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

Integrating ESG factors into the investment process is critical, as we believe financial performance and ESG efforts (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 non-financial 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 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 each equity strategy integrates ESG considerations into its investment philosophy and process in a different way, a common ESG evaluation platform is shared by 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.

Equity Integration

Equity Integration Approach

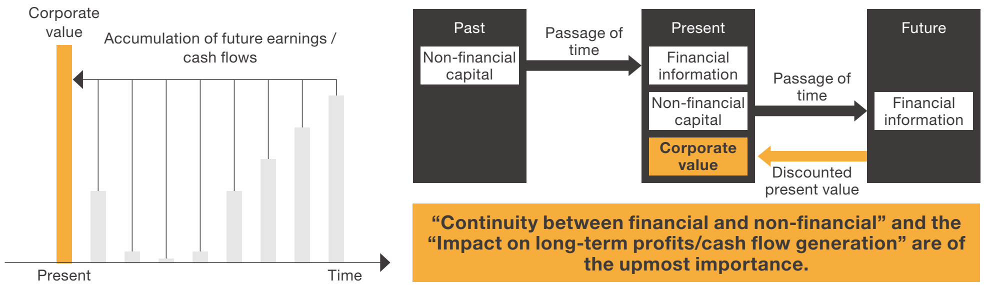
Corporate value is essentially the discounted present value of future free cash flows. The business assets that generate future free cash flow include not only fixed assets such as production facilities, but also various types of intangible assets (capital) not found in financial statements, including human capital and intellectual property. 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.

"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.

Investors' Basic Philosophy on Corporate Value



Equity Investment Process

An in-house proprietary ESG score, which is jointly produced by corporate analysts and ESG specialists is utilized for ESG integration into our Japanese equity investments. The ESG score includes environmental, social, governance, and SDG-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 Sustainable Investment Strategy 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 (2,715 meetings in 2024). 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.

Strategy platform

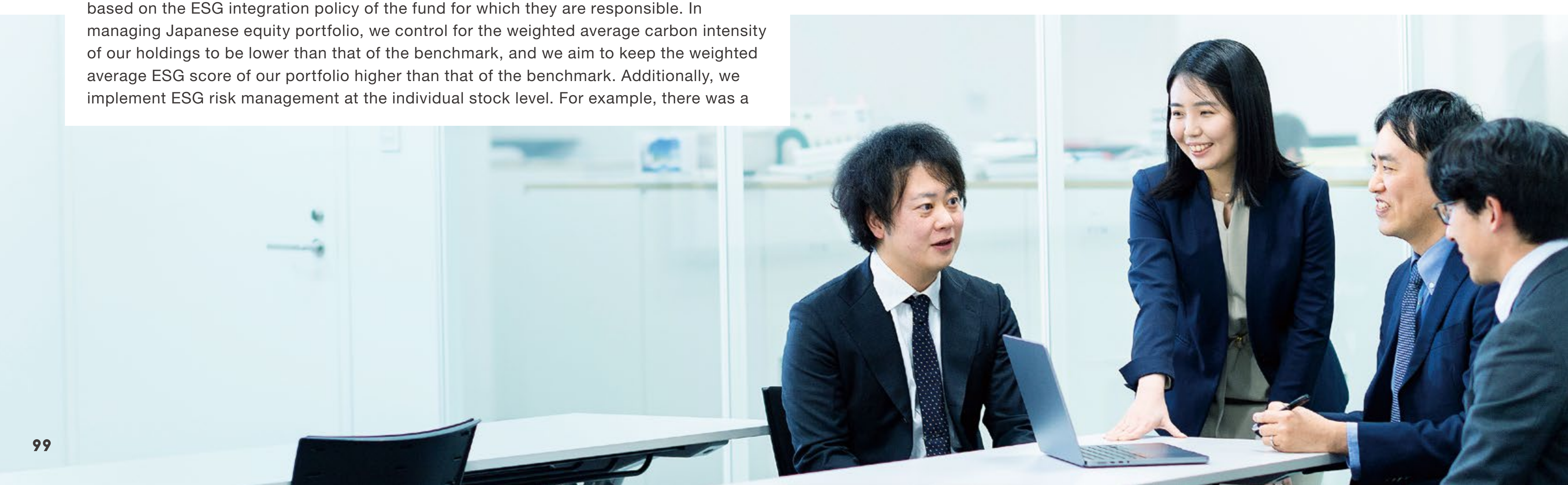
Efforts to Advance ESG Integration

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 integration 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, 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. In managing Japanese equity portfolio, we control for the weighted average carbon intensity of our holdings to be lower than that of the benchmark, and we aim to keep the weighted average ESG score of our portfolio higher than that of the benchmark. Additionally, we implement ESG risk management at the individual stock level. For example, there was a case where a company faced concerns in the stock market regarding the environmental pollution potential of certain substances it was manufacturing and the associated regulatory risks. However, we evaluated the company’s commitment to enhancing information disclosure and its proactive efforts in regulatory compliance, determining that a reduction in risk could be expected in the future, which led us to decide to maintain our investment. 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.



Efforts to Advance ESG Integration

Senior Portfolio Manager
Dai Yamawaki

Portfolio Manager
Emi Okuoka

Portfolio Manager
Takafumi Tsuda

Senior Portfolio Manager
Shunnosuke Tochimoto

Portfolio Manager's ESG Viewpoint

Business risks and opportunities
- Current and future segment mix
- Assessment of M&A strategy

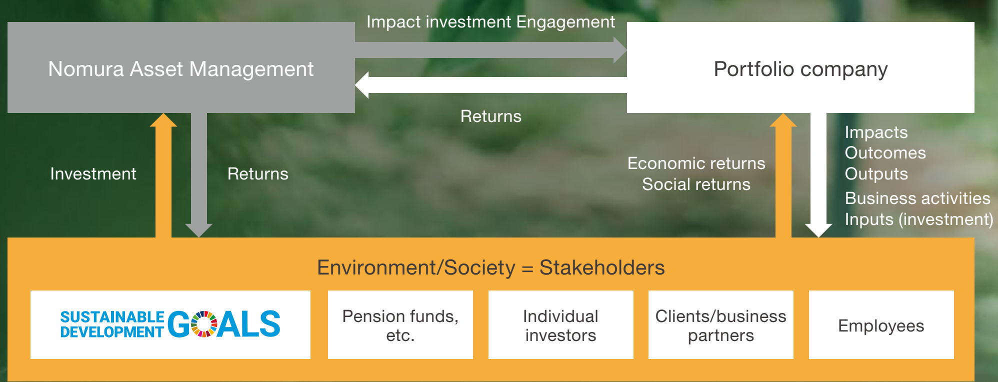
Geographic risks and opportunities
- Status of production and sales in regions with enhanced regulations
- Changes in the supply chain structure

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.



