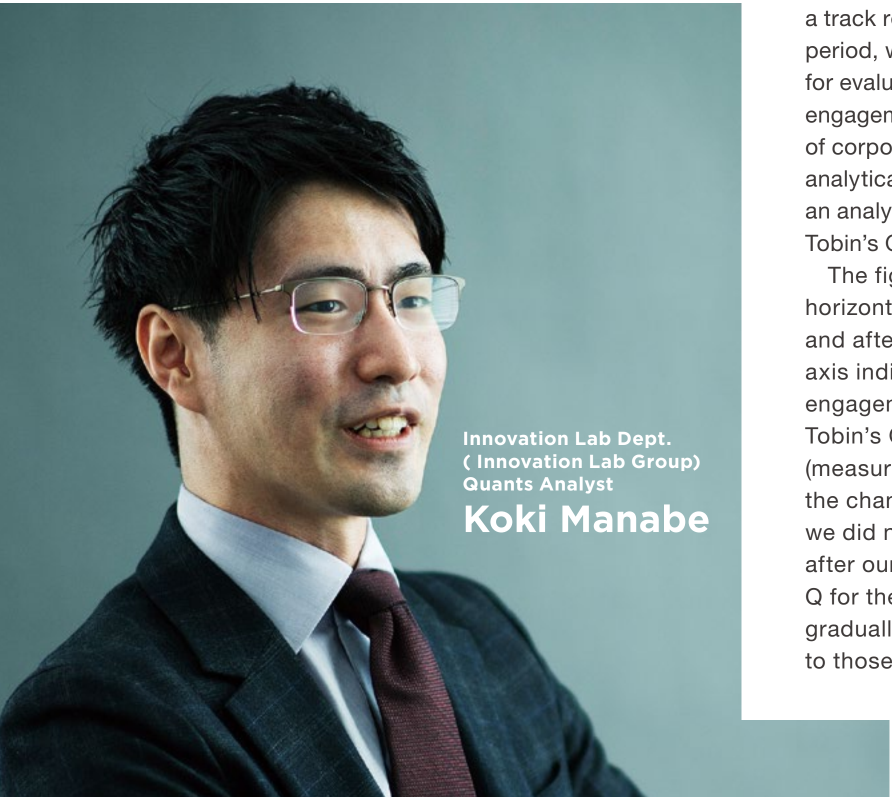
Measuring the Effects of Engagement Activities

Contributing to Long-Term Corporate Value Enhancement

Features of the 2024 Analysis

1 › Incorporation of the framework proposed in the latest academic paper*1 on econometrics, allowing for the tracking of temporal changes in engagement effects.

2 › Confirmation of the positive impact of engagement activities on Tobin's Q.



Innovation Lab Dept.
(Innovation Lab Group)
Quants Analyst
Koki Manabe

Engagement is an important social duty required of asset management companies, including us, aimed at fostering sustainable growth of investee companies and expanding the medium- to long-term investment returns for beneficiaries through constructive dialogue. In fulfilling this responsibility, it is essential to maintain an ongoing evaluation and improvement posture regarding these activities, alongside the individual engagement efforts we have previously introduced. Our Advanced Technology Research Department for Asset Management continues to accumulate data from past engagement activities and is engaged in efforts to quantitatively measure and analyze engagement effects.

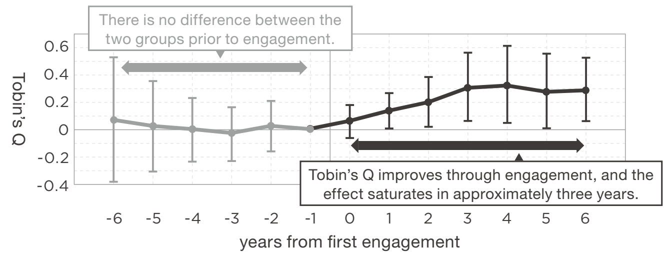
In the FY2024 project, considering that we have built up a track record of engagement activities over an extended period, we focused on Tobin's Q,*2 a widely used indicator for evaluating corporate value, to verify whether our engagement activities are linked to long-term enhancement of corporate value. For this purpose, we expanded the analytical framework used in previous years and conducted an analysis to decompose and visualize the impact on Tobin's Q before and after engagement over time.

The figure on the right shows the outcome . The horizontal axis represents the passage of years before and after the engagement commenced, while the vertical axis indicates the engagement effect on Tobin's Q. The engagement effect is measured using the change in Tobin's Q for the group of companies we engaged with (measured against the period just before engagement) and the change in Tobin's Q for the group of companies that we did not engage with. The figure on the right shows that after our engagement began (in black), the level of Tobin's Q for the companies that we engaged with increased gradually over approximately three years compared to those that we did not engage with. Furthermore, we analyzed the period before the engagement began (in gray) and confirmed that there was no statistically significant difference between the two groups, indicating that the positive engagement effect (represented by the black line) is not due to any pre-existing trends. These results suggest that our engagement activities contribute to the long-term enhancement of corporate value and that achieving this enhancement requires several years. We are proud that this underscores the importance of our ongoing engagement activities.

However, as noted, it remains a challenge to isolate the effects of our engagement activities alone, which remains an analysis issue from the previous year. Addressing these challenges, we will continue to accumulate data and measure impact, using the insights we gain to improve future engagement activities.

