



Sustainability Report 2022

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Taking purposeful steps today

A message from Stefanie Drews, President

"Connections have also been strengthened from the top down with senior management more involved than ever in promoting sustainability at Nikko AM"

To deliver on long-term targets, we need to set interim goals along the way. The year 2021 was an important one for setting up clear signposts that will get us taking purposeful steps on the journey today so we can help make the world more sustainable.

We are now on our way to achieving a number of challenging goals for each of our three core areas of sustainability: diversity & inclusion (D&I), reducing inequalities, and environment & climate.

In the area of D&I, our Global Diversity & Inclusion Policy cements our commitment to diversity and our belief that greater D&I will bring our clients an even better range of solutions. In March 2021, we announced our aim of "30

by 2030". This will be a strong motivator for us to increase the number of women in management positions globally to 30% — from 18.4% — over the coming years.

We are also making strides in the area of reducing inequalities — in fact, we're running. Although remote work has been the norm, employees around the world have continued to make a difference in their communities by supporting several charities, and one way they have done this is through virtual runs in Japan, the UK, Singapore, and Hong Kong.

Another initiative I would like to highlight is the launch of Nikko AM New Zealand's Freedom Fund. This investment fund gives clients the chance to put their dormant capital towards the fight against modern slavery and human trafficking. We hope that it will have a lasting impact on many people's lives.

In the area of environment & climate, we have continued our important carbon offset projects. But we also want to take a more active approach in reducing our own carbon





Stefanie Drews working from home

footprint. In September, we updated our environmental policy and set a target of cutting greenhouse gas emissions across the Nikko AM Group by 40%, per employee, of 2019 levels by 2030. The pandemic has shown us that we can achieve strong business results with lower emissions, and we want to continue down this path, even as business normalises over the next few years.

In November, we joined the Net Zero Asset Managers initiative to affirm our commitment to supporting the goal of net zero greenhouse gas emissions by 2050.

For everyone at Nikko Asset Management involved in sustainability efforts, 2021 was also the year we became more connected. Our Global Sustainability Team made it

a priority to see that our nine working groups became as closely integrated as possible, encouraging them to communicate regularly, share ideas, and support one another in a variety of ways.

Connections have also been strengthened from the top down with senior management more involved than ever in promoting sustainability at Nikko AM globally. It has been very inspiring to see that, what started organically, from the bottom up, by passionate individuals at our firm, has become an international programme, championed from the top by senior management, and is translating into global action — and impact.

A top priority for us now is to further foster a culture that values sustainability — so we have set yet another target:

to raise the number of employees who volunteer in sustainability working groups from 8% to 15% by 2025.

Now that we can clearly see some of the stops along the path, we will continue to take steps every day to make sure we get to where we need to be. ●

Stefanie Drews

President

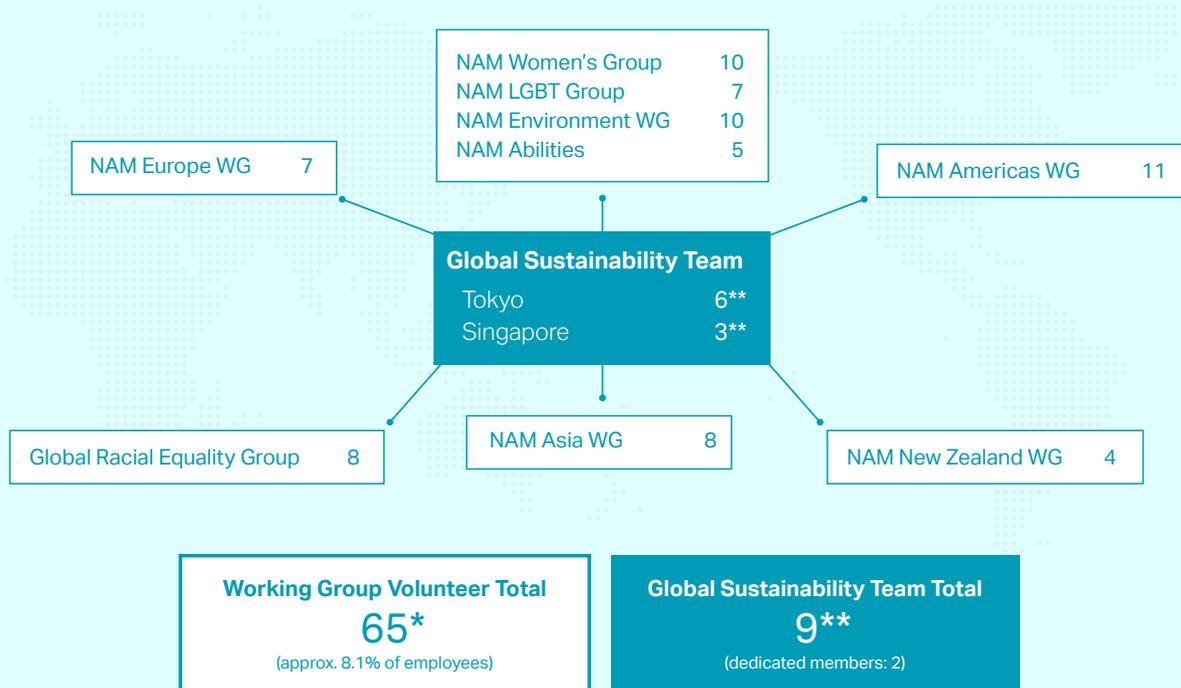
“It has been very inspiring to see that, what started organically, from the bottom up, by passionate individuals at our firm, has become an international programme, championed from the top by senior management, and is translating into global action — and impact”

Snapshot of 2021

Sustainability at Nikko AM by the numbers

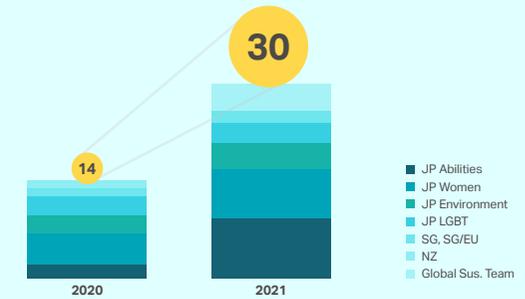
Volunteers dedicated to sustainability

Number of volunteers in each of Nikko AM's working groups



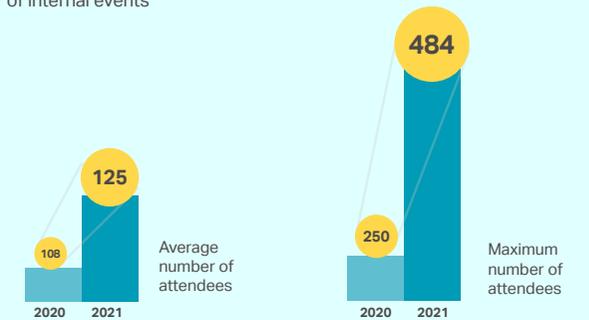
Accelerated cultural shift

Number of internal events



Passionate involvement from colleagues

Number of internal events



Global events in dual languages



*Excluding Global Corporate Sustainability Team. Eliminating double counting of dual members.
 **Including members working concurrently in other departments. As of 31 Dec 2021



Mihoko Sogabe, Outside Director



Yoichiro Iwama, Outside Director and Chairman of the Board of Directors



Mari Yamauchi, Outside Director

Moving towards equality

Three of our outside directors discussed the theme of sustainability and the advancement of women.

With the establishment of the Corporate Sustainability Department in 2018, we placed sustainability at the heart of our corporate strategy. How has Nikko AM evolved since then?

Mihoko Sogabe: As an asset manager, Nikko AM is responsible for addressing sustainability in two ways: promoting our ESG investment activities and behaving sustainably as an organisation. I feel that, since the pandemic began, we have accelerated the pace of these efforts and are now seeing many positive results.

Yoichiro Iwama: Nikko AM's senior management has been working to communicate the firm's stance on sustainability, both internally and externally. Although we are making steady progress on this front, I think there is still room to bolster this effort.

We have set a target to raise the number of female managers in the Nikko AM Group to 30% (from the current level of about 20%) by 2030. What do you think we need to do to achieve this goal?

"The most important way to ensure that Nikko AM truly maximises its human capital is to create a framework that gives everyone equal opportunities"

Yoichiro Iwama: My view is that the ultimate goal should be to achieve an equal ratio of men and women. So, I consider 30% an interim goal. Since women currently make up about 37% of Nikko AM's workforce, the 30% female managerial goal is an appropriate first step. The most important way to ensure that Nikko AM truly maximises its human capital is to create a framework that gives everyone equal opportunities and fairly evaluates the abilities of employees, regardless of gender.

Mari Yamauchi: In order to achieve the target by 2030, the firm needs to increase the ratio of women in managerial positions by more than 1% each year. This is more than achievable, but we need a systematic approach, such as mandating the inclusion of female candidates for recruitment and promotion, and setting numerical targets at department head and recruiting manager levels.

The promotion of women's participation in the workplace is not only a matter of addressing their career goals and work styles. It is also about reforming the work styles of men and, as a result, creating a workplace that is comfortable for all employees, male and female. Some examples of this are ensuring that all male employees who become fathers take childcare leave, and that men and women take the same amount of time away from work.

Mihoko Sogabe: I agree with Yamauchi-san that we need to implement work-style reforms for male employees to achieve this target. By having men experience childcare and nursing care first-hand, it will become the norm for men to be actively involved in everything that is happening at home. This, in turn, helps to create mutual understanding among all employees at work and leads to a better working environment for everyone.

At the same time, the company needs to help women progress and to provide them with the tools to enable this. When women rise to a new position, they face new challenges that can be difficult at first, but they need to understand that this is also an opportunity to quickly enhance their skillset. This boosts confidence, makes work more interesting, and increases motivation to rise further. It's important for the firm to keep on motivating our female employees to make that virtuous cycle a reality for them.

The 2021 revision of Japan's Corporate Governance Code also calls for ensuring diversity. Do you have any suggestions about how Nikko AM should be addressing issues such as human resource training or recruitment policies as part of its corporate strategy?



"Whether in the area of investment management or our own sustainability efforts, I believe engagement activities are central to our pursuit of sustainable growth."

Mari Yamauchi: The objectives of the younger generation are changing with the times, and being self-fulfilled and making social contributions are more important to this group than ever before. So, our efforts in ESG investment and sustainable business operations enhance our competitiveness in recruitment. As employees increasingly seek a flexible work style, the human resource department will need to ensure they are catering to a

diverse range of individual needs, for example, through talent development and job allocations tailored to personal life plans and goals. The role of HR will become ever more important.

Yoichiro Iwama: One option we could consider as an investment in our people is a programme for active international personnel exchange. If we have more global employees who are exposed to the diverse viewpoints and values of those with different experiences, skills, and attributes, not only will this contribute to the sustainable growth of our company, it will strengthen the human capital of the organisation and show our clients that we are a Japanese asset manager with a global mindset.

What are your expectations and hopes for Nikko AM?

Yoichiro Iwama: Since Nikko AM established the Corporate Sustainability Department three years ago, its initiatives have steadily been taking shape. Whether in the area of investment management or our own sustainability efforts, I believe engagement activities are central to our pursuit of sustainable growth. As Nikko AM aims to become a top-tier global asset manager, I intend to work with the management to promote our corporate sustainability initiatives further.

Mihoko Sogabe: As Iwama-san said, by further strengthening our internal engagement, we can become a company that employees are enthusiastic about working for. I believe this will be one of the key elements in meeting the expectations of society and contributing to societal growth. I expect Nikko AM to continue on this sustainability journey, and I will support the management so that the company can realise its goals.

Mari Yamauchi: Just as Nikko AM expects its investee companies to meet high standards to realise a sustainable society, we too need to continue to be proactive and position ourselves as industry leaders. I believe that efforts to create a comfortable working environment for all, and at the same time improve productivity, can contribute to the realisation of a sustainable society where diverse opinions and values are respected. ●

Investment Management

Integrating ESG into everything we do

A message from the Chief Investment Officer

At Nikko AM, we regard environmental, social, and governance (ESG) principles as a core part of our corporate philosophy and have integrated them into our investment decision-making process.

Given that we launched Japan's first socially responsible investment fund in 1999, we now have over 20 years' experience in ESG, working consistently to connect ESG factors with excess returns.

In November 2021, we joined the Net Zero Asset Managers Initiative (NZAM), a group of asset managers from around the world who are committed to achieving net zero greenhouse gas emissions by 2050. We view climate change as one of the most urgent and life-threatening challenges global society faces today. Through our participation in NZAM and other international initiatives — including The Investor Agenda, the Task Force on Climate-related Financial Disclosures (TCFD), and Climate Action 100+ — we will strengthen our response to climate change in line with the Paris Agreement and the United Nations' Sustainable Development Goals.

One way we are trying to connect our efforts to tackle climate change with achieving excess returns is through our internally developed Creating Shared Value scoring system for assessing Japanese equities. As we are always working to improve ESG integration in our

investment management operations, we included some additional ESG components to this scoring system in 2021, and we have also started using a new proprietary ESG analysis tool, which won the BQuant Mastermind award at the Bloomberg BQuant Hackathon event in October.

Just as the debate around ESG is intensifying, we are seeing a sudden shift in the energy mix of some countries, which is leading to increased power shortages and geopolitical instability. In some areas, we are observing phenomena that could be interpreted as transition risks. Through work led by our Active Ownership Group in Japan and our global investment specialists overseas, we are proactively engaging with investee companies to encourage them to engage in climate action and other corporate ESG activities, in addition to sustainable value creation.

While we continue to take action on "E" (environmental) themes, which are at the heart of our ESG activities, we have also announced Nikko AM's key ESG themes, which demonstrate our firm's commitment to addressing other ESG issues. We feel we have many opportunities to tackle those relating to the "S" (social) of ESG, given our focus on work styles, personnel strategies, labour productivity, and the promotion of diversity. Furthermore, our ongoing work in the "G" (governance) area includes discussions on the effectiveness of the boards of directors of our investee companies in view of revisions to Japan's Corporate Governance Code, the need for capital cost conscious business management, approaches to group governance, and the protection of minority shareholders' interests.

More than ever, asset managers are playing an important role in addressing ESG challenges. By taking action based

on the spirit of our fiduciary and ESG principles — and making enhancements through innovative solutions — we remain firmly committed to providing clients with high-quality financial services that meet their needs. ●



Hiroki Tsujimura
Executive
Corporate Officer,
Global Head of
Investment,
and Chief
Investment
Officer



A history of our sustainable investment activities

1999

Launched Japan's first socially responsible investment fund

2007

Became a signatory of the UN's Principles for Responsible Investment (PRI)

2010

Launched the world's first fund developed with the World Bank

2011

Signed onto Japan's Ministry of Environment-led Principles for Financial Action for the 21st Century

2011

Served as chair of the PRI Japan Network (April 2011–March 2014)

2013

Developed the Creating Shared Value (CSV) equity investment strategy for Japan

2017

Established the engagement and proxy voting specialist team, called the Active Ownership Group (in Japan)

2017

Enhanced our governance by requiring full disclosure of our proxy voting results (in Japan)

2016

Established the Stewardship and Voting Rights Policy Oversight Committee and the Global ESG Steering Committee

2018

Became the first Asian-headquartered asset manager to support all four areas under The Investor Agenda*

2019

Published our inaugural TCFD Report

2019

Became a member of the International Corporate Governance Network

2020

Published our inaugural Sustainability Report

2020

Enhanced our governance by requiring full disclosure of our proxy voting results (in the UK)

2021

Joined the Net Zero Asset Managers Initiative

*This includes signing and supporting the Global Investor Statement to Governments on Climate Crisis, Climate Action 100+, the Task Force on Climate-related Financial Disclosures (TCFD), and the Asia Investor Group on Climate Change working group, based on Nikko AM research.

Our ESG investment approach

Fiduciary and ESG principles are at the heart of everything we do at Nikko AM

At Nikko Asset Management, we act as a fiduciary on behalf of our clients and are firmly committed to putting their best interests first.

We place fiduciary and ESG principles at the heart of our business, and they are the highest guiding themes of our corporate actions — and the foundation of our corporate value.