Impact Investing

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 influence companies' behavior to improve their positive impact. By repeating this process, we seek to invest in companies that address social issues while also delivering economic returns. Our impact investment strategy 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 for transparency.

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

Fund	Impact goal	Example	Impact
GSE	Access to Basic Financial Services	Number of mobile payment users in Kenya	32.1 million users
GSE	Eliminate Communicable Disease	Distribution of HIV medications to patients through ATM strategies in low- and middle-income countries	20 million patients
JSEG	Mitigate Climate Change	Contributed to the reduction of CO_2 by selling products with strong environmental performance	46.07 million tons
JSEG	Mitigate Natural Capital Depletion	Volume handled by recycling business in the metal field, such as collecting and processing renewable resources	6.80 million tons
ASE	Mitigate Climate Change	Sales of electric vehicles, which have a significant impact on the reduction of GHG emissions	3.54 million cars
ASE	Eliminate Communicable Disease	Healthcare R&D investment	US$ 7.85 billion

Impact Investing

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

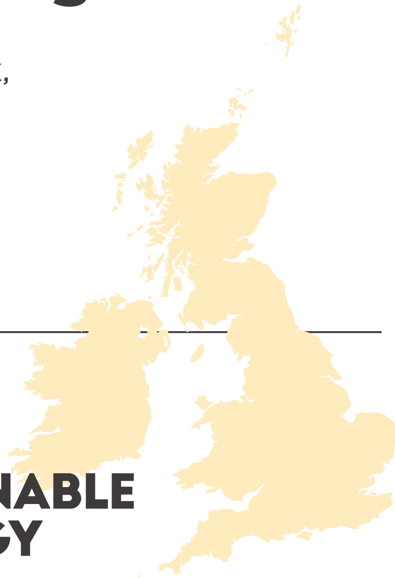
Identify SDGs topics

Establish CPI for individual companies

Engagement with portfolio companies

Our Impact Investment Strategies

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



UK

GSE GLOBAL SUSTAINABLE EQUITY STRATEGY

Our UK office manages the Nomura Global Sustainable Equity Strategy based on the concept of impact investing. This strategy is characterised 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 that the team believes to have high overall positive impact on all stakeholders (the environment, society, customers, suppliers, employees and investors). We measure impact by setting environmental and social goals (targets) with clear policies and evaluate progress towards achieving those goals. The impact investment process of this strategy is also based on the aforementioned “Our Impact Investment Process”. The strategy follows the investment process which includes setting the targeted “Impact Goals”, selecting investment companies through a unique stock selection process that combines the analysis of Sustainable Development Goals (SDGs), and the long-term monitoring of the investee companies’ company performance indicators (CPIs), as well as promoting efforts to achieve the “Impact Goals” through dialogue (engagement activities) with investee companies. We also regularly prepare and publish reports containing impact data, such as key performance indicators (KPIs) and CPIs, as well as insights from our engagements with companies, which allows various stakeholders to access this information. We believe this will encourage more active efforts towards achieving the “Impact Goals”. The fifth edition of the Impact Report for this strategy was published in 2024, providing a clear and detailed explanation of how the investment team evaluates the positive impacts brought about by the investee companies and the impacts we aim to achieve through engagement activities. The publication of such reports not only encourages companies to tackle the key challenges facing the world today, but also imparts social impact on a variety of stakeholders by encouraging them to address the sustainability of their businesses.

A Nomura Global Sustainable Equity(GSE) Sustainable Investment Specialist **Daniela Dorelova**

B Nomura Global Sustainable Equity(GSE) Lead Portfolio Manager **Alex Rowe**

C Nomura Global Sustainable Equity(GSE) Co-Portfolio Manager **Lacaille, Benjamin**

Our Impact Investment Strategies

A Portfolio Manager **Tatsuhira Matsushima**

B Main Portfolio Manager **Jun Takahashi**

C Portfolio Manager **Kodai Sasaki**

D Senior Portfolio Manager **Ken Nagano**

JAPAN

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. The idea that it is possible to solve such challenges through investment lies behind this. The turmoil caused by the COVID-19 pandemic that emerged in 2020 has finally begun to settle down after several years. However, while the global chaos has subsided, various social issues that became evident in Japan during that time, as well as disasters caused by climate change, have been occurring frequently in areas throughout Japan, leading to a deepening of the problems. Therefore, urgent action is required to address social challenges. In this strategy, we incorporate the concept of "impact investing," an investment approach that helps address various environmental and social issues we face as society changes due to a wide range of factors, and we continue to manage our investments based on a long-term perspective. This investment method not only aims to generate the usual investment returns from an asset management product but also focuses on investing in companies that engage in business activities aimed at solving social issues over the long term, thereby contributing to addressing challenges within the society in which we live. These social issues are closely related to the SDGs (Sustainable Development Goals), and the connection between solving these social challenges and achieving SDG targets is one of its key features. Additionally, since many of these social challenges require medium- to long-term efforts, we believe that investing in companies with the premise of long-term investment allows for a balanced pursuit of both excess returns and the resolution of ESG issues. The investment targets of this strategy include companies that can create social value contributing to the achievement of the SDGs, evaluated through our unique ESG scores of Japanese stocks and their fundamentals. We believe that sharing the outcomes and the broad and cumulative impacts achieved by our portfolio companies through the publication of impact reports is an essential process not only to support these companies in addressing social challenges but also to deepen understanding among investors.