Effects of our Engagement on Tobin's Q

pretrend pval=0.37, overall att=0.19



The fiscal year in which engagement was first conducted is aggregated as -1 to 0.

Note: The engagement records for the fiscal years 2016 to 2021 and the Tobin's Q data for the periods before and after, including 2013 to 2024, were used. The horizontal axis represents the years before and after the engagement commenced, while the vertical axis indicates the estimated effect of engagement. The analysis focuses on the group of companies comprising the TOPIX 500.
*1 B. Callaway and P. H. C. Sant'Anna, J. Econom. 225, 200 (2021).
*2 Tobin's Q is defined as (Market Capitalization + Interest-Bearing Debt) / Total Assets.

Engagement with the Food Industry

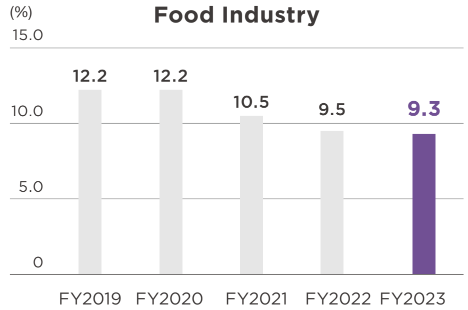
In the food industry, as of the end of December 2024, out of 67 companies listed on the Prime Market (TOPIX sector: Food), 58 have disclosed measures related to “realizing management with consideration for capital costs and stock price.” However, 27 of these companies have a PBR of less than 1.0. While senior management teams’ have clearly become more aware of capital costs and stock prices, it is also true that there is a disparity in the level of disclosure regarding the measures taken, indicating significant potential for enhancing corporate value through engagement activities.

In terms of strategically held stocks and the ratio of net assets, the food sector ranks second after banks among the 17 sectors on the Tokyo Stock Exchange, with the median ratio of net assets being relatively high (according to a survey by Azusa Audit Corporation). There are even companies with a net asset ratio exceeding 20%. Due to a growing awareness of improving capital efficiency, there has been a trend toward selling strategically-held shares in the food industry in recent years; however, unfortunately, the speed of this change has been lacking. We are actively reassessing non-operational assets that do not contribute to corporate value enhancement and engaging with companies to redirect more capital toward growth investments and shareholder returns.

The food industry is highly dependent on natural capital. As the number of food companies disclosing information based on the TNFD recommendations increases, there has been progress in understanding the impacts, risks, and opportunities related to nature on food companies, leading to improvements in their disclosures.

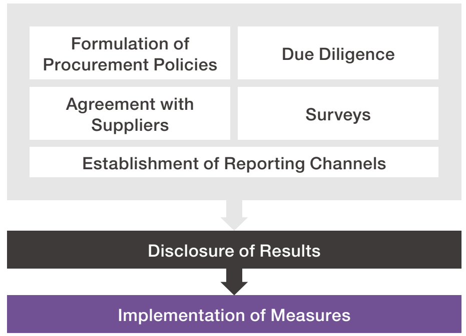
Building a sustainable supply chain requires comprehensive efforts involving the entire supply chain to ensure traceability and comply with regulations and laws. It is essential for companies to engage with primary and secondary suppliers not only to address risks related to the depletion of raw materials and natural resources, as well as climate change risks, but also to recognize and mitigate risks associated with human rights and labor issues, as well as geopolitical risks. We are committed to strengthening engagement initiatives aimed at these efforts.

Strategically-held Stocks and Net Asset Ratios in the Food Industry



*Average of 30 major food companies excluding Japan Tobacco Inc. and Suntory Beverage & Food Limited
(Source) Created by Nomura Asset Management

Key Points for Engagement on Supply Chains



Engagement with the Food Industry

Engagement by Analysts

We believe that when the ratio of strategically-held stocks and net assets exceeds 10%, it is highly likely to be a factor suppressing capital efficiency. As such, we have engaged in discussions primarily with food companies that fall into this category. Some companies have agreed to resolve cross-shareholdings (mutual sales of strategically-held stocks) upon request; however, they are not taking proactive steps to reduce their strategically-held stocks on their own. Additionally, we have encountered companies that are hesitant to reduce their strategically-held stocks due to concerns about deteriorating transaction terms unless their competitors first eliminate cross-shareholdings with their trading partners. We have discussed case studies where companies successfully reduced strategically-held stocks and shifted towards proactive shareholder returns, leading to enhancements in corporate value. Conversely, we have also highlighted companies with good business performance but facing stagnant stock price valuations due to concerns about declining capital efficiency.

While the overall level is still not satisfactory, the engagement efforts we have undertaken are beginning to yield results in some areas. As illustrated in the engagement case below, Nisshin Seifun Group Inc., despite having a strategically-held stocks and net asset ratio of over 10%, has taken a cautious stance on further reductions after selling a certain amount of strategically-held stocks. We pointed out that their weak commitment to capital efficiency is a burden on their stock price. Subsequently, Nisshin Seifun Group Inc. announced plans to increase both the scale and pace of their sales of strategically-held stocks in the second half of FY 2024, as well as an increase in their dividend payout ratio. While we view these developments positively, we would like to deepen our discussions on how the funds from these sales can be effectively utilized to enhance corporate value.