We regard “fiduciary” as a general term that covers a wide range of roles and responsibilities assumed by our employees, and we believe that a commitment to environmental, social, and governance (ESG) principles is essential to carrying out our fiduciary duty. By incorporating ESG considerations in all our investment decision-making processes, we can contribute to long-term corporate value creation and sustainable economic growth.

CODE OF CONDUCT REGARDING FIDUCIARY AND ESG PRINCIPLES

1. Provide higher-quality investment management

Basic guidelines

- Offer high-quality asset management services from true investment professionals
- Make efforts to enhance our governance structure and activities as an institutional investor fulfilling ESG requirements, the Stewardship Code, and other responsibilities

2. Develop products and deliver easy-to-understand information that is always aimed at maximising investor interests

Basic guidelines

- Develop high-quality products that maximise investor interests and respond to investors’ changing needs
- Create and deliver important information, such as fees, in an easy-to-understand way

3. Strengthen corporate governance

Basic guidelines

- Foster and deepen a strong compliance culture, and establish rigorous compliance processes
- Implement appropriate mechanisms to motivate employees

IMPLEMENTING FIDUCIARY AND ESG PRINCIPLES

Board of Directors

Fiduciary and ESG principles are at the heart of everything we do at Nikko AM. Resolutions, reporting, and deliberations relating to these principles are carried out at our Board of Directors meetings.

Global Executive Committee

Members of the Global Executive Committee (GEC) are appointed by the Board of Directors. Pursuant to the Global Executive Committee Charter, which is approved by the Board of Directors, the GEC makes resolutions and holds discussions on business execution matters, excluding those for which a Board of Directors resolution is required. The GEC also develops frameworks to ensure that employees are fully informed about the fiduciary principles; conducts reviews of internal activities to improve our initiatives; and gathers relevant market information. Additionally, the committee submits items for approval to the Board of Directors as necessary.

ESG Global Steering Committee

The ESG Global Steering Committee was launched in November 2016. It is chaired by the CIO and is made up of 14 members who are mainly leaders from our global investment management teams. Meetings are observed by many members of the sales, client services, and products departments. The committee meets quarterly to discuss ESG investment initiatives, their implementation, and potential new ESG approaches. It also promotes realising these initiatives. The committee reports its activities to the Board of Directors.

Stewardship & Voting Rights Policy Oversight Committee

The Stewardship & Voting Rights Policy Oversight Committee was launched in June 2016 to enhance the transparency of Nikko AM’s stewardship activities in Japan and strengthen its governance. The Stewardship & Voting Rights Policy Oversight Committee is an independent committee, one of the internal governance bodies recommended under Japan’s Stewardship Code. The committee has a high degree of independence, with four independent external members out of seven, as of December 2021. As an independent body with oversight authority, the committee monitors Nikko AM’s engagement with investee companies and proxy voting. This is to ensure that they are acting in line with fiduciary and ESG principles, and truly serving the interests of investors. In principle, the committee meets quarterly and reports its activities to the Board of Directors.

In addition to these groups, the Stewardship Oversight Committee at Nikko AM Europe was established to enhance transparency in stewardship activities, such as engagement and proxy voting, in the region. ●

Co-creating social and economic value

A message from Yasushi Ishikawa, Head of Japan Equity

In 2021, the world became more aware of the crucial need for sustainability than ever before, at the national, corporate, and individual level.

It was also a year of progress in making sustainability a reality, with an increase in the number of initiatives being carried out. One of the most notable developments was a growing sense of urgency about the risk of climate change around the world. In October 2020, Japan committed to achieving carbon neutrality by 2050, and 2021 was a chance for all levels of society to push forward decarbonisation initiatives.

Nikko AM has a long history of co-creating social and economic value through our evaluations and engagement with companies. We built on that record in March 2021 by establishing these three key ESG themes as considerations we deem important for most Japanese firms:

Nikko AM's key ESG themes

E – Action for a Decarbonised Society
S – Human Capital and Productivity
G – Effective Governance

In order to realise a decarbonised society, it is necessary to effectively utilise the decarbonisation technologies possessed by Japanese companies, and at the same time, to transform the industry structure through digitalisation.

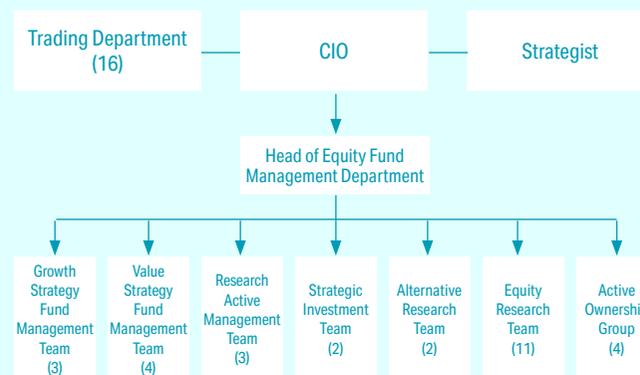
For this structure to change, firms will need to make investments to improve efficiency in a variety of areas, such as by raising productivity with limited human capital through education, vocational training, and ensuring the right people are in the right jobs. Furthermore, in order to make such strategic investments in human capital, companies need to have effective governance. Therefore, these key ESG themes are closely connected to each other.

Although companies' approach to ESG factors are addressed primarily through non-financial information, we consider it important to quantify them where possible; and recognise the materiality of each issue by evaluating the impact these issues have on companies' future earnings and shareholder value. Our research into the relationship between the efficiency of human capital investment

and shareholder value¹, as well as earnings propagation effects in supply chain networks², have led to us being awarded the Securities Analysts Journal Prize for two consecutive years. We also have been conducting joint research on artificial intelligence with the University of Tokyo since 2018 to enhance our investment management capabilities with cutting-edge digital technology³.

Our investment management teams take a unified approach to company analysis and evaluation as well as dialogue and engagement with companies, centred on the key ESG themes noted above. At the same time, we also fully take into account variances between ESG risk factors and revenue opportunities that companies face. This is what we call Creating Shared Value, a type of company assessment, which is how the Japan Equity team integrates ESG into our investment process. Through this, we strive to enhance the value of investee companies and accumulate investment returns over the medium- to long-term. ●

Japan Equity organisational structure



¹Ishikawa, Y. and K. Hasegawa, "Efficiency of Japanese Corporate Investment in Human Capital and Shareholder Value", Securities Analysts Journal, June 2019 (FY2019 Securities Analysts Journal Prize)

²Tsuchiya, S., "Earnings Propagation Effects through the Global Supply Chain Network", September 2020 (FY2020 Securities Analysts Journal Prize)

³Suzuki, Katagi, Sakaji, Izumi, and Ishikawa, "Stock Price Analysis Using Combination of Analyst Reports and Several Documents," November 2019 (Best Paper Award at CDEC 2019, the 2nd international workshop)

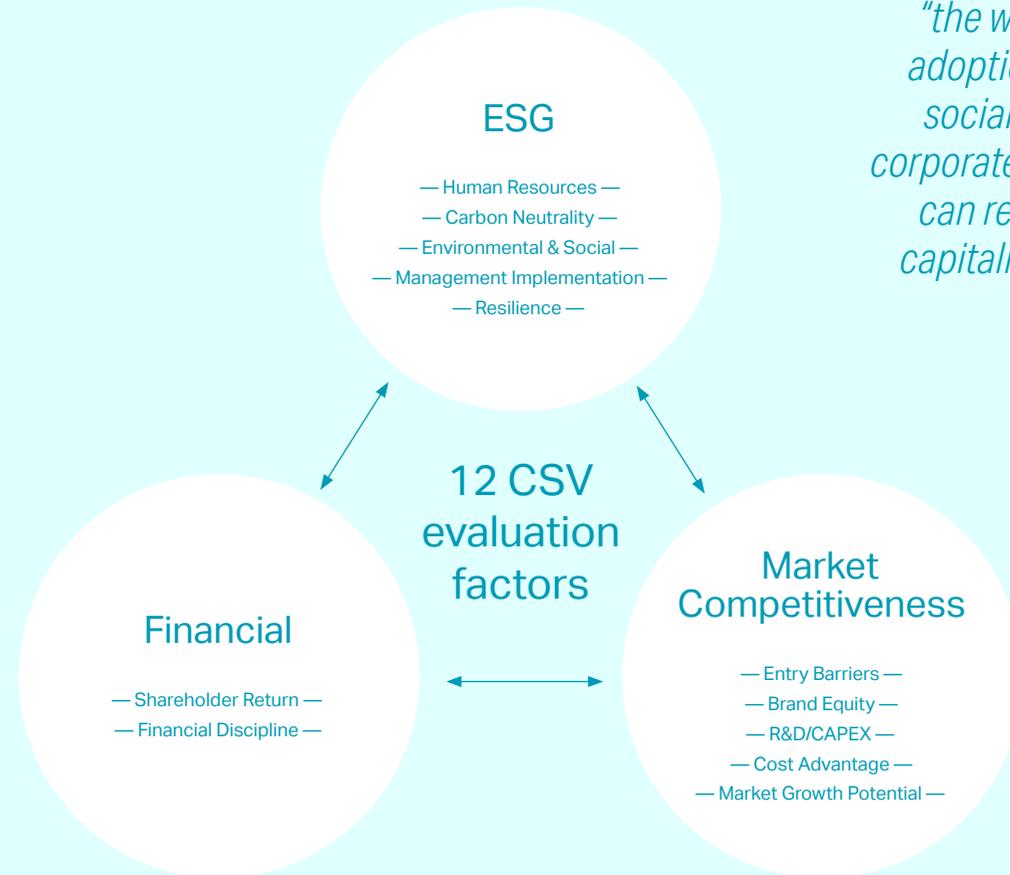
CSV-based company assessments

In 2011, Professor Michael Porter of Harvard University put forward the concept of Creating Shared Value (CSV) for corporate management.

He proposed that companies should play a central role in solving social challenges and that the solutions they provide can result in innovation, thereby creating both social and economic value¹. He argued that such socially-centred corporate activities are what capitalism should inherently aim for.

Nikko AM was an early supporter of the CSV concept and started conducting CSV-based evaluations of major Japanese companies in August 2013. According to Professor Porter, to his knowledge, Nikko AM was the first asset manager to introduce corporate evaluations based on the idea of CSV.

As shown below, Nikko AM's application of CSV is broadly divided into three fields: ESG, market competitiveness, and financials. These fields include a total of 12 items to be evaluated. As the social challenges and business opportunities a company faces differ greatly depending on its sector and other factors, our corporate analysts evaluate firms and assign CSV scores based on



“the widespread adoption of such socially centred corporate activities can reinvent the capitalist system”

each company's key challenges and business environment. In particular, the final evaluation of ESG field are determined through a cross-functional approach that includes impartial assessments from the Active Ownership Group, who are in charge of stewardship activities, along with the Equity Research Group Manager.

Since 2013, our analysts in charge of corporate CSV evaluations have been assigning investment ratings and target stock prices to firms based on the companies' ability to create shared value. Fund managers then use this

bottom-up assessment to integrate ESG into their funds. We are currently further strengthening the ESG/CSV integration in our funds with the introduction of CSV stock prices that reflect the premium/discount that CSV evaluation generally brings to the stock price. We are confident these enhancements will generate value in the form of investment returns. ●

¹Porter, M., and M. Kramer, "Creating Shared Value," *Harvard Business Review*, Jan-Feb., 2011 Issue.

Recognising the real demand for ESG

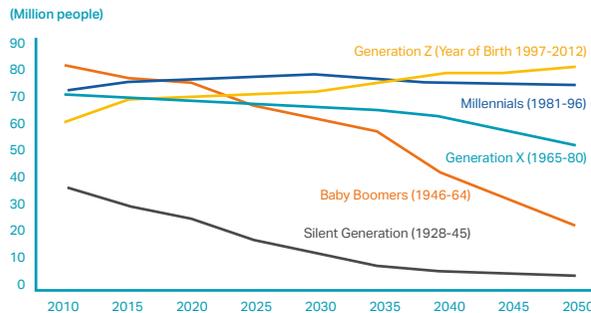
By Masanori Hoshino, Group Manager of the Japan Equity Research Group

We increasingly see data showing that ESG factors have a growing impact on stock price performance.

We believe that these results are only natural, given the real demand for ESG factors to be incorporated by businesses. And firms are realising that they have to pay attention. For instance, decarbonisation can lead to both business opportunities and risks; having a high environmental burden can damage a company's brand value; and personnel shortages are growing in severity.

Our CSV evaluations attempt to explain corporate value by assigning scores in the three areas of ESG, market competitiveness, and financials. This framework has led us to consider ESG in conjunction with economic value,

US population forecast by age group



Note : Figures up to 2019 are population estimates and those for 2020 onward are from 2017 National Population Projections
Source : United States Census Bureau
Created by Nikko Asset Management for illustrative purposes.

and we expect CSV evaluations to play an ever-greater role in our integration of ESG considerations at Nikko AM.

The graph on the left shows that one reason the size of a company's environmental burden affects its brand value is the rise in consumption attributable to Millennials and Generation Z. By empathising with the values of these generations, we believe we can develop various investment ideas and enhance the sustainability of our investment management performance. To encourage robust discussion from different viewpoints — and keep up with investment opportunities associated with our changing times — the Japan Equity Research Group strives to have analysts from different age groups on the team (see the chart below). ●

Analysts by age group

Age	2021	2025 (projection)	2030 (projection)
61-65			1
56-60	1	2	2
51-55	1	2	1
46-50	2	1	1
41-45	1	1	1
36-40	1	2	1
31-35	4		1
26-30		2	2
21-25	1	2	2

“one reason the size of a company's environmental burden affects its brand value is the rise in consumption attributable to Millennials and Generation Z”



Playing our part to build a better society

By Yukiko Hanai, Sector Analyst, Japan Equity Research Group



Companies are affected not only by their competitive power, but also by their management policies and strategies, and non-financial information disclosures.

Given the growing importance of ESG issues in company management, my job involves deepening my understanding of the firms I cover through my regular engagement with them.

An analyst's contribution to fund performance goes beyond analysing fundamentals. Fluctuations in the relative market positioning of stocks and changes in investor preferences are also important considerations. I judge which market areas look the most promising and where we are likely to find value that has yet to be priced into stocks. I also need to determine the right time to act and, for this, I draw on the expertise of our fund managers in addition to sell-side analysts and salespeople.

What I find most rewarding about my work is making initial decisions, working with fund managers, and seeing the results reflected in fund performance. As financial markets change every day, we continuously work to stay on top, interviewing experts in various

fields and management at each company to evaluate their efforts in non-financial areas.

The degree to which sustainability initiatives have been adopted varies from company to company. So, instead of merely basing investment decisions on how a firm's sustainability-related disclosure information compares with other companies, we should also focus on the extent to which companies have improved with regard to sustainability.

On the Japan Equity Research Group, we continue to enhance our operations and make them more sustainable. The base of all our business activities is the goal of benefiting others and contributing to the well-being of society as a whole. We will do our utmost to help solve societal issues through our investment activities and contribute to building a better society as a corporate citizen. ●

ESG solutions need to be considered from both a global and local perspective

By Tatsuhiko Ikeda, Sector Analyst, Japan Equity Research Group



Sustainability is a key factor in evaluating investee companies.

Increasingly, firms need to build sustainable business models as the impact of their activities on the global economy grows and limitations on natural and human capital become more apparent.

After gaining an understanding of the roles and issues that companies and industries have, analysts at investment management firms need to gather information on companies' management policies and their initiatives to realise a more sustainable society, then engage with firms while maintaining a medium- to long-term perspective.

Among the various sustainability initiatives being implemented, companies' actions to achieve carbon neutrality have received widespread attention. Also, in addition to their earnings results, businesses now actively release information on their contributions towards realising a decarbonised society.

Climate action and increased awareness of the consequences of global warming are creating a growing consensus throughout the world on the need to decarbonise.

For companies that offer superior products and services, this could lead to a wide range of global business opportunities. At the same time, the differing economic circumstances between countries and regions will also make it necessary to customise decarbonisation solutions. This is likely to create winning opportunities for players that launch businesses adapted to the unique circumstances of each region. In order to tie decarbonisation with corporate valuation, it is important to have both global and local perspectives.