Our Impact Investment Strategies

SINGAPORE

ASE ASIA SUSTAINABLE EQUITY STRATEGY

In April 2022, Singapore office began managing the Asia Sustainable Equity Strategy based on our impact investment 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, represent important opportunity. In addition, we believe that focusing on companies that the team deems to have a positive impact will help tackle environment and social challenges. Given the fact that Asia is a manufacturing hub and key region in global supply chains, environment and related social issues are top priority sustainable theme for the regions.

With regards to the disclosure related information and the details of the initiatives themselves, many Asian countries (excluding Japan) are not well established compared to those in developed countries. On the other hand, China and other Asian countries are increasing their status as world biggest and most cost efficient production hubs for green mobility and alternative energies. In tandem with this movement, demand for green mobility within Asia has been growing faster than in other regions of the world in recent years. Our Singapore office employs country-specific approach to portfolio management using country specialists, enabling us to conduct detailed and differentiated analysis to ESG factors and portfolio stocks. To incorporate these stocks into their portfolios, our country specialists conduct research ESG issues/opportunities and continuous engagement. We believe that by doing this, we can enhance Asian companies' commitment to ESG.

A Head of ESG Asia
Viresh Mehta

B Assistant Portfolio Manager
Stacy Kuah

C Senior Portfolio Manager
Shigeto Kasahara

ESG Scores for Japanese Equities

Nomura Asset Management computes proprietary ESG scores which represent Japanese companies' true ESG abilities, 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. ESG Score keeps 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.

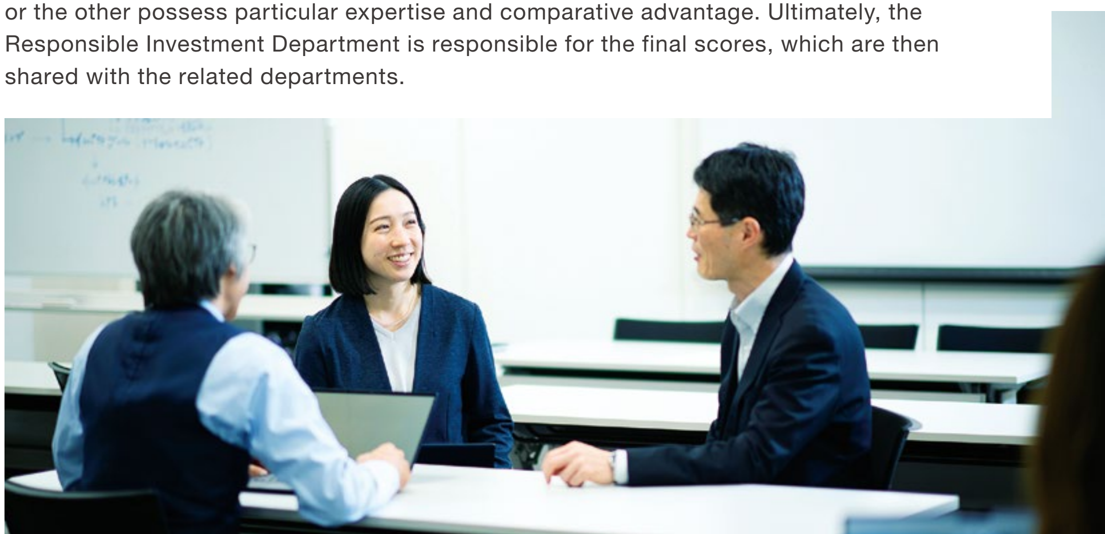
For "Environment," we look at whether a company is managing transition risks and physical risks related to climate change and incorporating such risks into its business strategy. We also look at whether the company's management has expressed a commitment to the environment. With respect to matters such 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.

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.



ESG Scores for Japanese Equities

Revision of ESG Score

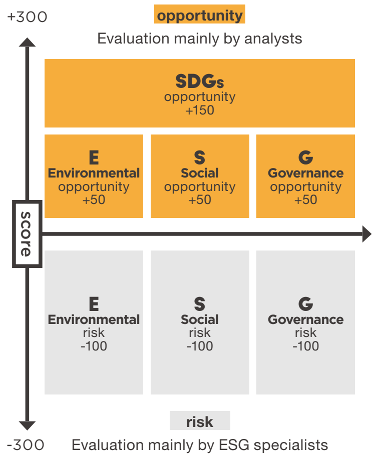
Since our portfolio companies are improving their ESG-related disclosures and their actual initiatives, we revise the ESG scores for Japanese equities on a regular basis, thereby raising the effectiveness of company evaluations using ESG scores. In the 2023 revisions, we are taking it a step further 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 the 2025 revision, new evaluation items were added: ❶ whether or not outside directors with effective skills have been appointed based on the skills matrix required to be disclosed in the revised Corporate Governance Code, and ❷ the details of business opportunities towards nature-positive, especially whether or not specific products and services have been developed. With regard to ❶, since the creation of the skills matrix is left to each company, the lack of objectivity and standardization is an issue. Therefore, NAM, in collaboration with Uzabase, Inc., has verified whether it is possible to automatically output and evaluate the skills matrix of a board of directors from text information about directors, thereby strengthening the evaluation process for this item.