Engagement with Nisshin Seifun Group Inc.

Overview of Engagement

The medium-term plan indicates goals for capital efficiency and emphasizes the need for further reduction of strategically-held shares, even though efforts are already underway.

Company Response

Regarding the sale of strategically-held shares, we are reducing them in accordance with the goals set in the medium-term plan. While they have proceeded with caution due to our relationships with business partners, we acknowledge that the pace of reduction is not meeting the expectations of the capital markets and we want to take a more proactive approach.

Outcomes of Engagement

In the review of the medium-term plan in November 2024, the dividend payout ratio target was raised from over 40% to a target of 50%, and the reduction of strategically-held shares was increased from over 15 billion yen over three years to over 40 billion yen over five years, representing increases in both in scale and speed.

COMMENT

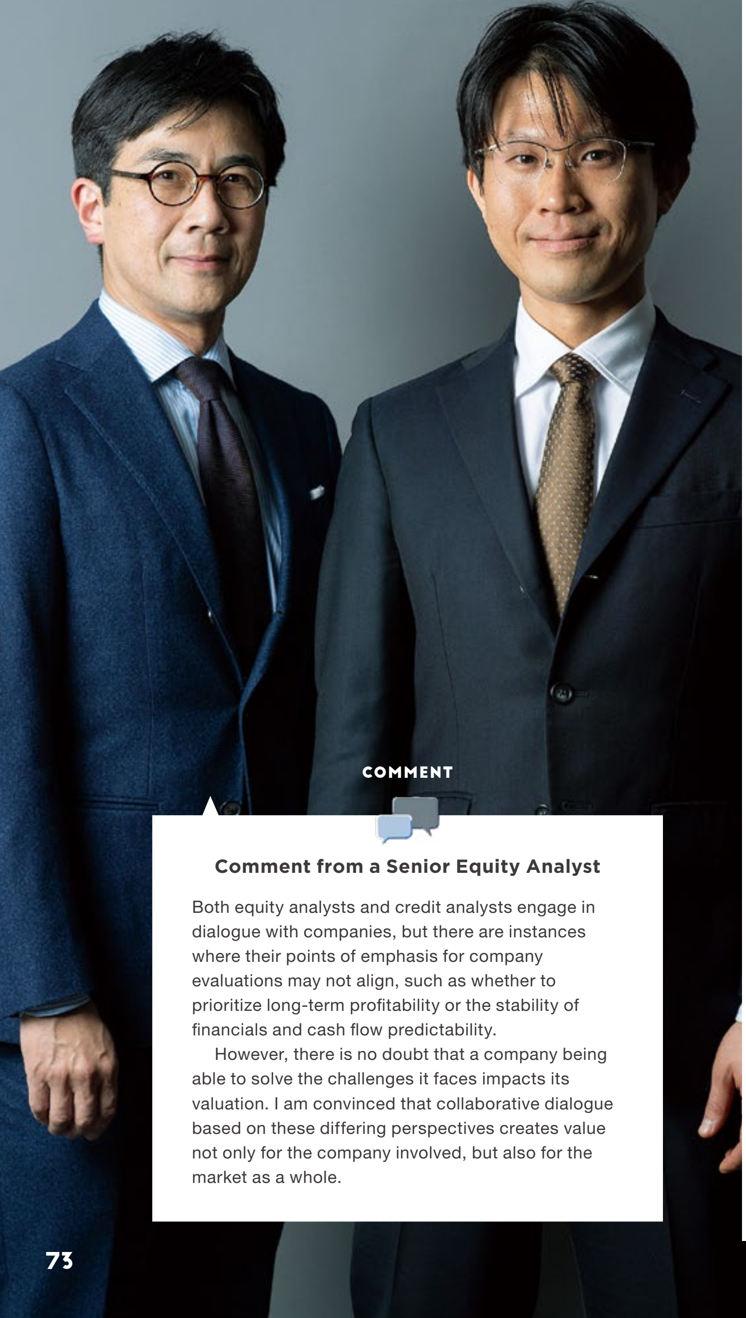
Nisshin Seifun Group Inc

We have been able to gain many insights through our quarterly communications with you, not only regarding the reduction of strategically-held shares but also in various other aspects. Moving forward, we will continue to listen to your opinions and work towards further improving capital efficiency and enhancing corporate value in response to changes in the capital markets and the external environment.