There is no one uniform solution to realising a decarbonised society. That said, the Japan Equity Research Group will continue to act as a catalyst for activities that lead to a sustainable society through our research, analysis, and engagement activities. ●

Active engagement, better outcomes

Enhancing our stewardship activities can lead to greater returns

At Nikko AM, we believe businesses that provide solutions to societal issues can help create economic value.



“we aim to build win-win relationships through which companies benefit from sustainable growth in corporate value and investors secure investment returns”

Our fund managers and analysts interact with companies and hold discussions on a diverse range of topics — based on this shared understanding, as well their own viewpoints. By exchanging mutually beneficial information and opinions, we aim to build win-win relationships through which companies benefit from sustainable growth in corporate value and investors secure investment returns.

Working within the Japan Equity Fund Management Department, the

Active Ownership Group (AOG) leads stewardship activities, including proxy voting, engagement (i.e., constructive, purposeful dialogue with investee companies), and ESG integration. By combining our diverse knowledge and experience, as well as coordinating with other departments such as the Investment Technology Fund Management Department, we strive to enhance the sophistication of our stewardship activities and deliver greater returns for our clients. ●

Throughout 2021, we worked to enhance sustainability in our stewardship activities. In March, we publicly announced our key ESG themes (E – Action for a Decarbonised Society; S – Human Capital and Productivity; G – Effective Governance), and we are addressing these key themes both in our company analyses and through our engagement. Then, in April, we welcomed our first dedicated Group Manager.

In August 2021, we introduced a sector assignment system within our group and improved our coordination with the Japan Equity Research Group analysts, which is helping us to ensure we conduct high-quality

engagement in a unified way as a department. We also improved our engagement recording and management methods, and introduced milestone management in our engagement.

In 2022, the group will focus on managing engagement milestones to full effect in order to secure returns through engagement.



Masahiko Komatsu,
Group Manager of the Active
Ownership Group

Finding firms that have a strong environmental record

Working to bring greater attention to “invisible” values



On the Growth Strategy Fund Management Team, we believe that excess returns can be secured by identifying competitive companies through bottom-up fundamental research and investing in true growth companies that are expected to see medium- to long-term profit growth.

For more than 20 years, Nikko AM has held the conviction that companies are more competitive when they take meaningful actions to protect the environment and that this is essential to their survival and growth. Our team manages Japan's first socially responsible fund, which was launched in 1999. The environment-themed fund was intended to meet the needs of investors seeking to invest in companies whose environmental policies they agree with.

The fund selectively invests in ecologically sound companies that have a strong environmental record in addition to a clear management vision and competitive

“For more than 20 years, Nikko AM has held the conviction that companies are more competitive when they take meaningful actions to protect the environment and that this is essential to their survival and growth”

strengths. In addition to data on corporate profitability and growth potential, we expanded the scope of the corporate evaluations used for this fund by adding environmental excellence, as an ESG consideration, as well as Nikko AM's Creating Shared Value evaluations. These evaluations, therefore, cover not only financial information and other “visible” values, but also “invisible” values such as action on waste disposal and biodiversity, in view of climate change, sustainable governance, and stakeholder interaction.

In recent years, growing interest in ESG investments has created a more conducive environment for assessing “invisible” values to generate sustained excess returns. However, methods for disclosing information for these kinds of evaluations vary among companies, given that there are no clear disclosure standards for them. We believe that our work to bring greater attention to these kinds of “invisible” values to the greatest extent possible — not only for the fund but also for our other funds — is helping to enhance our corporate evaluations and stock selections. ●

Mirroring the needs of society

By Shigeru Aoyagi, Chief Fund Manager

"We see the stock market as a kind of mirror that displays the needs of society"

The Value Strategy Fund Management Team manages investments using a bottom-up, contrarian approach.



Since we began investing in 1996, our assets under management have grown by 20 times, which demonstrates our strong track record.

Investment philosophy

We invest in undervalued companies with the potential to generate earnings by addressing various societal issues. The alpha earned from the turnaround in the share price becomes our source of added value. Japan's protracted period of slow economic growth has made its stock market one of the world's rare pure value plays. The country is home to many companies that are not valued fairly and are discounted despite being needed by society and boasting products, services, technology, brands, and human resources that will translate into future profit streams.

The Japanese economy matured out of its high-growth phase more than 30 years ago, yet many challenges remain. The upside of these challenges is the innovation that has taken place. Today, many countries and regions are starting to grapple with societal issues that are arguably the by-products of economic growth. Challenges include low birth rates, shrinking working-age populations, environmental issues, and structural deflation.

There are many attractively valued Japanese companies that offer clues on how to address such challenges. They have advanced expertise in areas such as labour-saving robotics and environmental technology, and it is these companies that can offer us significant investment opportunities.

Engagement and ESG initiatives

Since we launched our strategy in 1996, we have been assessing the value of companies as minority investors. Through our efforts, we have supported investee companies to realise their true potential — and share risk with these firms by investing in them — and as a result have shared success together with the companies.

One of the most important elements of our research is acquiring non-financial information. Accurately assessing the long-term value of a company means not only evaluating the financial data already factored into its enterprise value, but also discovering the critical non-financial information that points to its underlying potential.

To generate multiples of enterprise value, it is essential to assess the potential of management and the company's frameworks while also gaining a good understanding of the core business. One key element in gaining non-financial information is engagement, which has been integrated into our investment processes since our team was established. This is embodied in two proprietary approaches in our research: multi-layered research and historical information.

Besides shareholder returns, we think a firm's social contributions are becoming more important when assessing non-financial information. This evolution is a godsend for us because we have always focused on this aspect.

We see the stock market as a kind of mirror that displays the needs of society. As fund managers, our mission is to deliver profits for clients by building portfolios that reflect different types of needs, while at the same time sending a message to the world. We seek to understand, from a neutral perspective, what society will need in five to ten years. Then we identify the companies that can actively address these points, we invest in them, and we provide returns to our beneficiaries. As professional fund managers, we believe our role is to deliver these benefits while also communicating effectively with society.

There is a lot happening in today's society — including the growing importance of ESG factors — that is expected to be reflected by the stock market. ●

Sustainable value across a wide range of asset classes

Connecting ESG performance and value

“we place a strong focus on the relationship between companies’ CO₂/greenhouse gas emissions and their stock prices”



Understanding the impact of ESG factors

The Investment Technology Fund Management Department has more than 20 members and is made up of two teams: the Passive Fund Management Team and the Quantitative Investment Management & Development Team. The Passive Fund Management team offers passive management products across a wide range of asset classes, not limited to fixed income and equities, but also alternative assets such as REITs, commodities, and multi-asset classes. The Quantitative Investment Management & Development Team primarily operates quantitative active and smart beta strategies for Japanese and foreign equities. The department has JPY 14.9 trillion in assets under management (as of the end of December 2021).

Our ESG investment approach

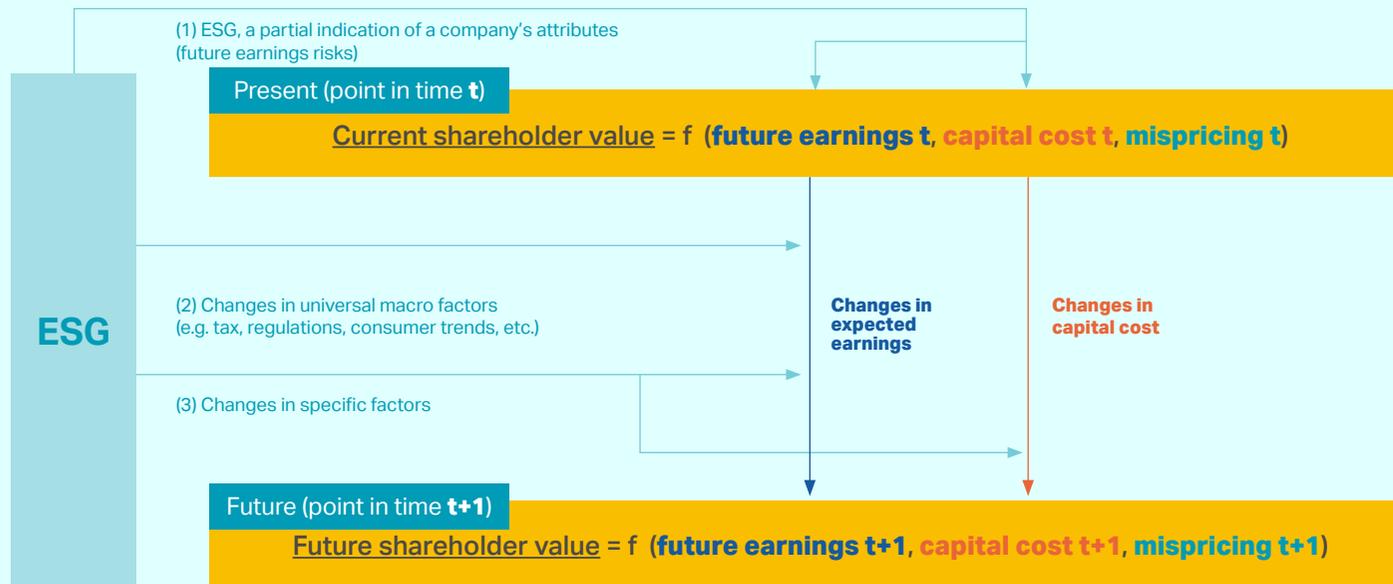
Given that environmental, social, and governance (ESG) factors can impact shareholder value in various ways

— such as future earnings and capital costs — we believe that having a theoretical and empirical understanding of the impact of these factors is a key part of ESG investment (see chart on the next page). That is why we conduct ongoing research into individual ESG factors using a quantitative approach while actively cooperating with the dedicated staff members responsible for engagement and proxy voting as well as ESG specialists within our organisation. The results of our research are used to integrate ESG factors into existing investment products and to develop new ESG products. They have also contributed to academic research.

Environmental research

In our research into environmental factors, we place a strong focus on the relationship between companies’ CO₂/greenhouse gas emissions and their stock prices. We think that shareholder value assessments that only cover scope 1

JAPAN INVESTMENT TECHNOLOGY TEAM



“Our research in social factors has a particular focus on the relationship between companies’ human capital investment efficiency and their shareholder value”

*Created by Nikko Asset Management for illustrative purposes.

emissions (direct emissions) and scope 2 emissions (indirect emissions from electricity, heating, and cooling) are insufficient and that coverage of scope 3 emissions (indirect emissions that occur along a firm’s value chain) will continue to increase in importance. Currently, however, it is rare for companies to disclose their scope 3 emissions, and there is room for improvement in the credibility of scope 3 emissions data. We are currently undertaking the challenging task of gathering information on investee companies’ scope 3 emissions by combining scope 1 and 2 emissions data with the insights we have gained from our global supply chain research¹.

Social research

Our research in social factors has a particular focus on

the relationship between companies’ human capital investment efficiency and their shareholder value². Based on a study that suggests higher human capital efficiency leads to higher share price performance, in January 2021, we launched the Japanese Equity fund focusing on this theme. This strategy invests in the stocks of companies with superior human capital investment capabilities.

Governance research

Governance is notoriously difficult to assess objectively given the significant variability in ratings among ESG rating institutions, compared with environmental and social ratings³. This reflects the large impact that idiosyncratic elements generally have on companies’ governance. It goes without saying that directors play a large role in corporate

governance. We also believe it is essential to assess the composition of a company’s board in view of factors such as the company’s industry, its size, and any concurrent positions held by its directors. In particular, the team analyses the relationship between factors that indicate the quality of corporate governance such as composition of shareholders and directors, and the company’s economic performance. We publish our research results in industry journals and give presentations in seminars and academic conferences, etc. For example, we gave a presentation on the findings to domestic and foreign pension plan sponsors and other institutional clients⁴. We are also in the process of developing the Japan Equity Stable Growth ESG Strategy based on the insights we have gained. ●

¹Tsuchiya, S. 2020. “Earnings Propagation Effects through the Global Supply Chain Network”, Securities Analysts Journal, 58(10), 65-77. (FY2020 Securities Analysts Journal Prize)
²Ishikawa, Y., and K. Hasegawa. 2019. “Efficiency of Japanese Corporate Investment in Human Capital and Shareholder Value”, Securities Analysts Journal, 57(6), 67-79. (FY2019 Securities Analysts Journal Prize)
³Gibson, R., P. Krueger, and P. S. Schmidt. 2021. “ESG Rating Disagreement and Stock Returns”, Financial Analysts Journal, 77(4), 104-127
⁴Teraguchi, M. 2021. “ESG Investment for Pension Funds: Discussion Points and Practical Solutions to Challenges”, Pensions & Investments’ 15th Global Pension Symposium

Conducting careful analysis to reach the best investment decisions



Akihiko Yoshino

By Akihiko Yoshino, Group Manager of Credit Research

The focus of our ESG analysis

When analysing environmental, social, and governance (ESG) factors, we currently focus on eight specific items: two related to the environment, and three each for society and governance. On the Japan Fixed Income team, we see ESG considerations as key factors in analysing qualitative risks that can't be covered exhaustively by financial analysis. We also periodically review these focus areas through the use of case studies.

Environment (E)	Society (S)	Governance (G)
Changes in environmental regulations	Human capital	Corporate governance
Environmental pollution	Manufacturer responsibility	Accounting fraud
	Relationship with antisocial forces	Corporate ethics

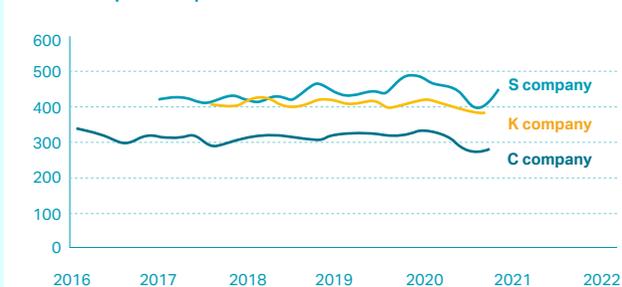
Integrating ESG analysis

The credit analysts on our team perform both fundamental analysis and ESG factor analysis of individual issuers. Their findings are incorporated into the investment process by comprehensively evaluating both the fundamentals and ESG characteristics of the industry/issuer and reflecting them in our investment decisions.

ESG integration: an investment case study

In November 2020, we invested in a corporate bond issued by a major food service operator (Company S). The investment decision was made in view of a financial analysis performed by the analyst in charge, based on our key ESG factors. In addition, we established an understanding of the issuer's current business situation through interviews as well as on-site investigations at the firm's restaurants before making our decision. We feel that this is a good example of an effective investment decision based on ESG factors together with financial analysis.

Cost Comparison per store



— A focus on human capital

One social factor we focus on is human capital. Based on case studies that show human capital has a large impact on a firm's creditworthiness, we believe that staff treatment and training significantly affect the quality of individual restaurants, which are of paramount importance to the business foundations of companies in the food service sector.

— The focus of our financial analysis

In our financial analysis, we focused on Company S's costs per restaurant and compared them with its competitors in the same industry. We found from our analysis that the company invests more than its industry peers on personnel expenses and other related operation costs.

— Interviews and investigations

During interviews we conducted, the company said that it intends to increase IT investment for better and more effective staff allocation, and that its business strategy is to increase revenue by increasing customer satisfaction with a corresponding rise in average spending per customer.

We also conducted on-site investigations to confirm that the company is successfully maintaining service quality while improving staff allocation at the individual restaurant level.

— Decisions based on ESG factors and financial analysis

From the perspective of human capital as a key ESG factor, we analysed the issuer's financial standing, conducted interviews, and investigated its restaurants. Based on the results of our analysis, we judged that Company S's strength in human capital fed into its business performance. Our positive evaluation of the issuer's long-term business competitiveness and creditworthiness led us to the final decision to invest in the bond. ●

ESG at the core of Future Quality

The year 2021 was when ESG moved from being a niche term within the investment industry to common parlance.

The pandemic, extreme weather events, and growing inequality are just some of the major forces that have led to ESG and sustainability now being part of the global zeitgeist.

For the Global Equity team, the COP26 meeting in Glasgow — a short distance from our Edinburgh office — was a daily reminder of the good intentions of most to cooperate and find a solution to the climate emergency, but also of the scale of the challenge.