In addition, we are reviewing some of the other 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		Sub-category		Sub-items
E Environmental	25% of total opportunity: +50 risk: -100	opportunity +50	Environmental strategy, senior management's initiatives	Sub-items are individually evaluated in accordance with sub-category themes. Importance (materiality) was introduced in new scores, taking into account the specific characteristics of the industry for each company.
		risk -100	Climate change, Natural capital, response to other environmental issues, etc.	
S Social	25% of total opportunity: +50 risk: -100	opportunity +50	Social strategy, senior management's initiatives	
		risk -100	Human capital, human rights, response to other social issues, etc.	
G Governance	25% of total opportunity: +50 risk: -100	opportunity +50	Evaluation of senior management	
		risk -100	Evaluation of board of directors, other governance items	
SDGs	25% of total	opportunity +150		



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

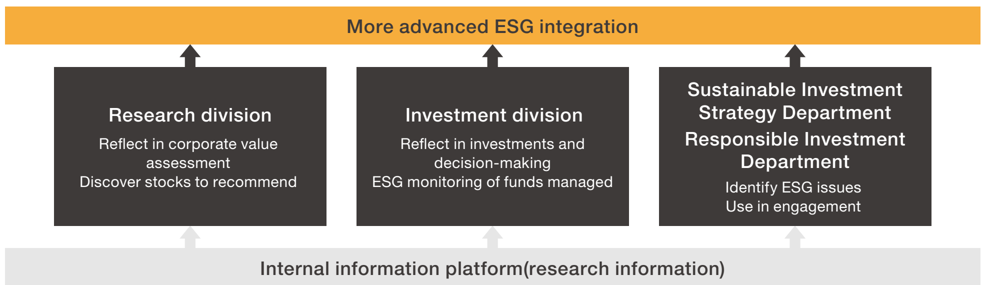
ESG scores are determined not only based on disclosed data but also using information on future risks and opportunities. By using this ESG score, we can compare the strengths and weaknesses of portfolio companies' ESG efforts, and use the scores in engagement such as discussing future course of action.

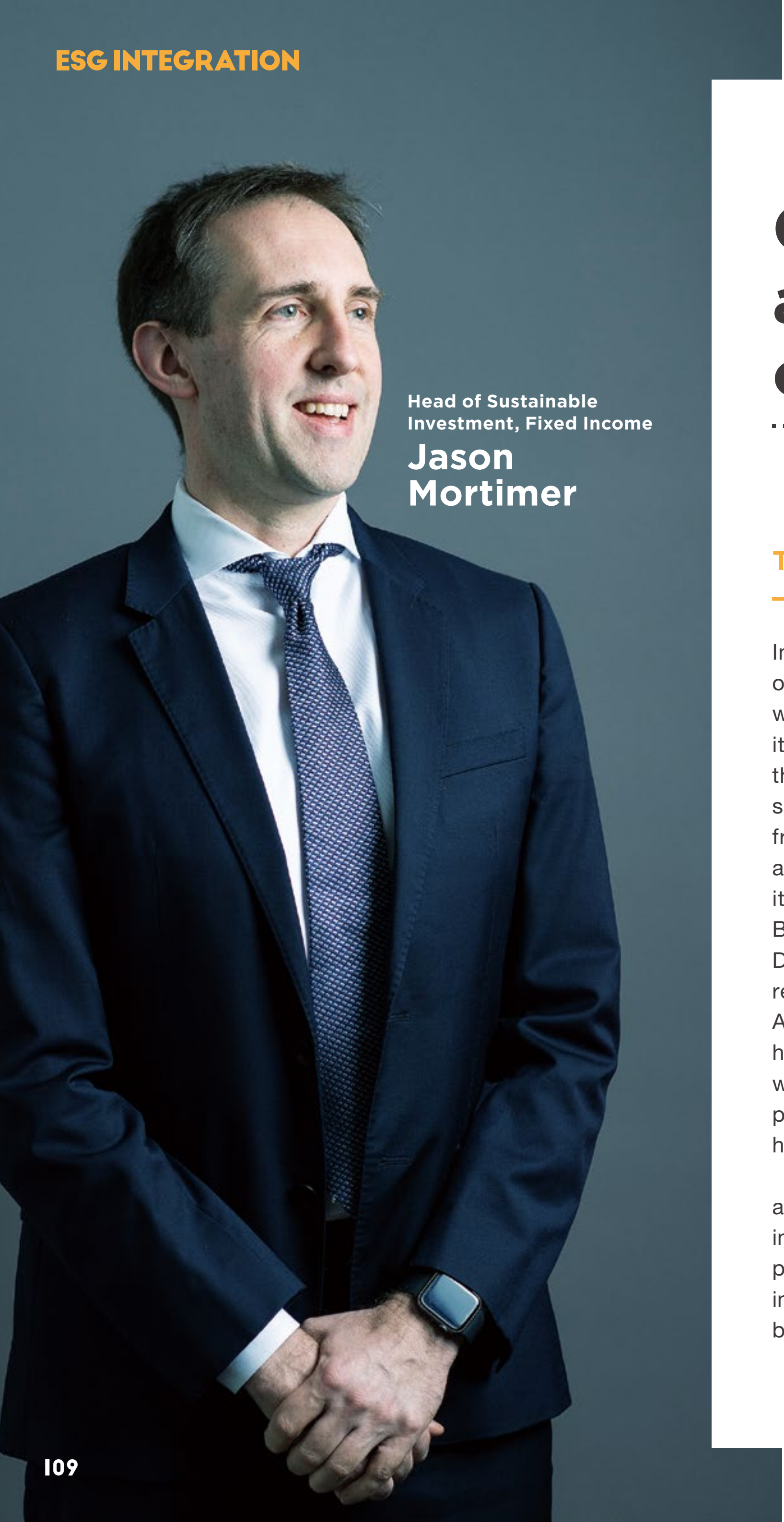
Utilizing ESG score data in investment activity

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.





Head of Sustainable Investment, Fixed Income
Jason Mortimer

Changes in International Politics and the Direction of Sustainable Investment

The Second Trump Administration

In year ahead outlooks, 2024 was described as a year of potentially major political change and policy upheaval with elections cycles cumulating across the world – and it delivered on this promise. In 2024, the Labor Party in the United Kingdom returned to power for the first time since 2010, Germany and France saw voters shift away from traditional mainstream party coalitions to both right- and left-wing parties, and Japan's LDP ruling party lost its parliamentary majority for the first time since 2009. But the most important 2024 election for markets was Donald Trump's victory over the incumbent party to win re-election to a non-consecutive second term in the USA. As a backdrop, conservative's hostility to "ESG" investing has grown into a cultural backlash and legal challenges, while the debate about energy transition policies and their potential impact on prices, growth, and energy security has intensified around the world.