Food Industry Equity Analyst
Li Xiang

Senior Equity Analyst
Toshihisa Gamo

Senior Credit Analyst
Masaya Konagai



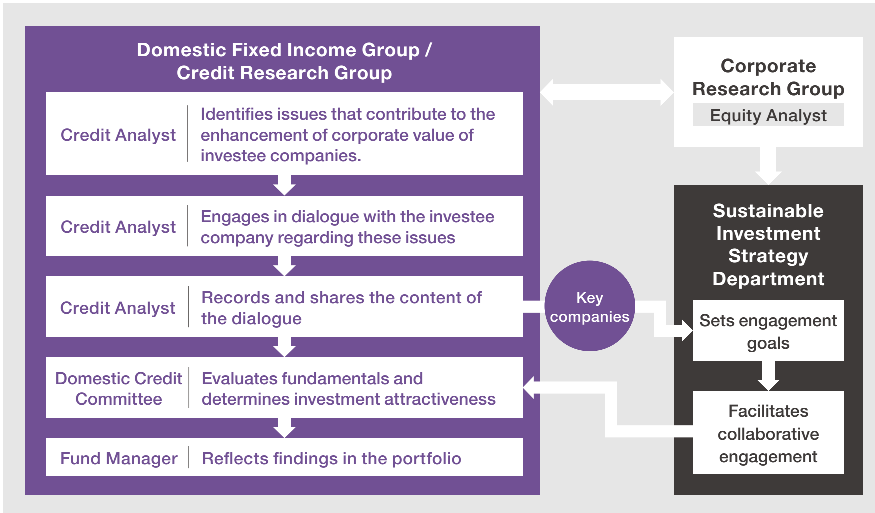
Fixed Income Engagement

In domestic credit investment, credit analysts identify issues that if improved would allow for a more bullish investment recommendation for their assigned securities, and engage in dialogue with issuers during individual meetings regarding these issues. When considering the challenges faced by issuers, credit analysts focus not only on financial soundness, which is paramount in bond investing, but also take into account the issuer's growth strategies and shareholder returns, emphasizing the enhancement of corporate value.

In this respect, we often provide opportunities for both credit analysts and equity analysts to engage in discussions with issuers during IR meetings. This allows credit analysts to consider issues that would lead to an enhancement of corporate value while also referencing input from the perspective of equity investors. For example, in a case where an issuer is experiencing deteriorating financials due to aggressive investments, we might propose solutions not limited to simply improving the company's financials, but rather suggest leveraging hybrid finance or bolstering its explanation of its financial policy.

Furthermore, for particularly important issuers, discussions are held from various perspectives by the Sustainable Investment Strategy Department, which includes both equity and fixed income portfolio managers and analysts, as well as ESG specialists. This department sets engagement goals and keeps track of progress using a common framework with the equity division. The details of dialogue with issuers and the status of engagement progress are shared and discussed at the Domestic Credit Committee, contributing to high-quality investment decisions.

Fixed Income Engagement Process



CASE

Machinery sector company M

The biggest challenge for company M, according to credit analysts, is its weak financial foundation, which is attributed to its aggressive investment stance. On the other hand, equity analysts pointed out insufficient control over cash flow, indicating a lack of alignment between the two perspectives. However, via thorough discussions, both parties reached the conclusion that the fundamental issue for company M lies in its financial strategy. We collaborated to engage in discussions with company M, requesting clarification on the optimal capital structure. While the dialogue has only just begun, the plan is to continue the engagement together moving forward.

COMMENT

Comment from a Senior Equity Analyst

Both equity analysts and credit analysts engage in dialogue with companies, but there are instances where their points of emphasis for company evaluations may not align, such as whether to prioritize long-term profitability or the stability of financials and cash flow predictability.

However, there is no doubt that a company being able to solve the challenges it faces impacts its valuation. I am convinced that collaborative dialogue based on these differing perspectives creates value not only for the company involved, but also for the market as a whole.

Reorganization of Priority Topics

The priority topics for our engagement activities are reviewed annually. In 2021, we set advanced themes such as "Natural Capital" and "Human Rights Risks," and in 2022, we focused on "Solving Issues Towards a Well-Being Society," all aimed at promoting the sustainability of Japanese companies in the ESG domain.

For 2024, we established a new focus theme: "Risk Management in a Digital Society." Recently, digital transformation (DX) has been regarded as an essential issue for corporate growth, and there are high expectations for the application of cutting-edge technologies like AI in business settings. However, incidents related to personal data management and cybersecurity have been on the rise, alongside emerging challenges such as AI ethics. We recognize that risk management related to these issues is a crucial effort towards stable corporate value enhancement, and we will continue to demand appropriate responses, including the establishment of risk management systems in the digital field.

Category	Priority Topic	Topic Overview
1 Business	Rational explanation of growth strategy	■ Encourage rational explanations regarding strategies (including building the business portfolio) to achieve growth. ■ Request an explanation of risk management associated with the above strategy (identification of key risks aligned with the growth strategy, establishment and enhancement of risk management systems, and identification of materiality).
2 Financial/ Governance	Strengthening commitment to capital efficiency	■ Request a financial strategy aimed at achieving capital efficiency that exceeds the cost of capital (including setting capital costs based on stock price levels and fluctuations, and reducing strategically-held shares in consideration of dialogue with investors). ■ Seek commitment through executive compensation towards achieving capital efficiency that exceeds the cost of capital.
3 Environment	Climate Change	■ Request the setting of targets for achieving net zero and obtaining SBT certification. ■ Request information disclosure and explanations of business opportunities related to climate change in line with the TCFD recommendations.
4 Environment	Natural Capital	■ Request information disclosures in line with the TNFD, and explanations concerning risks and business opportunities related to biodiversity and the circular economy, aiming to achieve nature-positive outcomes.
5 Social	Human Rights Risks	■ Request the implementation of human rights due diligence, specifically the formulation of human rights policies, conducting human rights impact assessments and disclosing results, remediation measures, and integration into enterprise-wide risk management.
6 Social	Human Capital with Diverse Values	■ Request an explanation of the strategy related to human capital that aligns with growth strategies, including gender diversity and employee well-being.
7 Social	Well-Being Society	■ Request explanations of initiatives aimed at realizing a well-being society (e.g., addressing health issues such as access to medicine/nutrition, drug resistance), animal welfare, regional revitalization, and innovation utilizing digital technology). ■ Request disclosure of the impact towards realizing a well-being society.
8 Social, Governance	Risk Management in a Digital Society	■ Request responses to risks arising from digitization (e.g., addressing cybersecurity, ethical use of AI, and protection of personal information).
9 Governance	Highly-effective Monitoring Board	■ Encourage the transition to an effective monitoring board, whereby the board of directors primarily bears the responsibility of overseeing senior management through nominations and compensation.