Society cannot solve the problems that it faces today without the private sector making a significant contribution. We believe the market will increasingly allocate capital to companies that are working to solve society's major challenges and that these companies will be best placed to sustain high returns into the future, while creating value for all their stakeholders.



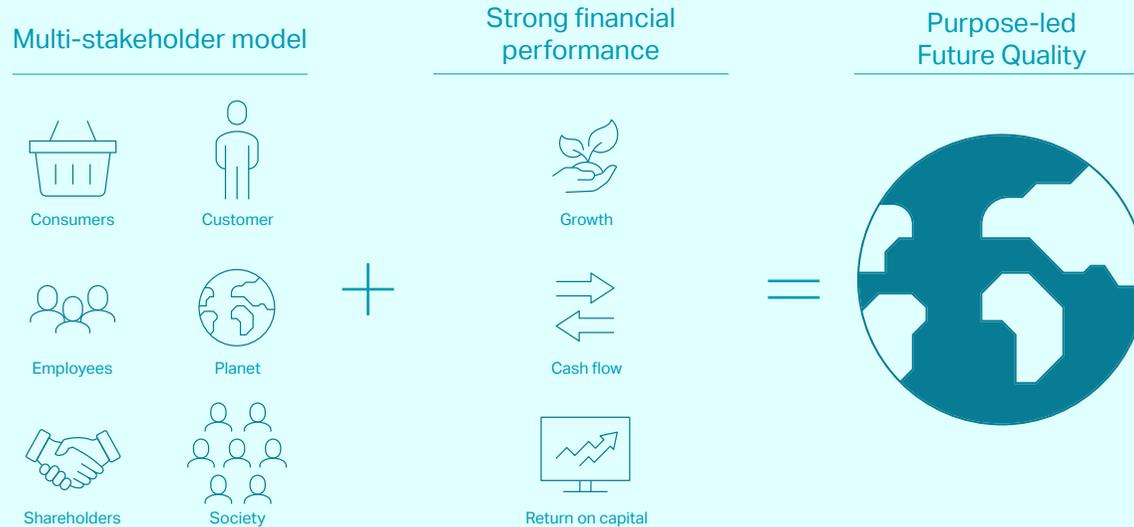
ESG integration

Our Future Quality investment philosophy focuses on researching and investing in some of tomorrow's most profitable companies. Given the scale of the challenges the world is facing today, we are finding an ever-increasing number of companies that form part of the solution rather than being part of the problem, which is critical for both future financial returns and the wellbeing of future generations. These companies are well positioned to benefit from this shift in attitudes and capital, and many are already core holdings within our portfolios.

ESG issues are long-term in nature. Hence, as long-term investors, we have worked to ensure that ESG factors are always a core part of our investment process — from idea generation all the way through to risk monitoring, client reporting, and compliance adherence.

Many ESG issues are also subjective, which means third-party ESG ratings are often wrong. For ESG integration to be effective, we believe it is necessary for our portfolio managers to be heavily involved in all ESG responsibilities, such as proxy voting and engaging with management teams.

GLOBAL EQUITY TEAM



In 2021, we also saw an increase in regulation around ESG, such as Europe's Social Financial Disclosure Regulation. Given our strong heritage in integrating ESG, complying with rising regulation hurdles has been straightforward. However, we also recognise where we are headed, so we continue to strengthen our ESG processes with improvements such as increased investment in ESG resources.

Engagement and proxy voting

Through engagement and voting, we focus on the materiality of an issue with the aim to enhance the long-term value of our shareholdings and to foster corporate best practices.

All our engagement activities are undertaken by portfolio managers and analysts as part of our regular contact with management teams. This means that material ESG issues are considered throughout the investment process and are integrated accordingly into our investment analysis. Consequently, issuers have a good understanding of why ESG is a core part of our investment decision making, and of our expectations of ESG performance.

Our engagement activities have the following objectives:

- Improve our understanding of a company's business model, strategy, and ESG materiality, as well as to monitor performance
- Help issuers and other third parties (such as ESG rating agencies) understand why ESG is a core part of our investment process
- Engage with issuers to encourage them to adopt best practices
- Monitor and engage with companies taking actions that put it at risk of contravening the UN Global Compact or OECD norms
- Vote in line with our Future Quality philosophy and client wishes

We seek commitments from companies to address any concerns raised by the portfolio managers, and we subsequently monitor these issues and company progress. When appropriate, we will participate in collective engagement and escalation where satisfactory outcomes have not been achieved.

"Given the scale of the challenges the world is facing today, we are finding an ever-increasing number of companies that form part of the solution rather than being part of the problem"

In 2021, and continuing in 2022, we have put our focus on the following specific areas related to ESG:

- Encourage issuers to measure their scope 3 emissions (indirect emissions across supply chains) and establish long-term carbon emissions reduction targets
- Encourage issuers to follow best practices by disclosing board diversity and gender pay gaps
- Encourage issuers to avoid all forms of human rights violations
- Monitor the level of controversies based on bribery, fraud, and governance structures, and engage with management teams when these factors appear to raise risk
- Identify and subsequently engage with companies that appear to be avoiding paying a fair tax contribution or may be involved in tax-related controversies

We disclose all meaningful engagement and voting records in our ESG quarterly report, which is available on request. ●

Automating ESG analysis

As we emerge from the COVID-19 pandemic, we continue to believe the planned recovery will lead to a more sustainable global economy.

There is evidence to support this, as we have observed the continued, significant growth of green and sustainable issuance in credit markets.

On the Global Fixed Income team, we have created a quantitative ESG scoring template — part of a system that uses AI and machine learning — to help ensure that the bonds we are considering for our portfolios comply with our ESG standards.

An AI-based methodology for ESG analysis

The systematic and fully automated platform we are using was designed to aid analysts and portfolio managers in integrating ESG analysis into the investment process. It provides transparency and flexibility in the selection of relevant input variables (and respective weights) for different fields, including supranational organisations & agencies, sovereigns, US municipal bonds, Canadian municipal bonds, and all corporate sectors.

The methodology of the system is made up of three main steps.



1. Data acquisition

The platform's algorithm retrieves all the necessary data from different sources, both publicly available and proprietary databases. The input data and ESG scores are automatically updated on a weekly basis.

2. Data filtering and normalisation

For each ESG variable, if more than 40% of the data is missing then that ESG variable is removed from the analysis. Moreover, if that ESG variable has very similar values across a sector, it adds no useful information and, therefore, it is also removed. Any issuer (such as a country or company) with over 40% of the data missing is also removed from the analysis.

Next, the data is normalised within each sector. We employ a scoring system based on z-scores. A score of 0 means average performance compared with others in the same sector, a score of 1 means one standard deviation better than others in the same sector, and so on.

3. Data imputation and ESG score computation

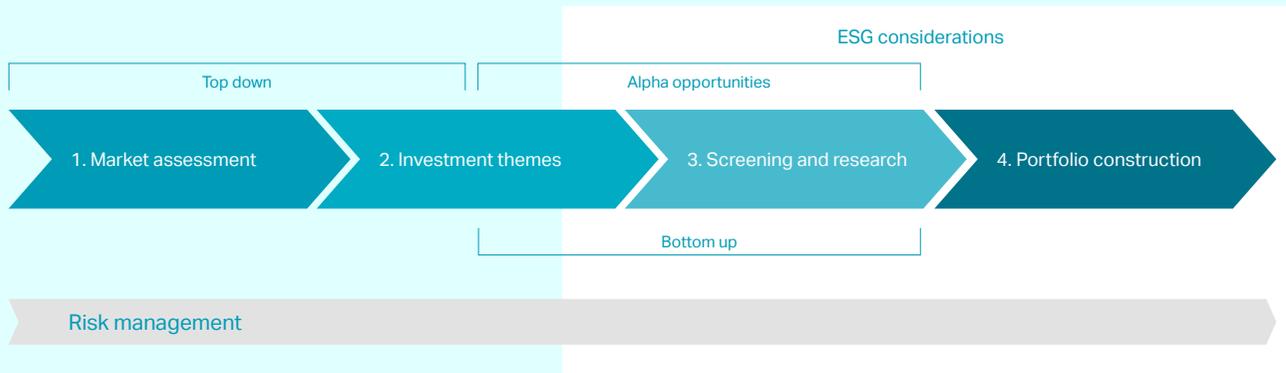
To handle missing data, a Monte Carlo Multiple Imputation framework is used. The missing values are replaced by distributions of plausible values (given the observed data), which are then used to estimate the pillar scores and final ESG scores.

Figure 1 – High-level block diagram of the methodology of the ESG platform



GLOBAL FIXED INCOME TEAM

Figure 2 – ESG-integrated investment process
The four steps of our ESG implementation framework



Our approach to ESG

Our philosophy

On the Global Fixed Income team, we believe in employing a consistent investment process that incorporates quantitative and qualitative inputs to generate ideas and construct high conviction portfolios, where we are suitably rewarded for the risk we undertake. We see ourselves as capital allocators and we intend to continue our efforts to provide capital needed for issuers to implement a sustainable transition programme, where the investment mandate allows. As investors, we have a unique opportunity to identify risks, engage with issuers, and make decisions that can influence positive, sustainable change. We believe it is our responsibility to create innovative products and strategic partnerships across the capital market structure to establish pathways for meaningful flows into sustainable investments. Through this approach we strive to deliver consistent returns that meet our investors' goals.

ESG implementation

ESG is considered across products where the investment mandate allows. We consider ESG a fundamental part

of our investment process, as it can affect the returns of an investment. In the mandates where ESG is applied, it is done so at the screening and research stage of a product's investment process, as well as at the portfolio construction stage. The scale and manner of ESG integration depends on investor-specific expectations of a product.

While we are aware of the importance of ESG factors, in funds where ESG is not part of the mandate, it will not preclude other appropriate investments that fit the mandate of the strategy. Additionally, in funds where the mandate restricts the team to specific issuers, the fund's mandate will take precedence over ESG analysis.

Our access to issuers helps us gain insight into current trends and gives us an opportunity to ask specific ESG questions. We regularly attend sector conferences and take part in investor roadshows and calls, either in person or virtually. By engaging with issuers as part of our research, we are able to fully understand if an issuer is in line with our ESG agenda and upholding the UN Principles for Responsible Investment framework. When we are monitoring our portfolios, we will make sure an issuer is on track and not deviating from industry peers.

For example, if we were to face a situation where an issuer in our Global Credit Fund faced an ESG breach, we might be unable to exclude the issuer solely on an ESG basis, given the yield, spread, and diversification targets set within the fund. However, ESG would be a factor in our industry and issuer analysis, and it is part of the investment decision when we feel it will affect investment returns. It is likely the negative ESG factor would result in us selling the holding and replacing it with a peer company with similar economic characteristics and a better ESG profile.

Case study

A European banking and financial institution

Strategy: Global Credit

Sector: Financial

Region: Europe

Aim: Gain insight into changes and steps taken following money laundering allegations

Overview: The company in question is a large financial institution in Europe. We held a call with the firm's treasury team to discuss its overall ESG profile and to better understand the details of an internal investigation that was conducted because of a money-laundering scandal in 2017 and 2018. Although we were told that the institution conducted a year-long internal investigation, the firm still had not settled the matter and said further investigation was needed.

Outcome: We were not sufficiently reassured by the company's response and felt the issue was being played down. Even though the company's financials showed good performance in the previous quarters, the ongoing investigation of the anti-money-laundering case created uncertainty for the subordinated bonds, and we believed the risk – return trade-off was unfavourable for the Global Credit fund given the ongoing investigations. Therefore, we decided to replace this holding with a peer company with similar economic characteristics and a better ESG profile.

It is worth noting that in other portfolios, we still hold bonds from this issuer, owing to the restricted nature of the portfolios. In these instances, it would be of detriment to our investors if we were to preclude appropriate investments that fit the mandate of the strategies. ●

Using ESG to identify firms likely to outperform

By Robert Mann, Head of Asia ex-Japan Equity

The Asian Equity Team comprises 20 seasoned professionals based in Singapore, Hong Kong, and Shenzhen. We have an average of 19 years of investment experience.

Our team members have a rich diversity of backgrounds, representing nine primary nationalities and with language capabilities covering all the major Asian languages. Five of the 20 people on our team are women. Most importantly, along with our common values and commitment to mutual respect, we bring together a diverse mix of cultures, demographics, and expertise.

Our team is well-equipped to meet the challenges of investing in the diverse and fast-moving Asian and emerging markets.

Understanding the approaches companies take to ESG factors has always been an important part of our Asian equity process and has helped us to identify companies that are likely to outperform. This is linked to our fundamental belief that companies with sound or improving ESG performance tend to perform better financially in the long term. In 2021, a lot of our overall research time has been spent on ESG. We have focused in particular on:



- gaining a deeper understanding of how companies in our research universe perform on material ESG areas
- encouraging our portfolio companies to improve their activities in material ESG areas
- keeping up with the many new regulatory and voluntary ESG-related initiatives around the globe.

We remain committed to doing our own bottom-up ESG research on companies in our research universe. This is important because the data available on Asian companies, while improving dramatically, is still not available on a large enough scale with the necessary level of accuracy and consistency. The quality of ESG data is of the utmost

“we made important structural refinements to better integrate ESG into our investment process”

“There also seems to be more nuance involved in Asia, which we believe is best understood and interpreted by sector specialist analysts supported by our ESG Specialist and tested in robust team discussion. This approach sets us apart in the market”

importance given our deep ESG integration processes, where the ESG performance of companies is built into our fundamental company analysis.

There also seems to be more nuance involved in Asia, which we believe is best understood and interpreted by sector specialist analysts supported by our ESG Specialist and tested in robust team discussion. This approach sets us apart in the market. As the broader sustainable investment industry and ESG data evolve, we plan to continue to enhance our work in this area to further improve our company research and portfolio construction. We will also actively use our voice to gain further investment insights and drive positive change

In 2021, we built on the work laid down in 2020, when we made important structural refinements to better integrate ESG into our investment process. We continue to be guided by our key belief that strong and/or improving ESG performance is fundamental to companies achieving and sustaining high returns, and we remain focused on ESG issues that have a current or foreseeable material impact on shareholder returns.

A substantial part of our work in 2021 revolved around completing our proprietary ESG evaluations on all the companies that we own across our portfolios. To date, our team's bottom-up ESG research covers around 450 companies, forming a powerful driver for our stock selection and portfolio construction. In addition, we are constantly calibrating our ESG (and other fundamental) scores across sectors, analysts, and portfolios, in order to ensure consistency and adherence to our process methodologies.

In 2021, we also made preparations to meet important ESG regulatory requirements in Singapore, Hong Kong, the eurozone, and the UK. Our work has centred on understanding the various regulatory demands and where they overlap; evaluating ESG data and service providers; and formulating how best to deepen and enhance the disclosures that we make to our regulators. This work will stretch into 2022, and will no doubt continue to evolve.

As part of our ongoing focus on better understanding physical and transitional climate risk in our portfolio, we have engaged with some of our portfolio companies on these topics. Our initial discussions covered a range of companies across the energy, property, tech, and healthcare sectors.

Although the companies' responses varied widely, we see growing awareness of physical and transitional climate risks in Asia. In our experience, most companies sampled are in the early stages of exploring ways to quantify, disclose, and manage the potential future climate risks. However, many are working on, or planning to improve, their disclosures in 2022. For example, some companies have recently become supporters of the Task Force on Climate-Related Financial Disclosures (TCFD) or plan to start aligning their disclosures with TCFD.