What does this electoral shift mean for climate policies and regulations, corporate initiatives, and sustainable investors in 2025? Media headlines paint a negative picture, but we have a more nuanced outlook. Sustainable investment is not "dead", but it is changing in ways that will bring risk and opportunity to investors in these strategies.

Headwinds – Reversing signals of climate policy and disclosure requirements

With a second Trump administration in the US White House, global climate sustainability efforts in 2025 will likely see more policy uncertainty around the pace and ambition of climate policy, and less progress on regulatory climate disclosure mandates.

Firstly, the Trump administration has announced the USA's withdraw from the Paris Agreement again in 2025, in what may be an accelerated schedule relative to his first administration. The exit of the world's second largest GHG emitting country from the Paris agreement will be negative for sentiment, reduce the availability of global climate financial aid, and potentially limit the NDC (nationally determined contributions) target-setting ambition of other countries. Reportedly, some countries are already postponing their 2025 NDC updates in light of this uncertainty. However, as in 2016 when the US exit from the 1-year old Paris agreement did not lead to a wave of other countries leaving the agreement, in 2025 this is even less likely as a risk. Most countries have become even more strategically committed to the climate transition for their economies.

Additionally, the IRA (Inflation Reduction Act), enacted by the Biden administration in 2022, is a fiscal support measure aimed at promoting investment in renewable energy facilities and equipment in the U.S. There are concerns as the Trump administration seeks to revise this policy. However, the act aligns with the Trump administration's goals of protecting domestic industries and local economies, making wholesale abandonment unlikely.

Secondly, the new Trump administration's focus on deregulation and reducing corporate reporting burden is likely to slow global efforts towards globally aligned sustainability and climate disclosures, such as local adoption of ISSB standards. For example, the US SEC (Securities and Exchange Commission) adopted new rules for standardizing corporate climate-related disclosures in March 2024, but was immediately challenged in court by several companies and Republican state attorneys general, leading the agency to pause their implementation in April. In 2025, President Trump's pick for the SEC chair is highly likely to roll back or refuse to enforce the previous SEC administration's climate disclosure requirements.

From a regulatory perspective, this will put the US at odds with global efforts to encourage and align climate disclosures, making it more difficult for investors to analyze and price corporate sustainability risks.

However in a practical sense, relatively little is likely to change on the ground even with a weaker disclosure outlook in the US. According to CDP*1 and Center for Audit Quality*2, 80% of SP500 companies in US already disclosed climate data to CDP in 2022 with fully 98% reporting some form of ESG disclosure. CDP also shows a clear trend for increasing numbers of carbon neutral or net-zero commitments and Scope 3 reporting categories. Major multinational companies set commercial and climate strategies for a decade or more ahead - not 4-year political administrations. So the underlying commitments and decarbonization plans are likely to stay in place, even if companies may become less public about their sustainability efforts. And multinational companies are almost certain to remain motivated to disclosure based on requirements from foreign jurisdictions in addition to demand from their own clients and investors.

Opportunities – Refocus on material factors and increased attention to resiliency and adaption

With challenges come opportunity, and 2025 may see sustainable investment itself become more sustainable. Sustainable investors may move away from certain politically charged issues and refocus on a narrower set of economically- and market- relevant sustainability challenges with broader appeal.

The first opportunity lies in the growth of transition finance, which supports the funding of so-called brown (non-green) issuers in their transition toward greener practices, particularly given the current high levels of greenhouse gas emissions. Japan has been proactive in this area, notably with the issuance of GX (Green Transformation) transition bonds by the Ministry of Finance in 2024, making it a world leader in this initiative. This proactive approach positions Japan favorably to capitalize on the changes in transition finance and attract the attention of foreign investors.

The second opportunity arises from the increasing demand for corporate and government resilience in responding to environmental changes, which is expected to lead to an expansion of investment in related projects. Specifically, this includes not only investments in renewable energy and electric vehicles aimed at mitigating climate change itself, but also the construction of climate-resilient supply chains and infrastructure to address the growing impacts of climate change and disasters.

As the effects of climate risks—such as unprecedented heat waves and increasingly severe flooding—intensify, the resilience of assets and projects will become increasingly crucial for long-term investment risk assessment. Investments in resilience are likely to garner sustained political support, which enhances their appeal to investors.

2024's political changes especially in the US represent both challenges and opportunities for global sustainable investors in 2025. While increased climate policy uncertainty and reduced climate disclosure regulatory momentum are headwinds, these alone are unlikely to derail global climate action by policy makers and investors. The concept of sustainable investment may in fact be enhanced in the long term by re-focusing on the core sustainability factors driving corporate value and risk, emphasizing pragmatic solutions like Transition Finance. We expect that investments will be strengthened in the long term by continuing to engage in this domain.

Sustainable investment markets have always been characterized by change and rapid evolution. Climate risks and opportunities in particular represent a long-term and high-conviction trend for global markets, although not one that will always develop in a straight line. Rather than despair over the near term setbacks to traditional approaches to sustainable finance, successful investors in 2025 can focus on best understanding and positioning for this latest evolution of sustainable investment.

*1 Climate Transition Plan Disclosure report
*2 Center for Audit Quality HP

Transition Finance and Transition Plan Assessments

Understanding the Next Frontier for Climate Investors

Transition Finance has emerged as a key topic for sustainable finance, as investors increasingly consider the need for both “Reducing Financed Emissions” and “Financing Emission Reductions”. Amid market debate on the very meaning of Transition, how are market participant’s disclosing and assessing Transition Plans?