Risk Management in a Digital Society

Recognition of Issues

In recent years, incidents related to personal data management and cybersecurity have been on the rise. Amid growing uncertainty, Japanese companies are required to address the risks associated with digitization. While some companies have made progress in addressing risks, information disclosure remains insufficient.

Examples of Engagement Activities

■ Enhancement of Overall Disclosure

■ Current status of policies and systems in place
- □ Development and Disclosure of Information Security Policies❶
- □ Establishment of a Chief Information Security Officer (CISO) and relevant committee❷
- □ The CISO and committee oversee the entire group (and, if possible, the supply chain).

■ Incident Response: Particularly, the establishment of a Computer Security Incident Response Team (CSIRT).❸

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 2024 our overseas offices conducted engagement on a total of 508 topics (the total number of engagements was 245). 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 Morningstar Sustainalytics, and we either conduct collaborative engagement with Morningstar Sustainalytics or fully outsource engagement to Morningstar Sustainalytics (Refer to P78). 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 P79-80).

Engagements with Global Equities

Total number of engagement topics by overseas offices

2024 **508** topics (245 meetings)

Engagements by Morningstar Sustainalytics*

2024 **384** meetings

	Ratio	Number of topics
Europe	16%	79
North America	30%	153
Asia and Emerging	54%	276
Total number of topics		**508**

* Target universe: MSCI ACWI ex Japan

	Ratio	Number of topics
Business strategy	6%	30
Financial strategy	5%	26
Environmental	37%	188
Social	18%	91
Governance	13%	68
Disclosure/dialogue	21%	105
Total number of topics		**508**

Example of Engagement at Overseas Offices (Case study about ultra-processed foods (UPFs))

NAM UK's Global Equity Team became increasingly concerned that certain Consumer Staples companies in our Global Sustainable Equity (GSE) strategy may be having a negative effect on the Mitigate the Obesity Epidemic goal with Big Food and UPFs fostering an environment in which obesity could be allowed to grow in prevalence. The term UPF is still relatively new and was popularly categorised by researchers in Brazil in 2009. These foods are the product of industrial processes in either the way they are formulated, constructed, or preserved. The category is broad and the foods are popular in many countries. In the UK, consumers obtain 60% of their calories from UPFs. However, unfortunately, there appears to be an increasingly strong link between consuming UPFs and poor health outcomes.

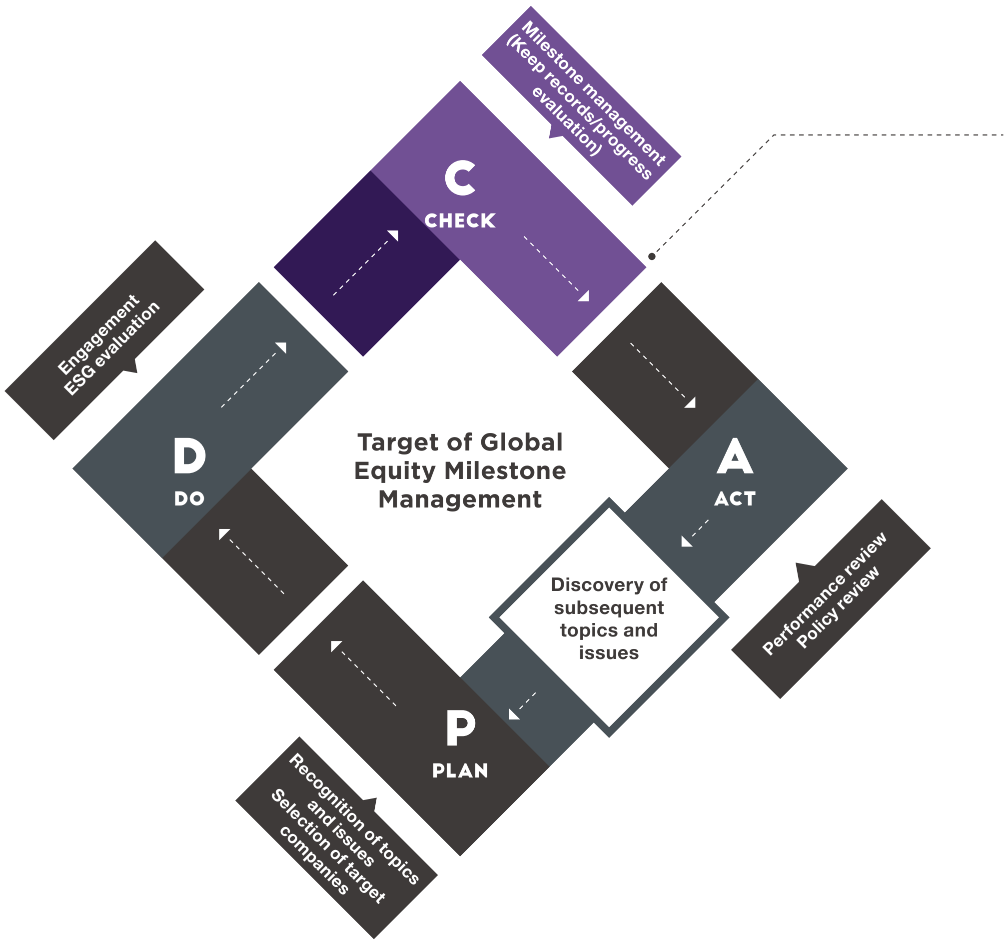
Following extensive research, the team have published a white paper on the topic highlighting studies that show how both cardiovascular events as well as obesity can be linked to the consumption of UPFs. This research had two interesting conclusions as the team integrated it into our investment process. Firstly, from a sustainability perspective the team have re-evaluated the Consumer Staples companies in the strategy's Total Impact Framework to take a more critical view of the impacts from their products. This ultimately led several businesses to have lower scores in the framework. Secondly, by evaluating the quantity of UPFs by country and the new effect from weight loss medications (GLP-1s) the team also became less constructive on the fundamental growth drivers of several Big Food companies. Ultimately, this led to several exits from the GSE portfolio. The team have also engaged extensively with these businesses and continue to push for a more responsible approach to UPFs.