Climate risk disclosure is constantly evolving, and we believe the level of disclosure in Asia is still relatively nascent. As our climate risk disclosure relies on the reporting of our portfolio companies, we will continue exploring data sets to better understand how these risks could impact our portfolio in the long run. We will also engage directly with our portfolio companies to gain further insights and use our influence to improve climate risk disclosures. ●

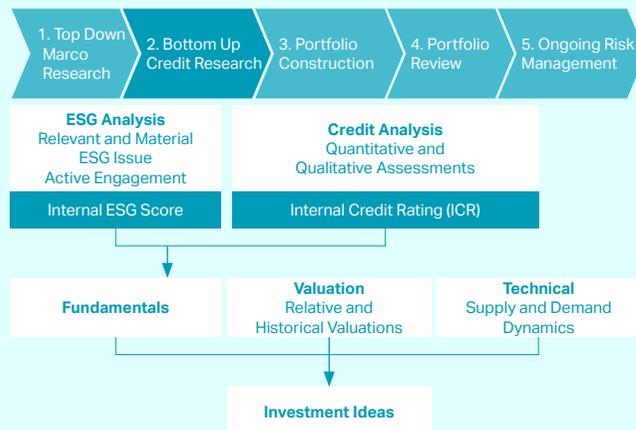
Enhancing our ESG process

Continually improving our research and ourselves

ESG integration

For the Asian Fixed Income team, environmental, social, and governance (ESG) analysis is integral to our investment process. When we conduct credit research, ESG analysis supplements our bottom-up fundamental analysis on issuers. We have been incorporating qualitative factors such as corporate governance into our Internal Credit Rating (ICR) model since 2011, and we moved to integrate all three ESG pillars into the scoring system of our ICR model in 2016. In 2021, our research process was further enhanced to incorporate ESG issues and materiality when assessing the ESG profiles of companies.

ESG research process



Environment		Social		Governance	
Carbon Emissions	Product Carbon Footprint	Labour Management	Health & Safety	Board	Pay
Financing Environmental Impact	Climate Change Vulnerability	Human Capital Development	Supply Chain Labour Standards	Ownership	Accounting
Water Stress	Biodiversity & Land Use	Product Safety & Quality	Chemical Safety	Business Ethics	Anti-Competitive Practices
Raw Material Sourcing	Toxic Emissions & Waste	Financial Product safety	Privacy & Data Security	Corruption & Instability	Financial System Instability
Packaging Material & Waste	Electronic Waste	Responsible Investment	Insuring Health & Demographics	Tax Transparency	Ownership & Mgmt Change
Op. in Clean Tech	Op. in Green Building	Controversial Sourcing	Access to Communication	Minority Interest Alignment	Principal-Agency Alignment
Op. in Renewable Energy		Access to Finance	Access to Healthcare		
		Op. in Nutrition & Health			Regulator Track Record

(Reference: Sustainability Accounting Standards Board, MSCI)

ESG factors are considered an important part of the team's credit analysis. We integrate ESG into our research approach, both as a means to enhance our process of identifying investment opportunities, and as a risk management tool. We believe that:

- it is our responsibility to consider ESG factors when making investment decisions on behalf of our clients
- companies that showcase strong and/or improved ESG performance can financially outperform
- material ESG factors can impact a company's financial performance, so incorporating ESG into our credit analysis provides us with a stronger, more holistic credit view

The enhancements we made to our ESG research process in 2021 provide a framework that will enable a systematic and independent assessment of companies' ESG profiles. This acts as a check against over-reliance on external ESG ratings organisations. The ability to differentiate industry ESG leaders from laggards, and identify companies well positioned to capitalise on the shifting policy and operating landscape, will protect against downside risks, which may be inherent in certain sectors or companies.

The integration of ESG analysis into our credit research process enables us to achieve the following:

- bespoke differentiation between industry leaders and laggards in ESG
- identification of material ESG risks that have the potential to evolve into credit risks
- an enhanced and holistic Internal Credit Rating (ICR) that integrates ESG factors

Education and training

In 2021, as part of our ongoing commitment to sustainable and responsible investing, all our investment professionals undertook a formal instructor-led training course by Moody's Analytics called ESG Risk Assessment for Lenders & Asset Managers. The course provides participants with an understanding of sustainable financing and investing with attention given to ESG considerations, supplemented by in-depth case studies.

Engagement and proxy voting

The Asian Fixed Income team regularly engages with companies that we are invested in, and companies we are considering investing in, to discuss a wide variety of topics including company strategy and ESG. In 2021, we participated in 35 meetings with companies where ESG was discussed. Environmental issues were the focus of the majority of these meetings, as a result of the number of our engagements with companies in the utilities sector, where carbon emissions and energy mix are material ESG factors. Governance issues were the next most commonly discussed, primarily through our engagements with property firms, where company transparency and potential hidden liabilities were major concerns this year. ●

NEW ZEALAND EQUITY AND BOND TEAMS

Driving sustainable changes

Encouraging firms to move towards a lower carbon future



New Zealand Equity team

ESG integration

Nikko AM New Zealand's equity and bond teams have a united voice on ESG issues. We are primarily medium- to long-term investors with a fundamentally driven bottom-up approach. We seek to understand how industry and company ESG factors may impact investments and, ultimately, client portfolios. The ESG risks and opportunities faced by a company form an important element in understanding investments but cannot be managed in isolation. The quality of a management team, for example, must also be carefully assessed.

We use our extensive experience to help us understand and evaluate the materiality of ESG factors. While on some occasions ESG factors may not be material enough to alter our conclusions, a specific understanding of ESG analysis can help us build a picture of the risks and opportunities faced by a company. There is no set formula for quantifying the importance of each ESG factor or adjusting how we value each company. We rely on the experience of team members to understand ESG impacts and document them in our investment research reports.

Engagement and proxy voting

On a quarterly basis, we screen the investments we hold across all portfolios — together with investments on

watch or under active assessment — using the MSCI ESG Research tool. This process assists the team by adding another layer of scrutiny to our knowledge of companies. Many debt issuers are also listed on the NZX and, therefore, also captured during this screening.

The outcome of this process is that companies are rated on a scale from AAA to CCC relative to the standards and performance of their industry peers. We engage with companies in an effort to raise the bar in relatively weak areas or areas where ongoing improvement is beneficial to stakeholders. These areas could be identified by MSCI research or our own research. A rating of BB or less does not necessarily make a company un-investable from our perspective but does necessitate active company engagement on the main issues underlying the relatively poor rating.

A higher MSCI rating does not alone dictate a higher investment weight. The primary driver of a company's weight in our portfolios will still be determined by the relevant portfolio manager, given a range of both quantitative and qualitative factors. The current MSCI rating is explicitly assessed as a quantitative factor consistent with our established investment process. Companies that have higher ratings or are actively improving their ESG standards will ultimately be

"We seek to understand how industry and company ESG factors may impact investments and, ultimately, client portfolios"

recognised by market participants, so our process is likely to highlight these opportunities.

We have also started monitoring the Weighted Average Carbon Intensity of our portfolios. This provides a useful platform to form a baseline to monitor trends. We use this to find opportunities in areas that we can invest in and then influence these firms to move towards a lower carbon future.

In our opinion, voting is an integral part of being responsible stewards of capital. Analysis of a company's corporate governance structure helps to form our view of the quality of a management team. We exercise proxy voting rights independently and solely in the interests of our clients and beneficiaries. When we exercise voting rights against company resolutions, it is our policy to write to investee companies to explain our reasons in an endeavour to advance the company's development.

Fixed income case study for engagement

The TR Group is the leading New Zealand truck and trailer leasing and rental company. It supplies or manages around 6,700 heavy trucks and trailers, accounting for one in ten of the country's front-line fleet. The company's philosophy is simple. It aims to be the best in the world at hiring trucks and trailers, and make a positive difference in people's lives.

The TR Group recently issued its second five-year bond on the New Zealand debt capital markets. Nikko AM NZ purchased both the first and second issue of its bonds. In

NEW ZEALAND EQUITY AND BOND TEAMS



New Zealand Bond team

In addition to the investment grade credit rating and competitive pricing, we were drawn to the company's ESG strengths and, in particular, its clear strategy and market-leading push into electric and hydrogen-powered light and heavy-duty trucks.

The group's culture of ownership, leadership, honesty, teamwork, work ethic, and continuous improvement, resonated with us. Discussions with management incorporated relevant examples of this culture at work while stressing that these values are non-negotiable and something employees live by.

We were also impressed by the TR Group's Alternative Energy Initiative. If widely adopted, the move to alternative fuels across New Zealand's transport fleet could significantly reduce the country's carbon emissions.

According to the TR Group, its vision is "to leave a lasting imprint by making a positive difference in people's lives", and one of its values is leadership. So, in line with these, it is taking responsibility for exploring alternative energy options, with the aim of "making a positive impact to lower our country's carbon emissions". It is investing in two types of environmentally friendly trucks. ●

TR Group's
Battery
Electric (BE)
Trucks

These are the TR Group's thoughts on the two kinds of trucks

Battery Electric (BE) Trucks

We believe small BE trucks perform better than large ones. The challenges with BE vehicles are that they are heavy, take a long time to recharge, have a limited range (100–150km per day, so they are only suited to work within cities), and NZ's electric vehicle charging infrastructure is limited.

We have taken delivery of 10 BE trucks with another 20 being built. We plan to order a further 90 over the next two years.

Hydrogen Fuel Cell (HFC) Trucks

HFC trucks are effectively an electric truck but with a range extender in the form of hydrogen gas and a fuel cell that generates electricity to recharge the batteries.

This overcomes many of the issues faced by trucks powered only by batteries. They can refuel in the same amount of time as a diesel truck, use a much smaller battery bank so they are lighter, and can travel a longer range (up to 650km), making it more practical.

The downside of hydrogen is the inefficiency of energy use and the cost of both the truck and the fuel. An HFC truck is \$750,000 compared with \$280,000 for a diesel equivalent, and the cost of fuel is three times that of diesel. However, every HFC truck prevents carbon emissions equal to that produced by 150 cars from being released into the atmosphere.

We have ordered 20 HFC Trucks.

*The individual issue names identified on this page are not a recommendation to sell or purchase an individual issue, and that it does not guarantee holding or non-holding in a fund or strategy.

Good advice from good partners

Making informed decisions based on ESG factors

ESG integration

The US Investment Team works with three sub-advisers, one for each of our thematic strategies, that give us investment advice on short- and long-term risks to the business environment. This helps us make informed strategic decisions. Each sub-adviser has its own dedicated approach to analysing companies based on environmental, social, and governance (ESG) factors.

We manage equity funds pertaining to thematic innovation, global natural resources, and an emerging market country strategy. Our portfolio managers review the model portfolio received from the sub-advisers and the recommended changes in light of the objective of the account, as well as the investment guidelines and restrictions.

ESG risks vary depending on the industry and the location of operations. It is our responsibility to fully understand these risks through communication with the sub-advisers, engagement with the companies, and data collection from third-party firms. The first line of defence against risk is the investment team.

Our suite of thematic innovation strategies have fund structures domiciled outside the US, including two UCITS funds. The UCITS funds have driven some of the ESG integration at Nikko AM Americas because they fall under the Sustainable Finance Disclosure Regulation.

Because the innovation strategies comprise multi-cap and multi-sector companies in various stages of development, a standard scoring set is often not sufficient. We understand that there are different schools of thought

about what constitutes good ESG practices, so we rely heavily on the sub-adviser's unique research and evaluation of these disruptive companies.

Risks associated with ESG have been a central focus for the global natural resources strategy for many years. Companies with real assets, such as those within the energy and materials sectors, have been at the forefront of the global ESG discussion. We use our monthly calls with the sub-adviser to stay updated on the risks and relevance of the natural resources strategy in light of the transformations taking place in the business environment. These calls, along with engagement with firms in our portfolio, allow us to take a qualitative approach to our ESG analysis.

It is clear that consumer tastes are shifting and governments are making an effort to promote low-carbon alternatives. In 2021, in addition to many of the traditional firms in our natural resource holdings moving towards low-carbon or reduced investments, the sub-adviser opportunistically initiated multiple positions within the energy transition theme. The natural resources strategy has been tested by the market over the past few years. However, we believe natural resources companies are uniquely positioned to address the global issue of climate change and drive the energy transition at scale.

Engagement and proxy voting

Proxy voting and engagement with companies are a fundamental part of the portfolio management process. Towards the end of 2020, the US Securities and Exchange Commission issued rules regarding the supplying of proxy voting advice, as well as supplemental guidance to



"Risks associated with ESG have been a central focus for the global natural resources strategy for many years"

investment advisers regarding their responsibilities concerning proxy voting. In 2021, to comply with the new guidance, the investment team refined our process to ensure that every proxy ballot is reviewed before the annual or special meeting.

We use the services of an external specialist who provides voting advice and analytical reports in line with the proxy voting policy. We consider this advice, specifically items flagged where the adviser recommends a vote against management. We also consider shareholder proposals.

Engagement with companies is carried out on a case-by-case basis. Depending on the content of a proxy statement, we may reach out to a company before voting, although the most common type of engagement has been when companies reach out to us for a call or video conference.

During the proxy voting off-season, we accepted several meetings to engage specifically on ESG issues. We believe our engagement based on ESG issues could be improved going forward as public companies begin to disclose additional information. ●

Ensuring external managers fully integrate ESG considerations

The Portfolio Solutions Group assesses, selects, and monitors external managers to which Nikko AM outsources a portion of its investment management activities.

ESG integration

We believe that considering ESG factors in our investment process is inherent to long-term corporate value creation and realising sustainable economic growth. We embrace ESG as a means to better manage investment risk, deliver high quality long-term investment returns, do good in our communities, and be good stewards for the environment. In line with this philosophy, we plan to have most external managers sign letters of intent affirming their commitment to integrating ESG in their investment management. Going forward, external managers will be expected to implement a process for assessing and observing current and future ESG-related investments. At the same time, our team will regularly monitor whether external managers are fully integrating ESG factors in their investment management process and, if necessary, encourage them to step up their ESG integration. Given that we have a process to conduct periodic assessments of external managers' ESG initiatives in terms of their companies, personnel, research, and investment processes, ESG already plays a key role in our manager selections.

As ESG factors continue to grow in importance in the asset management industry, we expect to see stronger global ESG regulations in the future. The Portfolio Solutions Group operates an ESG Working Group that comprises members from our Tokyo, Singapore, and New York offices. In view of the rapid changes occurring in ESG investment in the asset management industry, the ESG Working Group researches changes that are



taking place and keeps up to date with the ongoing evolution of ESG investment requirements. We include those considerations in our assessments of external managers and work with them to ensure that ESG is integrated effectively in their investment activities.

Engagement and proxy voting

We believe that engaging with investee companies and exercising voting rights are powerful tools for us to fulfil our stewardship obligations. For funds managed under discretionary investment contracts, we exercise voting rights in

"Going forward, external managers will be expected to implement a process for assessing and observing current and future ESG-related investments"

line with our own proxy voting policy rather than delegating proxy voting to external managers. When exercising our voting rights, we refer to recommendations from Institutional Shareholder Services Inc. (ISS), a major proxy voting advisor, and conduct stringent checks on proposals on matters including investee companies' remuneration of officers, the composition of their boards, and officer reappointments. We also encourage the external managers we work with to help make society more sustainable through their engagement with investee companies, and review their engagement activities periodically. ●

Proxy voting and engagement

The Nikko Asset Management Group Proxy Voting Policy establishes our group-wide approach to proxy voting decisions. One objective of the policy is to underscore our focus on ESG in proxy voting decisions that are undertaken by Nikko AM and all our overseas investment management subsidiaries. Another objective is to make it clear that proxy voting by each of the investment management teams in the group is based on the same approach.

The policy expresses our basic approach to proxy voting decisions, company engagement, and matters such as conflicts of interest. Additionally, each overseas

investment management subsidiary within the group may also stipulate its own detailed proxy voting criteria and disclose its own proxy voting results.

Under our Proxy Voting Policy, Nikko AM's head office has in place Guidelines on Exercising Voting Rights, which give details about proxy voting criteria, and Standards for Exercising Voting Rights on Japanese Stocks, which include numerical criteria for proxy voting on Japanese equities. All of these documents are disclosed on our website.

We make specific proxy voting decisions based on the rules mentioned above, and we incorporate the results of

our engagement activities in our overall assessments. Additionally, in March 2022, we disclosed our Global Engagement and Stewardship Strategy on our website. The strategy covers our philosophy on engagement objectives, methods and execution, prioritisation, documentation and monitoring, collaborative engagements, and escalation.