Transition finance is increasingly recognized as a vital aspect of a practical set of solutions for reaching net zero goals by both private investors and public policy makers, yet remains without a generally accepted definition. In the broadest sense, Transition Finance is defined by relevant organizations as “investment, financing, insurance, and related products and services to support an orderly, real-economy transition to net zero”.

However for investors the distinction lies in practical implantation. Namely, does Transition apply at the entity-level, i.e. all corporates having a credible transition plan aligned to a 1.5 degree net zero pathway, or at the asset and economic activity level, i.e. transitional sector pathways and R&D (research and development) for hard-to-abate sectors that currently lack technologically feasible solutions? It is generally observed that the entity-level definition is most prevalent among European investors, while in Japan and Asia the “hard-to-abate” sector-focused approach is more common. This state of polysemy, or the capacity for word or phrase to have multiple but related meanings, can lead to confusion and impends consensus. However neither interpretation is necessarily “more correct”.

Corporate issuers and policy makers are rushing to respond to and establish frameworks for transition finance. According to the latest report from CDP[*1*2], 25% of companies that disclose through CDP (a year-on-year increase of 44%) have published transition plans in line with the 1.5-degree target set by the Paris Agreement. Japan has been recognized as a leading country with credible transition plans for three consecutive years. Additionally, a study by Oxford University[*3] found that among the G20 countries, seven—including the EU, the UK, and Japan—have already established requirements and regulations for transition plans, while eight countries, including Australia, Canada, India, and Indonesia, are in the process of developing guidelines. However, the penetration of transition plans into the market is still in its early stages. According to a report by the TPI[*4*5], while 30% of the world’s major greenhouse gas-emitting companies (1,027 in total) have commitments aligned with the 1.5-degree target, less than 5% of these companies have demonstrated even one element of a credible transition plan.

What are the elements of credible transition plans, and how can investors apply these factors to ex-ante analysis of an issuers climate pledges? While frameworks and standards are still evolving, certain common characteristics have emerged in investor approaches to assessing Transition Plan credibility. When continuously assessing plans and incorporating risks into pricing, insufficient information disclosure and unstandardized plans can act as obstacles. However, investors are working continuously to improve plan evaluation through trial and error.

Nomura Asset Management is actively engaged in public-private partnerships for new initiatives in the market, such as the issuance of GX economic transition bonds, in order to promote the widespread adoption of transition finance. By providing feedback on product features and institutional aspects from the investor’s perspective, we support the smooth expansion of the market.

Climate finance markets continued to evolve in 2024 in the face of challenges, with an increased focus on practical approaches to real-world decarbonization. While debate continues around the exact definition of Transition Finance and the standards expected for disclosing credible Transition Plans, this concept will play an increasingly critical role for climate investors in 2025.

*1 CDP: formerly known as Carbon Disclosure Project, organization for environmental information disclosure support
*2 Climate Transition Plan Disclosure report
*3 Net Zero Regulation Stock Take Report
*4 TPI: Transition Pathway Initiative, organization for transition plan assessment
*5 TPI State of Transition Report

Key evaluation points for the transition plan

Time Bound Strategy Short, medium, and long term targets	**Key Performance Indicators (KPIs)** Quantitative and objectively verifiable	**Accountability Mechanisms** Leaders incentivized; stakeholder feedback
Integrated with business strategy Must align to business model with economic rationale	**Forward Looking** Plans are leading indicators of intent and likelihood of success	**Coherence** Do capex plans support the transition strategy?

Source: Prepared by Nomura Asset Management

Japan's Growing market for Green Municipal Bonds

Climate Adaption and Resiliency impact investment opportunities

Japan's Green Sustainable Social (GSS+) municipal bond market is growing steadily, providing yen bond investors with opportunities to fund local climate resilience infrastructure across regional and local areas.

The global average temperature reached a new record high in 2024, marking the highest levels in modern history. Japan is no exception, experiencing continuous heatstroke special warning alerts during the summer, as well as delays in autumn foliage and snowfall on Mount Fuji. Amid these environmental changes, many local governments in Japan are facing increasing risks associated with natural disasters. "Super Typhoon" Hagibis in 2019 brought unprecedented rainfall to eastern Japan, resulting in nearly 100 fatalities and estimated economic losses exceeding $15 billion. Research by the Japan Meteorological Agency estimates that global warming since the Industrial Revolution has increased the total precipitation from this typhoon by 14%.

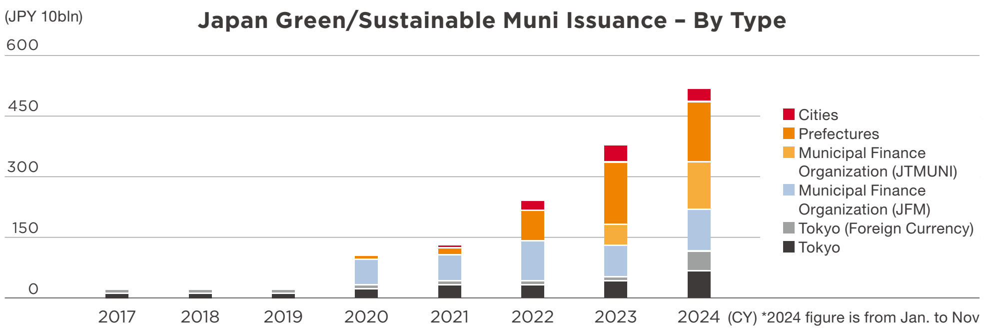
In response, there has been an increase in local governments*1 issuing GSS (Green, Social, and Sustainability) bonds. The funds raised are allocated to infrastructure developments that enhance resilience against climate disasters and to decarbonization projects. In 2024*2, more than 30 issuers issued GSS municipal bonds*3 totaling over 600 billion yen in face value in accordance with ICMA (International Capital Market Association) standards in the Japanese market. The total issuance in 2024*2 saw a year-on-year increase of 37%, accounting for approximately 8% of the total amount of municipal bonds issued.