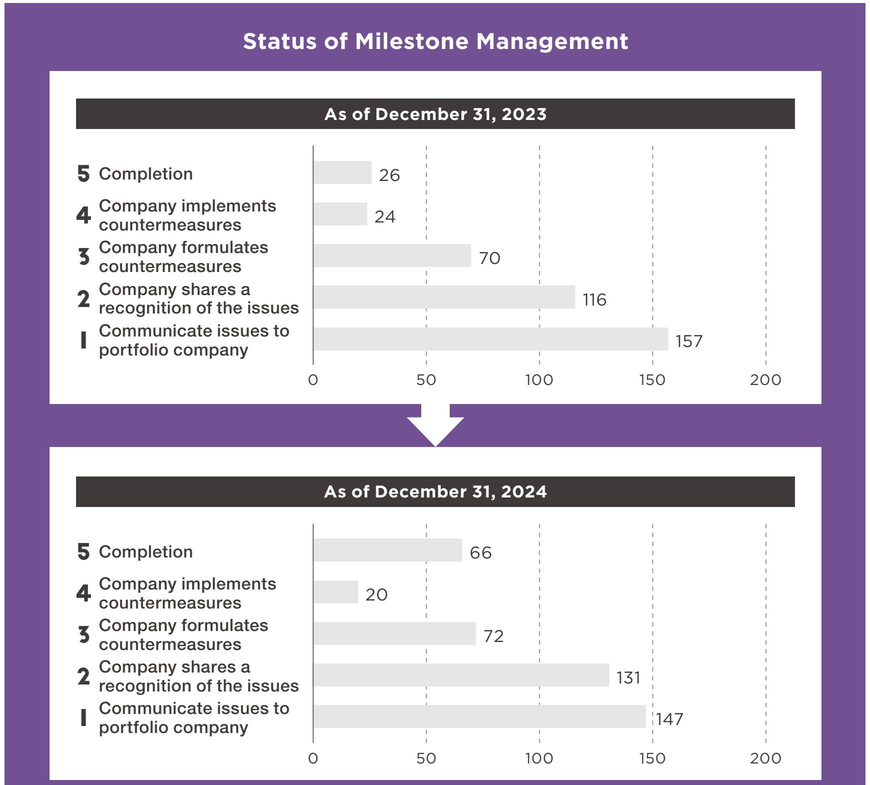
To access the Ultra Processed Food White Paper click here:
https://www.nomura-asset.co.uk/download/insight/NAM_Ultra_Processed_Foods_May_2024.pdf

Global Equity Engagement

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 Morningstar 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.





In 2024, we carried out engagement across 508 topics. As of the end of 2024, we are managing milestones for a total of 436 topics(308 companies). Of these, 66 topics are already at "Step 5: Completion".

Global Equity Engagement

Global Equity Engagement example (milestone)

Target Company

Taiwan Semiconductor company A

Engagement overview

Our awareness of the issue

Continuous engagement on best practices in water conservation at times of expansion of manufacturing capacity.