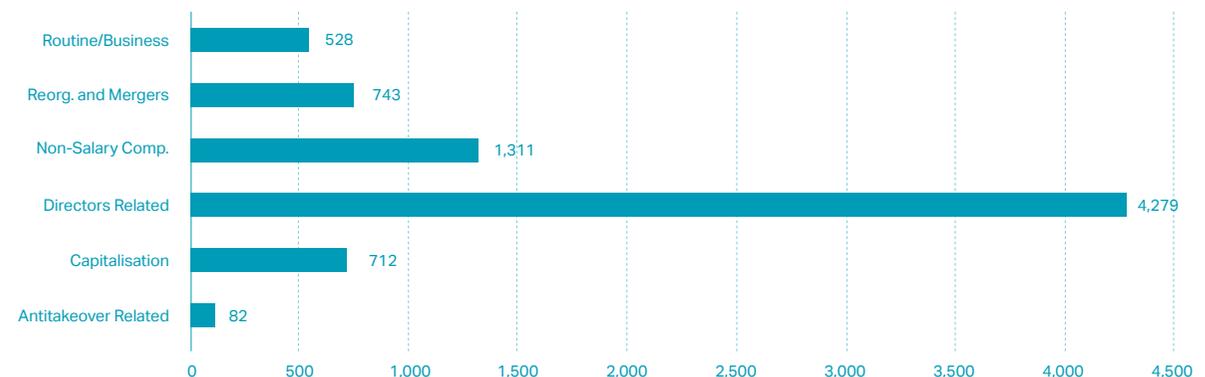
Below are some examples of our investment team's engagement activities with companies before and after exercising our voting rights, as well as the results of our proxy voting in 2021.

Global voting results 2021

From Jan 2021 to Dec 2021

Region	Number of meetings	Number of resolutions	Votes with management (%)	Votes against management (%)
APAC (ex.Japan)	2,457	19,510	88%	12%
EMEA	1,213	17,536	91%	9%
Japan	2,465	23,772	88%	12%
Latin America	228	2,071	88%	12%
North America	1,077	11,368	91%	9%
TOTAL	7,440	74,257	89%	11%

Votes Against Management Proposals



PROXY VOTING CASE STUDIES

CASE STUDY 1

A building materials company based in Ireland

Since December 2020, we have had ongoing engagement with the company's senior management regarding governance issues. Governance concerns around the testing of products and the true culture of the organisation were raised during a judicial review involving the firm.

Over the course of 2021, we met four times with management in order to highlight our concerns around governance and discuss the actions management was taking to make improvements. We further highlighted our position through our proxy voting. We chose to abstain on the re-election of the CEO and voted against the re-election of the majority of the non-executive directors to make a further statement that we believe it is time for a refresh. We also voted against the approval of the remuneration report.

Senior management recognised the need for change and has put in place several measures, including placing product compliance officers within each business segment, hiring a group-wide Product Compliance Director who reports directly to the CEO, changing the terms of reference for the Audit Committee to include product safety, and implementing a group-wide code of conduct programme.

In our view, these changes will make the company a better business, and we are prepared to give management time to make the necessary improvements. Without trivialising these issues, we believe, on this occasion, this is the best approach to take as long-term investors.



CASE STUDY 2

A financial company based in Japan

In 2021, the financial company announced a takeover bid to make a bank — in which it had a 20% stake — into a subsidiary. The bank responded by announcing that the bid was a hostile takeover attempt and that its management team opposed it. The bank's management team then signalled its intention to convene an extraordinary general meeting of shareholders with the aim of proposing the activation of its takeover defence.

To help us make a decision on the proposal, we held separate interviews with the bank's President and the Senior Executive Vice President of the financial company. We concluded that the takeover would be beneficial to the bank's shareholders mainly on the grounds that the takeover price included a suitable premium, that the partial purchase approach was unlikely to create conflicts of interest, and that the bank's corporate value was likely to increase under the financial company's management team. We therefore decided to vote against activation of the takeover defence.

Ahead of the extraordinary general meeting of shareholders, there were press reports that the government — a major shareholder in the bank, with a stake exceeding 20% — was against the proposal, so the bank announced that it had decided against proposing the takeover defence and cancelled the general meeting. The takeover bid was completed and the financial company successfully turned the bank into its subsidiary.

At a press conference following the bid's completion, the financial company president made a positive impression by emphasising how the takeover would boost the bank's value. He also signalled his intention to create a comprehensive financial platform through the two companies and to generate synergy mainly in the securities and banking segments. We look forward to continuing to engage with the financial company going forward.

CASE STUDY 3

Virtual-only general meetings held by Japanese companies

Ten of the general meetings of shareholders held in June 2021 included proposals for the companies' articles of incorporation to be amended to allow virtual-only general meetings. We considered our response to this development — given that we did not have an existing proxy voting standard on proposals for virtual-only general meetings — and although our basic approach is to support new initiatives by companies, our initial position was to oppose virtual-only general meetings in accordance with our stewardship responsibilities. We had two main reasons for this position. First, we could not rule out the possibility of companies taking advantage of emergencies by running virtual-only meetings in ways that served their own interests. We also felt that amendments to companies' articles of incorporation were unnecessary, given that fully virtual meetings will be held without such amendments under a revision to the Industrial Competitiveness Enhancement Act in the next two years.

We later explained our position in response to an inquiry from a firm planning to propose a change to its articles of incorporation that would allow it to hold fully virtual general meetings. Based on our engagement with that company, and after learning of other firms planning to propose similar amendments, we reconsidered our position and switched to a policy of voting in favour of such proposals. While reconsidering our approach, we decided that the best policy regarding new initiatives by companies was to support them in principle when exercising voting rights, but to hold senior management teams to account at the following year's general meeting of shareholders if the initiatives prove problematic. We believe that this approach enables us to support new efforts by firms while also mitigating risk.

We still have some underlying concerns given that there are currently many uncertainties about how virtual-only general meetings should be run and how they can be operated in a way that is appropriate for shareholders. However, we also intend to develop ideas of best practices for operating virtual-only general meetings based on engagement with companies.

ENGAGEMENT CASE STUDIES

CASE STUDY 1

An industrial conglomerate based in Singapore

The company is involved in power generation and other utilities, as well as urban development. In its power generation segment, the company oversees 9.5GW of conventional energy and more than 3.3GW of renewable energy. Because of its conventional energy portfolio, the firm has one of the largest carbon footprints among all Singapore-listed companies. Yet, it is one of the key overweight positions in our Singapore and ASEAN portfolios, contributing a significant proportion of the total carbon intensity to our portfolios.

Our numerous engagements with the company have therefore focused on evaluating its decarbonisation plans. From our discussions, and the company's public greenhouse gas emissions reduction targets, we believe that management is highly motivated to execute on its promises to reduce its carbon footprint. These include commitments to:

- quadruple gross installed renewable energy capacity to 10GW by 2025, from 2.6GW in 2020
- halve its greenhouse gas emissions by 2030 and deliver net-zero emissions by 2050
- grow its sustainable solutions portfolio to comprise 70% of net profit from around 40% in 2020

Importantly, the company believes that simply selling its conventional energy assets is not an ideal solution for the planet, as the plants would continue to operate under new ownership. As such, it is actively exploring transition financing solutions that will bring about an accelerated decommissioning of its conventional energy assets. This is an energy transition approach that we support.

Our investment rationale is that the company is a sustainability champion of Singapore, with clear targets to reduce its carbon footprint, and aggressive ambitions for its renewable energy business. We will continue to monitor the company's ESG performance and proactively engage with it on material ESG topics.

CASE STUDY 2

A fuel distributor based in New Zealand

This is a company that we believe does a very good job with disclosure on ESG issues and actively engages with investors.

The company's business is primarily based on the distribution of fossil fuels, which are currently essential for maintaining both our economy and social infrastructure. That said, locally and globally we are transitioning to a lower carbon future. This company has a role to play in this transition, both through alternative fuels such as bio-fuel, EV charging infrastructure, and, potentially, hydrogen, but also through reducing its own operational carbon emissions. The company has reduced operational emissions by 17% since its 2017 financial result and is targeting a 42% reduction from its 2020 financial year through to 2030, in line with a science-based target consistent with 1.5 degrees of warming. Where the company cannot reduce its operational emissions, it offsets them by investing in permanent native forests in New Zealand.

From a social perspective, the company has a number of policies and programmes in place to work towards goals such as pay parity, workforce diversity, and supporting local communities.

From a governance perspective, this is one of many businesses that we have regular engagement with, both at the executive level and the board level. Our most recent engagement with the company's directors has been around a takeover bid it received, which included conditions such as a restriction on dividends being paid. The bid faces a number of hurdles, including Overseas Investment Office and Commerce Commission approval. These approvals can potentially take six to 12 months, and we expressed to the directors our view that a certain level of dividends should be allowed to be paid, without affecting the bid price. We also wanted a break fee to be included with both these demands, compensating for the risk around the timeframe and potential for the deal not proceeding. The board was understanding of our view. After a due diligence period, we learned that a revised bid has been tabled and endorsed by the board, which has both of our requests reflected.

CASE STUDY 3

A department store chain based in Japan

We have been engaging with the head of the Sustainability Promotion Division of this company. Although earnings are currently struggling from the impact of COVID-19, we consider the company to be particularly reform-minded in its sector. The firm has achieved great cost cuts and has stated in its current medium-term business plan that it intends to make further improvements by aiming for a return on equity of 7% in fiscal year 2023.

In addition to structural reforms, including fixed cost reductions, the company plans to achieve its goal by increasing profitability through strengthening its real estate development, financial, and digital operations. Although the firm's progress on some of its initiatives will need to be monitored in the future, we appreciate the practical efforts that it is planning to implement.

From a longer-term perspective, we have also been discussing the company's decrease in the ratio of its younger employees in recent years and asked how management intends to enhance employee engagement and proactively use their younger human resources. The company said that its firm-wide employee turnover is comparable to other firms in the department store sector, but added that the ratio of employees who leave the company in their third year is relatively high.

In addition, it stated it had been using a job-based human resources framework since the early 2000s, but that the system had tended to limit employees' roles to pre-defined duties, so the firm is countering this by entrusting store staff with broader responsibilities. The company is considering making phased changes to its human resources framework to match the employees' work with their individual preferences and motivation levels.

The company's use of human capital is a theme where we would like to see some progress. We intend to continue discussing these issues with management.

Promoting and implementing ESG best practices



Yasushi Ishikawa, Ph.D., Head of the Equity Fund Management Department in Japan, and Senior Executive Director of Global Multi-Asset

Yasushi Ishikawa speaks on a panel about human capital at the ICGN Global Virtual Summit

On 3 November, the International Corporate Governance Network held its Global Virtual Summit. Guests included institutional investors, authorities, asset managers, and journalists from around the world.

Yasushi Ishikawa, Ph.D., Head of the Equity Fund Management Department in Japan, and Senior Executive Director of Global Multi-Asset, participated in a panel called “Human Capital — Why it’s More Important than

Ever Before!”, together with professionals in the fields of labour management and corporate governance.

“Companies that are good at investing in human capital, in terms of the right timing and right allocation, can make additional profit after their investment and generate excess stock returns,” Ishikawa began.

After explaining how to estimate the efficiency of corporate investment in human capital based on historical data, he continued: “Especially in order to achieve a decarbonised

society, structural changes in industries are necessary and, from this perspective as well, efficient investment in human capital is becoming increasingly important.”

In his closing remarks, Ishikawa commented on the need for greater diversity in Japan’s investment industry.

“Here in Japan, too, the financial industry is male dominated,” he said. “To induce a shift from such an environment, I belong to Nikko AM’s Women’s Working Group. We believe with a more diverse team, including perspectives of women and people of other nationalities, we can enhance investment efficiency.”

Nikko AM participates in P&I’s Global Pension Symposium

Nikko Asset Management took part in Pensions & Investments’ 15th Global Pension Symposium in Tokyo on 8 to 10 November. The theme was “The Vaccine, Global Economic Recovery and Pension Investing Resiliency”. Experts from domestic and international pension funds, investment management firms, academia, and other fields shared their insights in presentations and panel discussions.

Representing Nikko AM was Masayuki Teraguchi, Head of Investment Technology in the Fund Management Department. He took part in the ESG Investing for Pension Funds panel discussion, which summarised ESG issues and explored solutions.

Teraguchi noted that while the uptake of ESG scores and ESG indexing strategies benefit stakeholders and contribute to long-term corporate value, there is often

insufficient awareness that ESG indexing strategies can also drive high returns. He explained that the ESG engagement and ESG score-based investment strategies in this space have very different time horizons and expected returns. He then emphasised the importance of both evaluating initiatives for stakeholders to encourage firms to take a proactive ESG approach and pursuing strong performance of ESG investing. Teraguchi showed how investors could do both while giving examples of empirical research at Nikko AM.

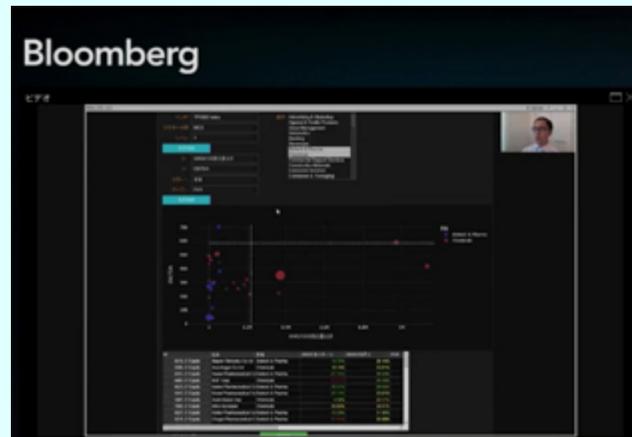
Nikko AM wins its third consecutive Bloomberg BQuant Hackathon Grand Prize

The Nikko Asset Management team picked up a third consecutive Grand Prize for the firm at BQuant Hackathon 5: Quants for ESG Investment, which Bloomberg held in October 2021. Four asset management firms and four life and general insurers competed in the hackathon.

The Nikko AM team presented an application that it developed to plot the relationship between Bloomberg's ample ESG data, share prices, and supply chain data. This interactive application makes it possible to compare corporate ESG data. Team members were inspired to create a dashboard that would enable centralised ESG data checking.

The hackathon judges were very impressed with the Nikko AM application. One judge commented, "It was very multifunctional and easy to understand. The visualisation was beautiful", and another said, "This was a very interesting experiment in using supply chain data." It is evident that the app was very well received.

"The hackathon judges were very impressed with the Nikko AM application. One judge commented, 'It was very multifunctional and easy to understand. The visualisation was beautiful'"



Bloomberg's BQuant Hackathon

Global Fixed Income team participates in Responsible Investor Europe and USA 2021 conferences

For the third year in a row, Nikko Asset Management participated in the annual Responsible Investor (RI) Europe 2021 conference from 14 to 18 June, and the RI USA 2021 conference held from 7 to 9 December. Both were digital events.

RI is a large-scale international ESG-focused conference and is held in several cities around the world. It saw more traction in 2021, as COP26 was held. Approximately 700 people, including institutional investors, asset managers, and industry specialists, attended each of the conferences.

Thomas Archer, a product specialist for the Global Fixed Income Team, took part in a panel discussion entitled "Green and Sustainability Bonds and ESG within the EU's Sustainable Financial Strategy" at the European event. He was also in a panel discussion entitled "Challenges and Opportunities in the Mature North American Green Bond/Blue Bond Market" at the US event. He was joined by ESG professionals from asset managers and rating agencies in discussions focusing on ESG trends in each regional market.

The RI Europe discussion aligned well with Nikko AM's Global Green Bond Strategy, which aims to provide customers with sustainable returns that contribute to achieving the Paris Agreement targets. In addition, while discussions at the RI USA event focused primarily on the North American green bond market, the investment efforts we have made to position green bonds as an asset class enabled us to share our experience and contribute in a meaningful way. ●

Corporate Sustainability

Making a positive impact in our communities

“our journey towards sustainability is also a journey of learning”

A message from Yutaka Nishida, Executive Chairman

As long-term investors, we are committed to sustainability and to continually meeting needs in each of the communities where we operate.

Our ability to communicate our efforts well across our global organisation will help us all to understand the changing needs of each region and reinforce solidarity in our determination to make a meaningful difference at the local level.

One of our most significant initiatives in 2021 was the Sustainability Promise. We asked employees to voluntarily submit a promise about something they can do to help make the world more sustainable. For each promise submitted, the firm made a \$50 donation.