A unique aspect of the Japanese Municipal GSS+ market is the market's relatively large allocation to Climate Adaptation projects. Our analysis of green and sustainable financing frameworks from major Japanese municipal GSS+ bond issuers finds that nearly 60% of these use of proceed categories were allocated to projects for Climate Resiliency and Adaption, compared to 17% for Climate Change mitigation and 13% for mixed Mitigation and Adaptation projects. In contrast, the allocation ratios for typical green bonds are reversed, with the majority being invested in climate mitigation projects, such as renewable energy and clean transportation systems.

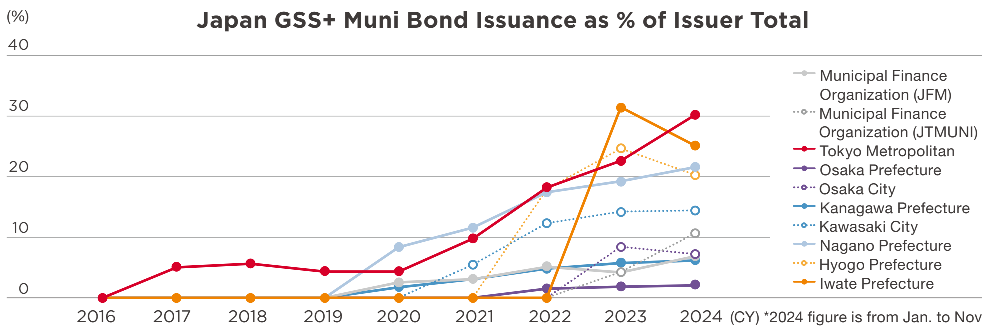
However, the long term capital expenditure needs of local governments are significantly more aligned with adaptation projects such as inland and coastal flood defenses, and measures to prevent erosion and landslides. Climate resilient public infrastructure projects such as these are also likely to be more meaningful to the protection of life and property in the local community, with indirect financial and credit metric benefits from better disaster and recovery preparedness.

We aim not only to participate as an investor in the Japanese municipal bond market but also to foster the understanding of adaptation finance, which enhances sustainability and mitigates economic losses from natural disasters among local governments. Moreover, leveraging Japan's position as a trusted regional partner, we are committed to sharing successful case studies from the Japanese municipal bond market with other regions, such as developing countries in Asia, through international outreach efforts.

*1 Municipal Bond issuers include sub-national government issuers such as prefectures, cities and towns, Japan Joint Local Government Bonds, Municipal Finance organizations
*2 2024 figure is from Jan. to Nov.
*3 Figure exclude non-ICMA aligned "SDG Bonds" and local expressway issuers



Source: Prepared by Nomura Asset Management based on Bloomberg.



Source: Prepared by Nomura Asset Management based on Bloomberg.

Sustainability as an Alpha Source

Case study from Corporate Hybrid Bond

Nomura Asset Management applies a proprietary quantitative model approach to integrating credit material non-financial data and issuer analysis into corporate debt strategies with the aim of improving risk-adjusted returns. We believe that the integration and utilization of non-financial data can serve as a crucial source of alpha for bond investment strategies.

The analysis of bond issuers can be broadly categorized into financial data and non-financial data. Financial data is generally widely disclosed and tends to be easily reflected in market bond prices. In contrast, non-financial data—often referred to as ESG data—lacks standardized disclosure formats, making quantification and analysis challenging. However, this type of data can capture unprecedented new risk factors, such as climate change risks and cybersecurity risks, suggesting the presence of information asymmetry and opportunities for generating investment alpha. Our model particularly focuses on the downside risk related to credit quality, taking into account the importance of principal repayment certainty, which is a key characteristic of bond investments.

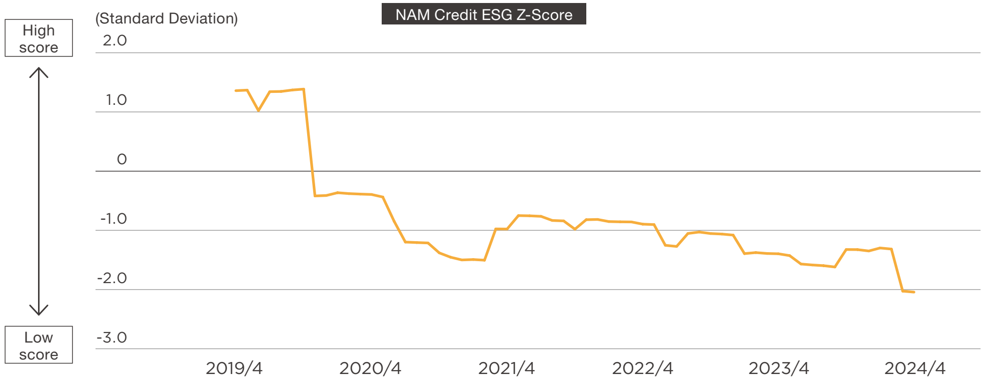
Corporate hybrid bonds are subordinated debt issued by non-financial sector corporations. They typically offer higher yields than traditional bonds, but they come with characteristics such as lower repayment priority in the event of default and the option for issuers to defer interest payments. These features tend to be particularly pronounced during periods of deteriorating credit quality, making investors sensitive to signs of credit deterioration.

In our corporate hybrid bond investment strategy, we utilize ESG scores in individual issuer assessments. We consider excluding issuers with low ESG score evaluations, as they may present risks that are incorrectly priced into the market.

In 2024, there was a downgrade event involving a transport company in the UK. Initially, the company had received investment-grade ratings of BBB or higher from multiple rating agencies, and sell-side analysts, as well as leading ESG rating providers, had given it favorable evaluations. However, our scoring assessment differed significantly; we had rated the company low due to its poor management of labor relations and risks associated with its relationship with regulators. Given that a deterioration in labor relations could lead to serious downside risks to credit quality, we decided to exclude this issuer from our investment universe.