Engagement progress

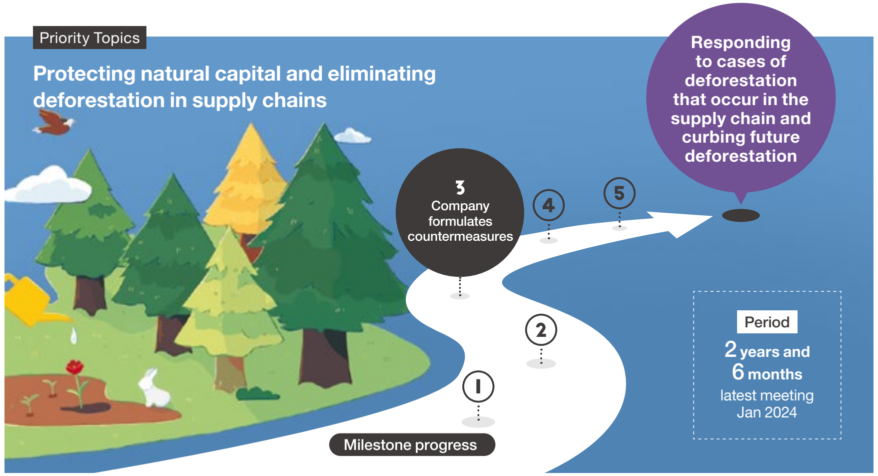
In past engagements, we learned that water conservation and recycling standards in their home country is amongst the best in the world as their home country has a shortage of drinking water, especially when there is a drought, which happens more frequently due to climate change. We wanted to know whether the same high standards would be used in Japan. A large part of our investor base sits in Japan and are interested to see Kumamoto's (in Japan) groundwater protected.

Current status

The company has reduced its planned water usage by 30% since when the fab was first announced and has committed to groundwater replenishment of over 100% of the used water. The company has signed an agreement with the local council to accelerate the promotion of groundwater recharge.

Target Company

United States Beverages company B



Engagement overview

Our awareness of the issue

Monitoring systems and traceability efforts are needed in the supply chain to prevent deforestation.

Engagement progress

We asked for comments on three satellite images related to deforestation events in the company's supply chain. The company explained that all of the cases entered in their grievance management process and now have two grievance partners that they are working with. In their grievance management processes, they review the progress and action plans and either put them on a monitoring status or drop them. They also explained that suppliers are required to submit remediation plans with 3rd party validation.

Current status

We plan to continue the dialogue to seek further explanations and actions regarding satellite images of deforestation events. We also intend to promote efforts to strengthen traceability in the supply chain.

Engagement by Morningstar 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 Morningstar Sustainalytics to carry out collaborative engagement and outsource engagement to Morningstar Sustainalytics.

Morningstar 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, Net Zero transition from a global perspective.

Global Standards Engagement

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

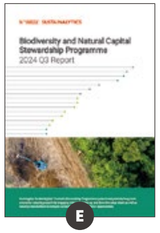
Engagement Policy

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

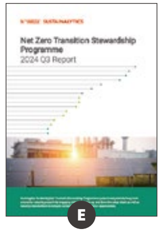
Target companies

Companies with particularly high ESG risk in their industry

Thematic Engagement

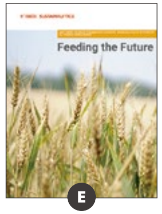


Biodiversity and Natural Capital Stewardship Programme



Net Zero Transition Stewardship Programme

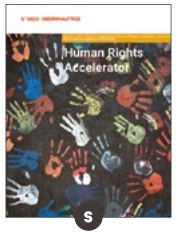
Scaling Circular Economies Stewardship Programme



Engagement related to Feeding the Future

Engagement related to Climate Change –Sustainable Forests & Finance

Human Capital Management Stewardship Programme



Engagement related to Human Rights Accelerator

Sustainability and Good Governance Stewardship Programme

Cooperation with Global ESG Initiatives

INITIATIVE_01

Bioacoustic research efforts for natural capital protection

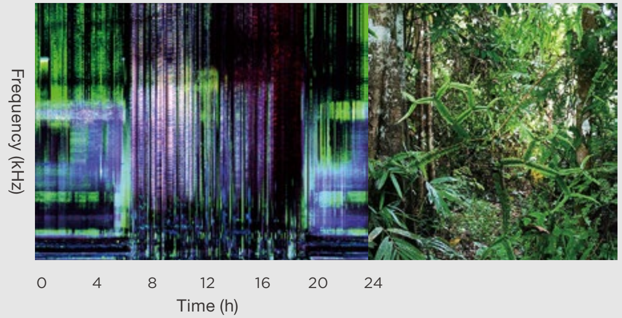
In December 2024, we were pleased to receive the final results from the second ecoacoustics study Nomura Asset Management (NAM) sponsored, along with a wider investor group and in collaboration with Green Praxis. The study was conducted in a palm oil plantation in Malaysia and similarly to phase one of this project, which took place in September 2022 in Indonesia, utilised rapid acoustic survey (RAS) and an automated AI-enabled daily soundscape analysis as a fast, affordable, non-invasive and reliable estimate of biodiversity abundance and richness in the area. The data gathering stage of the process took place over a three week period in June 2024, during which the Green Praxis team took measurements on three types of plots in the area including production (palm oil plantation), conservation (secondary forest) and pristine forest (outside of concession). One shortcoming of the previous study undertaken in Indonesia two years ago was the lack of a true pristine forest to serve as a control for the study, given all of those have been long been deforested. The investor group is incredibly pleased that this time around the Green Praxis team managed to gain access to one of the few remaining and among the oldest pristine tropical jungles globally - the Ulu Kinta forest reserve.