More than 400 employees responded, helping us to achieve our goal of raising \$20,000. Part of these donations went towards the creation of the Nikko AM forest — a real-world commitment that will let us play a part in reforestation. The rest was put towards sending Covid-19 vaccinations to developing countries.

I am also delighted to see many staff members voluntarily joining working groups and taking action on environmental and social causes they are passionate about. I thank all of those who have devoted time to these activities in addition to their busy jobs. These actions of individuals,

that aim to accomplish genuine change, are helping to develop a stronger corporate culture of sustainability at Nikko AM.

However, there is more that we can do collectively. I believe that the senior management team can play a bigger role in leading by example to build such a culture. We need to constantly ask ourselves how we can better engage with employees — for example, by showing greater empathy and being more open to different perspectives — so that more people will be motivated to join us on our sustainability journey. To this end, we have set an ambitious goal to increase working group volunteers from 8% to 15% of our workforce by 2025.

In the years to come, I look forward to learning about the issues we face around the world through our corporate sustainability webinars, where experts are invited to speak on a variety of topics pertaining to our core areas of sustainability: diversity & inclusion, reducing inequalities, and environment & climate.

Our journey towards sustainability is also a journey of learning, and I would like to see everything we learn put into practice in our communities. ●

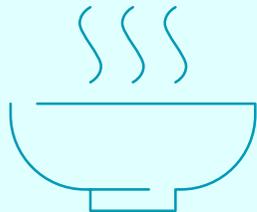
Yutaka Nishida
Executive Chairman




Some of our sustainability promises

One of our initiatives in 2021 was the Sustainability Promise. We invited employees to voluntarily make a promise about how they would become more sustainable in their day-to-day lives. More than 400 people responded. We believe that, as they keep their promises, they are helping to make their communities and the world a better place.

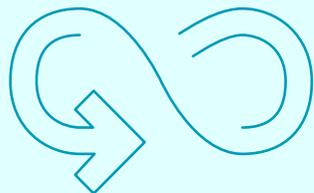
To continue pedal cycling to/ from work and whenever possible attend prospect/client meetings in London on my bicycle too!
Clive Paine – London



Will be **mindful of how much food** my family cooks or buys to reduce food wastage.
Jordyn Chew – Singapore

I have milk for my entire family delivered in reusable glass bottles.
Richard Kehoe – London

Reduce food waste at home through composting, worm farming and bokashi.
Tim O'Loan – Auckland



I will buy imperfect vegetables and fruits to reduce food waste.
Mariko Koyatsu – Tokyo

I will opt for a lifestyle that uses less packaging.
Rosetta Koo – Hong Kong

I will make it a habit to read/keep documents without printing them out.
Makoto Kawata – Tokyo

I promise to donate more to charities that help underprivileged girls.
Zhuo'er Xu – Singapore

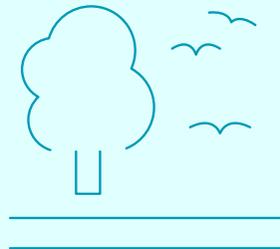


When it is sunny outside **I will walk** instead of using public transportation.
Kazuki Nakayama – Tokyo

During the colder seasons, I will wear one more layer so as to not rely too much on the heater.
Tomomi Shimatani – Tokyo

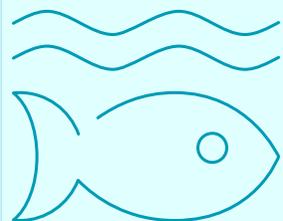
I promise to do a beach clean up (plastic and any inorganic rubbish) on my local beach every week.
Pam Molloy – Auckland

I will work to ethically consume. I will purchase fair trade products and products that support those with disabilities.
Yukako Kaneko – Tokyo



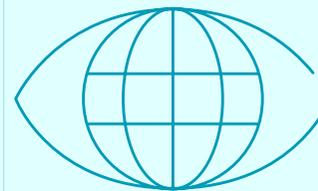
I will not buy unnecessary things. I will find more opportunities to **talk with my daughter about sustainability**.
Miwa Takano – Tokyo

Promote/run girls youth tennis training at local club due to low national female participation rates and thereby improving healthy living and D&I.
Cameron Kuwahara – Edinburgh



I promise to use **coral-friendly sunscreen**.
Shuhei Murakami – Tokyo

I commit to reduce consumption of red meat, consume more plant based meals and to buy produce which are sustainably sourced for my family and pets.
Chiam Li Ping – Singapore

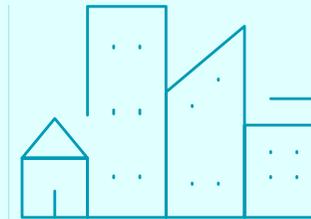


Having installed solar panels on my home earlier this year, I will continue trying to ensure that most of **my home power usage is covered by the solar energy** I generate.
Leon Taki – Tokyo

I promise not to drive my kids to school.
Steven Williams – London

I will reuse the water used to wash vegetables, fruits and rice for watering plants.
Stephanie Gaspar – Singapore

I promise to never buy plastic water bottles and to eat vegan meals at least twice a day to reduce my carbon footprint.
Katelyn Hedden – New York



I promise to **purchase locally grown products** from responsible/sustainable farmers. In order to help preserve our wildlife in the ocean, I promise to remove trash on the beach and dispose of it properly.
Laura Jordan – New York

I won't eat any animal products anymore.
Marie Guittet – Auckland

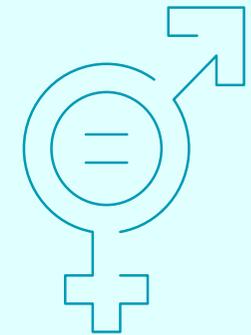
I will pick up trash when I walk in the park.
Masayoshi Sato – Tokyo

Participate in activities aimed at creating a society in which people with disabilities can live comfortably.
Shingo Murooka – Tokyo

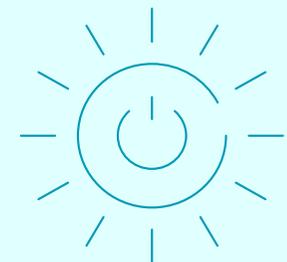
I promise to walk or cycle more instead of taking the car.
Sharon Ingram – Auckland

I promise to shut down my laptop every day instead of just locking it.
Li Min Kwan – Singapore

I will continue to grow more of my family's own food and reduce waste wherever possible.
Iain Fulton – Edinburgh



Help equality within asset management by mentoring school girls in Scotland.
Johnny Russell – Edinburgh



I pledge to **eliminate wasteful electricity usage** in my home by turning off or unplugging the lights and unnecessary electrical devices frequently.
Tsuyoshi Kurokawa – Tokyo

The catalysts for meaningful change

A conversation with the Global Co-heads of Sustainability

The year 2021 marked the third anniversary of the launch of the Corporate Sustainability Department at Nikko AM. To commemorate this milestone, we sat down for a virtual chat with our Global Co-heads of Sustainability, Joyce Koh and Daisuke Kono, who describe how the firm progressed in the area of sustainability in 2021, and outline their plans for the future.

How has sustainability evolved at Nikko AM since you became co-heads and where do you see it going?

Daisuke Kono: The Corporate Sustainability Department's purpose — to act as a catalyst for change in our company culture — has become much more widely recognised. This was a result of both a deliberate, global effort on our part and the rapid changes taking place in our world today. Going forward, I think corporate sustainability will become further embedded as an essential part of the management strategy of the firm.

Joyce Koh: I have definitely seen the pace of progress in the area of sustainability pick up at our firm. Support from management has grown, the number of sustainability specialists in investment departments has increased, and there is greater senior leadership participation in our corporate sustainability initiatives. Our colleagues are also embracing sustainability. There is stronger connectivity among working groups and higher participation at all internal events. It's clear that a culture shift is taking place.

What has been your biggest challenge leading the department?

JK: For me, the biggest challenge has been responding to the urgent need for change with our limited resources. We have so much to do in our three focus areas — diversity & inclusion (D&I), reducing inequalities, and environment & climate — and so little time. The corporate sustainability team is small, with many of our colleagues working in multiple roles. But, looking back at the initiatives the team and our various working groups have organised over the past three years, it is amazing what we can accomplish with passion and conviction.

DK: While we have helped to encourage change in our corporate culture from the bottom up, the global corporate sustainability team is relatively small, as Joyce mentioned, and we are still relying heavily on working group leaders and core working group members. We appreciate the support we have received from senior managers, but now we need to do more to connect them to our working groups and make their commitment more visible to all stakeholders.



Joyce Koh



Daisuke Kono

What have been some key milestones for the firm since the department was created?

DK: In 2021, we established long-term global targets to have women in 30% of the firm's managerial positions by 2030 and to reduce our greenhouse gas emissions 40% per employee by 2030 compared with 2019 levels. I believe the announcement of these goals was a major milestone, because they will act as pole stars in the areas of D&I and environment & climate and will lead to the creation of actionable short- and medium-term plans to ensure they are achieved.

Another milestone was in 2020 when the Corporate Sustainability Department was made a global function. This put us in a better position to align, connect, and support the global working groups and help them realise their proposals. Our efforts to achieve our mission on a global scale have started to bear fruit, as evidenced in the higher and more diverse participation in global events, such as the inaugural Sustainability Town Hall, the Power Chat series, internal seminars, and campaigns.

JK: In 2021, we also saw the highest number of our colleagues come together to support a single initiative. Over 400 staff members made a sustainability promise in the lead-up to the Sustainability Town Hall. That level of participation was unprecedented.

Tell us more about the Sustainability Town Hall. Why did you decide to hold it this year?

DK: One main focus of the Sustainability Town Hall was to raise awareness of our sustainability working groups among employees and senior management, and to encourage more people to join. These voluntary groups are the “influencers” within Nikko AM, and a defining feature of our corporate sustainability activities.

Going into 2021, despite the efforts we had made over the previous years to promote our working groups, participation had not reached the level we would have liked. So, we thought the three-year anniversary of the Corporate Sustainability Department was the perfect time to have more people hear our message.

JK: We wanted to bring our colleagues around the world together and do something as a firm that could highlight the great initiatives of our various working groups. Our team did a lot of brainstorming to come up with an idea that would be both meaningful and easy to implement for everyone while we were all working from home. We decided that we would encourage people to make a personal sustainability promise, as this seemed to be an authentic and interesting way to engage our colleagues. That grew into a fundraiser where the firm matched every promise with a donation towards two causes: the COVAX initiative for equitable vaccine distribution, and planting trees to start the Nikko AM forest.

“Over 400 staff members made a sustainability promise in the lead-up to the Sustainability Town Hall. That level of participation was unprecedented”

Of the firm's three focus areas of sustainability — D&I, reducing inequalities, and environment & climate — where do you see us doing more?

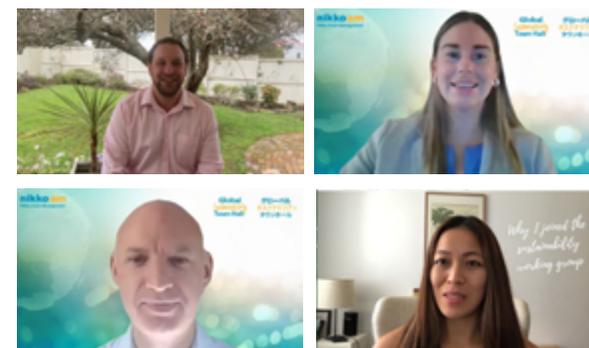
JK: D&I is something we are passionate about, so more needs to be done to help women to progress in their careers in order to have more women in managerial positions by 2030. This year, we have stepped up our environmental efforts, and 2022 will see us taking more concrete steps to reduce our carbon emissions. One key area we need to look at is business travel, which needs radical change.

DK: I think we need to give equal attention to these three areas to do our part in helping the world achieve the UN's Sustainable Development Goals. The areas of D&I and reducing inequalities actually overlap in many cases and there is much more we could do externally, such as joining global initiatives. This is something that may help us better shape our internal initiatives to meet our goals. As for environment & climate, it is essential that we tackle climate change from both the investment and corporate perspective. On the corporate front, we will be launching specific action plans to meet our newly established greenhouse gas reduction target. ●

Sustainability Town Hall 2021

The Global Corporate Sustainability team hosted the firm's first-ever Sustainability Town Hall on 29 September 2021. The Town Hall took place online to maximise accessibility for our colleagues around the world, and 484 employees attended the event. Various members of our senior leadership team spoke about the firm's stance towards corporate sustainability and how we are addressing it through both our operations and working groups. Members of each of our regional working groups also gave presentations on their initiatives and their plans for the future.

In the lead-up to the event, the firm held a Sustainability Promise challenge, inviting employees to submit a promise to become more sustainable in their daily lives. We reached our goal of over 400 promises and, in return, Nikko AM donated USD 50 for each promise, or a total of USD 20,000. These funds were split equally between two worthy causes: USD 10,000 towards a tree-planting project called The Forest of Nikko AM, and USD 10,000 towards the COVAX initiative, aimed at equitable global access to COVID-19 vaccines.



D&I enriches our firm's culture

New initiatives and goals will ensure we continue to prioritise diversity



Leonie Ugur



Marcel Nyiri

Diversity & Inclusion (D&I) is a topic many organisations have had to grapple with as they pursue sustainability. At Nikko AM, D&I is one of our three focus areas of corporate sustainability.

Our global D&I policy was implemented to anchor our commitment to fostering and preserving a culture of diversity and inclusion among employees. It also allowed us to clearly state how we have incorporated D&I into our core values.

With this policy in place, we aim to strengthen our teams by bringing together our people's differences in a healthy working environment. We have also explicitly outlined how we manage recruitment; compensation and benefits; performance and career development; company rules and processes; and awareness.

We believe that diverse teams offer a broad spectrum of perspectives, which will ultimately improve productivity and efficiency, and will sharpen critical decision-making. This, in turn, contributes greatly to the progressive solutions we are able to offer to clients.

Mentorship pilot programme in the UK and the US

In November 2021, a global initiative was piloted at our London and New York offices. We started a mentoring programme to develop a sustainable culture of cross-learning

that will enable mentees to enhance performance and achieve their professional goals. The mentors, who are usually senior staff members, will also benefit from the opportunities to develop and hone their mentoring skills.

The time period for the mentor-mentee partnership is set at six months, with at least one meeting every month. Seven pairs of mentors and mentees are taking part in the pilot programme. This programme is expected to be rolled out firmwide in the second half of 2022.

"This has been a huge support and so meaningful to my personal progress and development within this industry. I really look forward to every meeting," said Leonie Ugur, a London-based mentee in the pilot programme.

Marcel Nyiri, another mentee based in New York, stated that "the mentor-mentee programme is a good opportunity for me to connect with NAM Americas and get a feeling for the challenges that may lie ahead on my career path."

Gender diversity

In 2021 the firm set a target to increase the number of women in managerial positions across the Nikko AM Group from 18.4% to 30% by 2030. To support this initiative, our Power Chat online forum was launched to inspire and encourage female employees to take control of their careers.

At Power Chat, a series of motivational dialogues between global senior managers from various Nikko AM

international offices, speakers shared their personal stories about their career journeys.

The first session featured Stefanie Drews, who was Senior Corporate Managing Director and is now President, and Nikko AM Asia President Eleanor Seet. The two spoke about their individual experiences, facing challenges unique to women while advancing in their careers and balancing their work and personal lives. In subsequent sessions, other senior executives, both male and female, discussed a number of situations they encountered at work and in life that shaped them and helped them navigate their careers more effectively.

Feedback from staff who attended the Power Chat sessions was consistently positive and we plan to continue this internal programme for another year, albeit in an altered format, to make the advice given even more practical for attendees.

Increasing the sustainability quotient of staff

We believe that D&I can contribute to a culture of sustainable excellence in a powerful way. We are conscientiously working to ensure that the workplace is an environment where everyone has an equal opportunity to contribute and feel involved and supported.