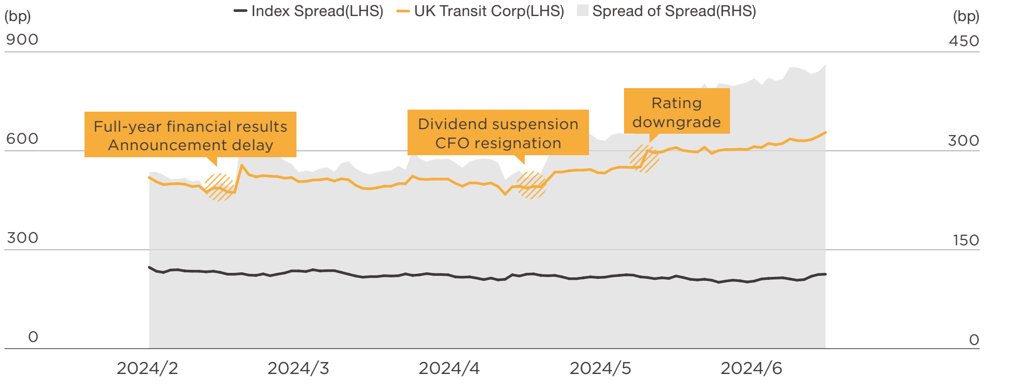
In the latter half of 2024, the company experienced a decline in earnings, partly due to strikes related to labor relations, which prompted some rating agencies to downgrade its issuer rating to below BBB, classifying it as junk status. This resulted in a significant widening of credit spreads for its hybrid bonds (the yield differential compared to government bonds), leading to a deterioration in performance. However, because our strategy had excluded this issuer, we were able to avoid the negative impact on performance. This example illustrates that through the integration of non-financial data, there is potential to mitigate downside risks in bond investments.

UK Transit Service Corp – ESG assessment



(Source) Prepared by Nomura Asset Management

UK Transit Corp Hybrid Spread vs Hybrid Index



(Source) Prepared by Nomura Asset Management
UK Transit Corp Hybrid: GBP 2025 Call
Hybrid Index: ICE BofA Global Hybrid Non-Financial Corporate Index

Utilization of ESG in Japanese Bond Credit Management

The credit portfolio management of JPY bonds is coming into the spotlight as JPY bond yields are reviving with the policy interest rate hike under the current Bank of Japan Governor, Kazuo Ueda, marking the first increase since 2007. For many years, the negative interest rate policy had kept the yield levels of JPY corporate bonds low, resulting in a relatively unattractive environment for this asset class from a yield perspective.

Since 2019, our JPY bond credit management has adopted an investment process that integrates ESG risk assessments in addition to traditional business and financial risk evaluations, aiming to mitigate the risk of sudden declines in corporate bond prices and stabilize investment returns.

When viewing the JPY corporate bond market* by sector composition, it is notable that the top two sectors— FILP agency bonds and utilities such as electric and gas—make up a disproportionate share, with FILP agency bonds representing about 30% and utilities around 20%. This characteristic, which is not seen in other countries' markets, makes it essential to conduct proper ESG evaluations not only for general business companies but also for these sectors in our asset management.

Bonds from FILP agencies are issued by non-public companies, which limits the availability of information for assessment. However, we conduct ESG evaluations considering the policy roles that public finance and public enterprises play. The electricity and gas sectors still have a high dependency on fossil fuel power generation, which is associated with significant greenhouse gas emissions. There are perspectives promoting divestment from these sectors based on this dependency; however, our approach focuses not so much on the current levels of emissions but rather on the strength of commitments to transition strategies toward decarbonization and the potential for future improvements. The initiatives undertaken by electricity companies are closely linked to Japan's energy policy. Expanding renewable energy and restarting nuclear power plants can have a substantial impact on greenhouse gas emission reductions. We believe that appropriately evaluating these factors when making bond investments is crucial for achieving a decarbonized society while also enhancing investment returns.

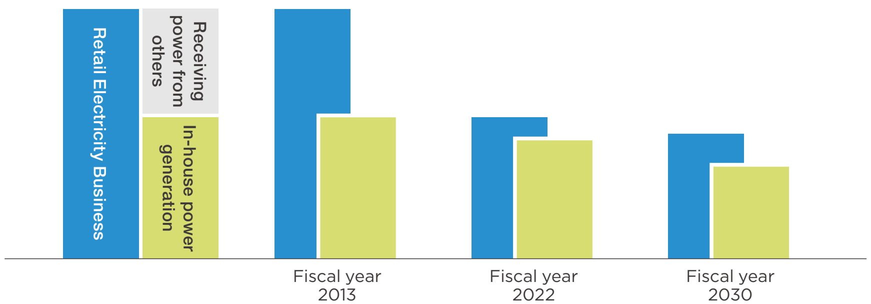
*Nomura-BPI Extended Corporate Bond Index

COLUMN

ESG Evaluation: Case study from Japanese Electric Utilities

This is a power company with a solid business foundation in Japan. It has set goals to reduce CO_2 emissions by 50% by fiscal year 2030 (compared to fiscal year 2013) and to achieve carbon neutrality by 2050. The company is implementing measures aimed at decarbonization, such as the introduction of renewable energy sources and the restart of nuclear power plants. Currently, its reliance on coal-fired power generation is relatively high compared to other companies, so it is collaborating with others to engage in demonstration experiments of new technologies aimed at reducing emissions from coal-fired power generation. In terms of renewable energy, the company aims to increase its power generation from renewable sources by approximately 70% by 2030 (compared to fiscal year 2019). It is actively working on a wide range of initiatives, including the construction of solar power plants, enhancement of hydroelectric power generation, and the exploration of investment projects related to biomass power generation and offshore wind power. The company is also proactive in information disclosure, revealing sector-specific investment amounts and contributions to emission reductions in its management plans. Additionally, it provides transition plans for its thermal power plants, enabling external third-party checks.

Illustration of CO_2 Emissions Reduction



(Source) Prepared by Nomura Asset Management from company materials