Similar to the previous study, while on site the Green Praxis team also evaluated the flora and fauna for each plot to map to the recorded database. The study concluded that conservation plots are successful at restoring local biodiversity to a certain extent (especially considering the young age of the conservation plots studies), and that can be identified through AI-assisted soundscape analysis as intermediate between pristine and production plots.

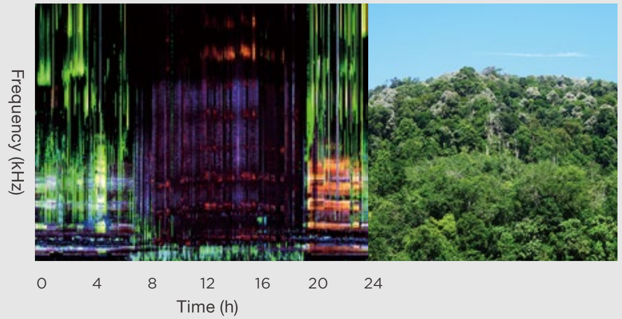
In terms of protocol, the study included 30 plots in total, or 10 per plot type using in parallel two sets of recorders – a proprietary recorder and a simpler, cheaper and more widely used model. The reason, for the dual use of recorders by the Green Praxis team was to establish if the quality of the study can be preserved by using a more efficient recorder, which would allow for reduction of costs (ca 15x cheaper) of the study and would have the potential to improve scale given lighter weight of the recorder, allowing for more equipment to be transported and installed by the team. This leads us to the second key finding of the study - the new recorders being tested can produce comparable and reliable results vs the previous equipment used, which makes them suitable for increasing the scope of the project, including the potential for remote recording (by collaborating with local communities) and remote assessment of the data gathered.

NAM continues to be a proud partner of the Green Praxis team and to support their research and efforts towards achieving an affordable and reliable biodiversity measurement tool which can be more universally used.

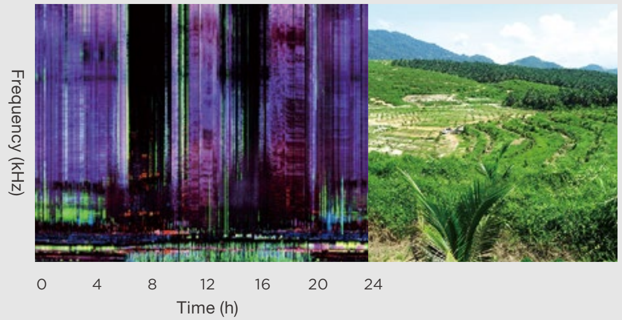
Pristine



Conservation



Production



More information regarding phase one of this project is available at:
https://www.nomura-asset.co.uk/download/news/GreenPraxis_research_study_press_release.pdf

Cooperation with Global ESG Initiatives

INITIATIVE_02

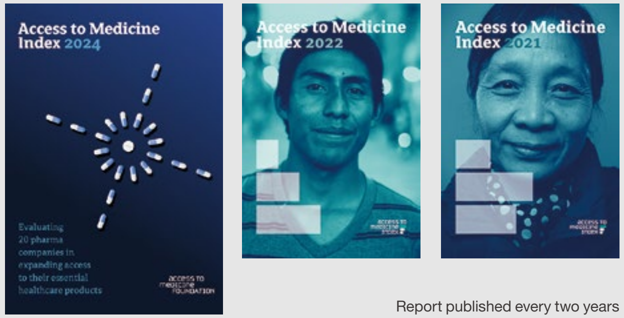
Access to Medicine Foundation/ Access to Medicine Index

We have a long-running relationship with the Access to Medicine Foundation (ATM). Since we initiated a new position in a large pharmaceutical company within the Global Sustainable Equity (GSE) strategy, the team also took the opportunity to become the lead investor engaging with the company on behalf of ATM and a larger investor group. Through several emails and a call, we tried to persuade the company to provide more information to the foundation to improve their score on ATM's Index, which ranks pharmaceutical companies by their access levels. Since then the pharmaceutical company has committed to submit data to ATM directly for review.

The Access to Medicine Index report was released in November 2024, and we are pleased to see that the company has improved its ranking and score compared to the 2022 evaluation.

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 P25 for details).

In July 2024, we endorsed and signed the investor statement expressing concerns about antimicrobial resistance (AMR), released by the "Investor Action on Antimicrobial Resistance" (IAAMR) initiative which was established by the Access to Medicine Foundation, FAIRR, and the UK Department of Health and Social Care. This statement calls on global leaders and policymakers to take action to curb the spread of antimicrobial resistance ahead of the second high-level meeting on AMR at the United Nations General Assembly held at the end of September 2024. The total assets held by the institutional investors who endorsed the statement amount to $1.3 trillion. The excessive and inappropriate use of antimicrobials in healthcare, livestock, and agriculture, as well as the environmental release of residual antimicrobials, poses a significant global risk of AMR, which our company is also closely monitoring. The statement emphasizes that in order to mitigate the risks of AMR, it is essential for all stakeholders, including governments, investors, and companies, to actively participate and adopt a "One Health" approach that considers human and animal health alongside environmental integrity.



Report published every two years

For more details about the investor statement, please refer to the information below.
https://accesstomedicinefoundation.org/medialibrary/20240829-iaamr-signatories-for-atmf-website-1725347275.pdf