To this end, the incorporation of sustainability goals into each staff member's goal setting in 2020 was an effective move to increase the sustainability quotient of individuals. As a result, in 2021, we saw a heightened awareness of the importance of sustainability and more actions being taken to make our workplace and our world more sustainable. ●

Enhancing our commitment to the environment

Our updated environmental policy will hold us accountable for our emissions

We believe that corporate sustainability is not just about doing good for society and the environment — it's also about the sustainability of our own business. In 2021, as we thoroughly examined our firm's impact on the environment, we decided it was time to update our environmental policy, and we have set a measurable target that will hold us accountable for our emissions.

The revised policy sets out our commitment to environmentally conscious practices throughout our business operations. We have changed the wording of the policy so that it covers a broader range of areas pertinent to today's environmental conversations.

We have also included specific areas of focus, such as our commitment to comply with the relevant environmental regulations of the regions we operate in; prioritise the selection of environmentally conscious vendors and service providers; eliminate waste across our operations by practising the 3R's of reduce, reuse, and recycle; and support external initiatives in areas such as ocean biodiversity, reforestation, and natural habitat conservation.

Most importantly, as many countries we operate in have begun to pledge to achieve carbon neutrality by 2050, our new policy features a firm-wide target to reduce our greenhouse gas emissions by 40% per employee by 2030, compared with our 2019 emission levels.

This target builds upon our established process of measuring and offsetting our carbon emissions. Over the

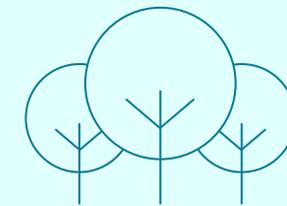
"With a shift to a post-COVID mindset, and the innovation that Nikko AM is renowned for, I'm confident that we'll be able to achieve our reduction target"

past few years, we have been aggregating data on our energy use and business travel, which is converted, by an external consultant, into the equivalent carbon emissions. We then offset these emissions by purchasing carbon credits from certified projects, earning us a carbon neutral certification.

As a firm, we are taking this a step further as we strive to minimise our footprint. We will now only offset the emissions we cannot reduce through our own efforts. Two key areas we are focusing on — which currently form the bulk of our carbon footprint — are our energy usage in our office buildings and our emissions from business travel.

"We will work with the relevant departments to come up with action plans to address both of these areas, without hampering productivity or business success," says Daisuke Kono, Global Co-head of Sustainability. "With a shift to a post-COVID mindset, and the innovation that Nikko AM is renowned for, I'm confident that we'll be able to achieve our reduction target." ●

The Forest of Nikko AM



11,200 total trees planted

Tanzania

Usambara Biodiversity Conservation



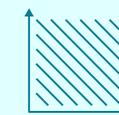
6,000
trees

India

Trees for Tigers



5,200
trees



7.19 hectares
Total reforested

5.5 ha

Tanzania
Usambara Biodiversity
Conservation

1.7 ha

India
Trees for Tigers



3,424 tonnes
Total CO₂ captured

2,704 t

India
Trees for Tigers

720 t

Tanzania
Usambara Biodiversity
Conservation

For a sustainable company and a sustainable world

Working group initiatives – Japan / International

Our working groups — in the areas of LGBT, women, abilities, the environment, and global racial equality — are made up of employees who have joined voluntarily and who activate our “bottom-up” sustainability initiatives.

In May 2021, we connected with all of our Japan-based employees, many of whom were working remotely, by sending them a Sustainability Package to reaffirm our commitment to sustainability. In the package, we included pins of each working group’s logo, an LGBT pamphlet, a reusable tumbler made of thinned wood, and chocolate sweets from Chocolabo, a chocolate company where people with and without disabilities work together.



LGBT-themed short film *Kalanchoe*

We also created two videos for a recruitment event, introducing the working group leaders and members, and having them showcase the working groups’ activities.

LGBT Working Group

In April, the group held its first online viewing session of an LGBT-themed short film, called *Kalanchoe*. This was followed by a discussion with the movie’s director and supporting actress. The heart-warming film, set in a rural high school in Japan, prompted many of the viewers to reflect on LGBT issues. It was also a unique experience to hear from people involved in the movie’s production, and this was very well received. Since many of those who took part were working remotely, we invited their family members to join. Some mentioned that it offered an excellent opportunity to talk about LGBT issues with their children.

In November, we celebrated Pink Friday, an event to raise awareness of LGBT allyship by wearing pink clothes and using pink Zoom backgrounds created specifically for the occasion. At this meeting, each member talked about their journey since the working group was founded in 2017.



Pink Friday Zoom meeting

In recognition of our LGBT initiatives, we received the Gold award from work with Pride in 2021, our third consecutive Gold award from the organisation. In addition, we were given the Best Workplace Award from JobRainbow at their first D&I Awards.

One of the events that we hosted outside the company was a seminar titled “Same-Sex Marriage — Where We Are Now and Looking Forward” with Makiko Terahara, a lawyer.

“While each of these initiatives seem like small steps, we are confident that they have helped to advance the understanding of LGBT issues and to advocate the importance of D&I”

This was held in conjunction with LGBT Finance, a Tokyo-based industry group focused on LGBT support, and it drew a large audience from the member companies.

While each of these initiatives seem like small steps, we are confident that they have helped to advance the understanding of LGBT issues and to advocate the importance of D&I, both at the firm and externally.

Japan Women’s Working Group

The year 2021 was a landmark one for the group. First, in conjunction with the Human Resources Department, we set our #30by2030 goal that aims to have 30% of managerial positions held by women globally by 2030. This led to the creation of our Power Chat series, an online seminar initiative that empowers women by giving them the opportunity to learn about the experiences of leaders within the firm and get some practical advice for both the corporate world and the home. Held quarterly, senior managers and other leaders talked about a range of topics, including their personal stories, how to overcome failure and be successful, how to effectively communicate with bosses and colleagues, as well as how to balance family responsibilities. They always end with a powerful message for attendees. These meaningful sessions have presented employees with role models within the firm and offered actionable advice for issues that everyone faces.

The group also hosted a number of seminars featuring speakers from outside the firm. In June, we invited a young entrepreneur, Ai Hagiuda, founder of Afrika Rose. The seminar focused on her business model that not only creates employment in Africa, but brings a sense of



Oki Matsumoto, Chairman & CEO, Monex Group, Inc.

satisfaction to all stakeholders, including employees and clients. We also welcomed Nahoko Shindo, Senior Advisor at the World Health Organisation, to talk about her career as a single mother from Japan working for a supranational organisation and give valuable information on the current situation of the COVID-19 pandemic. In December, we had a talk from Miwa Seki, the founder of mPower Partners Fund and renowned translator of Hans Rosling’s *Factfulness*. Her seminar was about never missing an opportunity, and being grateful for everyone and everything, providing a powerful message for all working women.

At the end of 2021, we welcomed entrepreneur and Chairman & CEO of Monex Group, Inc. Oki Matsumoto, who spoke on the value of being different and how diversity can be leveraged as a business strategy. Using modern portfolio theory and behavioural finance, he explained the merits of diversity for corporate strategy and how it relates to meritocracy, not just from the perspective of gender, but also that of LGBT and disabilities.



Wheelchair Rugby athlete Yukinobu Ike in action

Abilities Working Group

Special mention needs to be given to the success of our disabled athlete employee, Yukinobu Ike. In addition to being an employee of Nikko AM, he is the captain of the Japanese National Wheelchair Rugby team. The team won bronze for the second time in a row in Tokyo in 2021, after winning bronze in 2016 in Rio de Janeiro.

We held a pre-tournament pep rally and a post-tournament debriefing, with many employees tuning in online to cheer on Yukinobu. There are many “Ike fans” within the company, and the significance of hiring disabled athletes has come to be widely understood at Nikko AM.

As a new initiative, we held a series of 11 Nursing Care Cafés from February to December for a small group of employees who are currently caring for elderly relatives, or who may need to in the future. At each meeting, Mieko Akutsu of NPO UPTREE, which supports families that take care of elderly relatives, spoke on a particular topic. Then participants were given the chance to talk with each other about their daily problems and their concerns about the future. Mieko, who is deeply knowledgeable about nursing care and consistently offers practical advice, gave

participants courage to face the future. We are looking into follow-up events in this area.

We also invited Hitoshi Shindo, President of General Partners, the first private employment agency in Japan to specialise in people with disabilities. His seminar was extremely informative, sparking dialogue on diverse hiring that goes beyond the standard ideas of disabilities. In addition, we welcomed Toru Kishida, a representative of the NPO Cancer Note, which provides support to cancer patients. He took part in a talk-show style discussion, titled "Let's talk about cancer — yours and mine", with Nikko AM employee Yuichi Yamada. The seminar gave employees the opportunity to listen to a frank conversation about cancer based on the experiences of Toru and Yuichi, who are both cancer survivors and are balancing work and family life. After being presented with the statistic that almost half of Japan's population suffers from some form of cancer in their lifetime, employees learned what to do if they or a member of their family is diagnosed with cancer.

Environment Working Group

In March, we invited Toru Furuhashi of Asahi Breweries to a seminar titled "Let's start with this one cup! Creating hands-on environmental value with the Forest Tumbler". The Forest Tumbler, jointly developed by Panasonic and Asahi Breweries in 2019, is a reusable tumbler made from wood derived from forest thinning that makes beer taste better. Toru told participants the story of the product's development and plans for the future. All Japan-based employees received a tumbler as a part of the Sustainability Package sent in the summer.

In July, we held a seminar titled "More trees! Sustainability and Forests" with Shinkichi Mizutani, Secretary General of the organisation more trees. Represented by musician Ryuichi Sakamoto, more trees is engaged in a variety of activities such as reforestation with the aim of creating a society where forests and people can live harmoniously forever. At the seminar, Shinkichi talked about a wide range of topics, including disasters caused by global warming due to deforestation and the current state



Environment Working Group donating disaster supplies to the Giving Forward organisation

of forests in Japan and around the world. Participants learned what they could do to contribute to improving our coexistence with forests.

At the end of the year, we held our annual donation of disaster supplies. This year's donation was made through the organisation Giving Forward, our partner for the donation we made last year. The purpose of the organisation is to deliver overlooked social resources to those in need. Tsuyoshi Kurokawa of the General Affairs Department — who is in charge of managing our company's disaster stockpile and co-lead of the Environment Working Group — prepared and arranged the shipment along with other group members. Tsuyoshi commented that, "As a corporate citizen, I believe it is our duty to help those in need and reduce food loss. I would like to thank Giving Forward for this opportunity, and look forward to working with them again in the future."

"As a corporate citizen, I believe it is our duty to help those in need and reduce food loss. I would like to thank Giving Forward for this opportunity, and look forward to working with them again in the future"

Global Racial Equality Working Group

The Global Racial Equality Working Group is the first truly global working group, in that it comprises members from each of Nikko AM's global offices, including headquarters in Tokyo. The group is working with an external consultant to create a survey that will provide a comprehensive overview of race at our company, with the specific aim of understanding areas where Nikko AM needs to improve support for employees on the basis of race.

We have people from 25 different nationalities working at Nikko AM, and this only enhances the work that the group performs. Marie Ovel, a compliance officer at Nikko AM New Zealand and a member of the group, stated that, "Wherever we see bias, we must put our full, concerted effort into removing it. We need to create a working environment where staff feel that, whoever they are, they will be accepted." She added that she would like to see a world where "even beyond race, everyone was treated fairly and equally." ●

Sustainability unlimited

Working group initiatives – Asia

“In Asia, we have seen the drive towards sustainability pick up brisk pace in recent years, both on the business front and in our individual actions. We initiated this journey as a corporate entity from the angle of Corporate Social Responsibility [CSR] and, since then, our Sustainability Working Group has progressively expanded its scope. Our activities now involve all our colleagues, whose commitment to sustainability continues to deepen. We know this momentum is here to stay because we are seeing that our individual and collective actions matter.”



Eleanor Seet

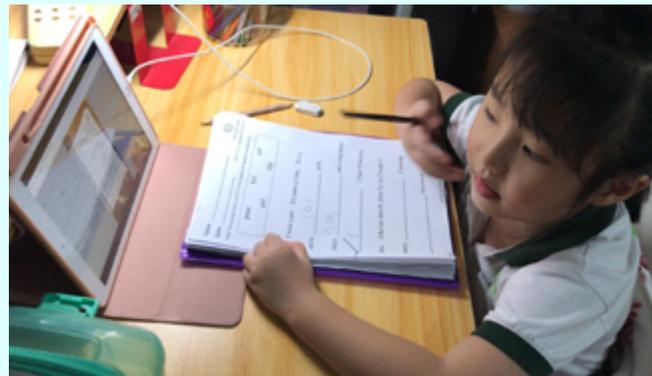
— Eleanor Seet, President and Head of Asia ex-Japan, Nikko AM Asia

On the Nikko AM Asia Sustainability Working Group, we have found that stretching our imagination to do more for sustainability from home is as therapeutic as stretching ourselves to relieve our body aches after long hours bound to our desks.

With activities requiring physical attendance put on hold for the second year in a row, due to the evolving COVID-19 pandemic, the team has found its own rhythm for conducting outreach to help reduce inequality and expand inclusion.

In April 2021, we held a fundraiser for Cahaya Community, which provides social support to children of families in need. They engage these children through mentorship as well as educational and sports programmes.

We raised a total of SGD 11,000 that went towards supporting three initiatives. The first was to set up study corners — with tables, chairs, and lamps — for 25 families,



Cahaya Community provides social support to children of families in need

“We know this momentum is here to stay because we are seeing that our individual and collective actions matter”

which was done with the aim of cultivating healthy study habits in these children over the long term. The second was to provide academic materials, such as textbooks and workbooks, for 110 children. And, when the situation permits, the remaining funds raised will be channelled towards extracurricular programmes that are linked to sports, arts, and service learning.



Christina Michael, Principal of Canossian School for the hearing impaired in Singapore

Learning to be inclusive

One out of every 1,000 babies born in Singapore has severe or profound hearing loss, and five in every 1,000 have lesser degrees of hearing loss.



Some of the participants in the 5K virtual run in aid of Limitless, a non-profit entity in Singapore that helps youth grappling with mental health issues

“After relentless months of social distancing, work from home, and other restrictions, the run — which each participant could do at a time and place of their choosing — was a welcome mental break”

On 19 August 2021, Christina Michael, Principal of Canossian School for the hearing impaired in Singapore, and Barbara D’Cotta, from the Singapore Association for the Deaf, helped the larger Nikko AM community across different offices understand more about living with hearing loss, as well as intervention and support from the community. They were joined by a deaf adult and students from the Canossian School.

The webinar is a renewal of a very special bond with the Canossian School, which was one of our earliest CSR partners. In 2013, a good number of our staff volunteered regularly at the school to support the students with their art projects. The Canossian School continually endeavours to integrate its students socially with the larger community.

Running for mental health

In October, the working group collaborated with Limitless, a non-profit entity in Singapore that helps youth grappling with mental health issues, to organise a virtual run. Each sign-up for a five-kilometre run raised SGD 25 to fund outreach and counselling programmes for young people, ranging from 12 to 25 years old, from all walks of life.

A total of 116 staff and family members made the run, raising SGD 5,800, which includes a dollar-for-dollar matching contribution from the Singapore Tote Board. After relentless months of social distancing, work from home, and other restrictions, the run — which each participant could do at a time and place of their choosing — was a welcome mental break.

In addition to all the programmes that were organised to engage our staff, we have continued, for the second year, to keep everyone connected with our bimonthly email newsletter. ●

Motivated to make a difference

Working group initiatives – Europe

“Sustainability informs every action we take at Nikko Asset Management. We always have our clients, employees, and community at the front of our minds.”



John Howland-Jackson

— John Howland-Jackson, Chairman,
Nikko Asset Management Europe

The profound impact of the COVID-19 pandemic brought out the best in our colleagues and motivated them to help others who are less fortunate. There are many examples from 2021 of our people giving their time, money, and expertise to support others, and these are a few of the highlights.

Charitable giving award

After implementing payroll giving in 2020, Nikko Asset Management Europe received a Silver Award from the Charities Aid Foundation in June 2021. From the scheme's inception up to the end of 2021, our employees had donated a total of nearly GBP 30,000 to charities they selected.



Employees participating in the Virtual Big Fun Run for Trussell Trust

Virtual Big Fun Run

Employees participating in the Virtual Big Fun Run raised over GBP 2,000 for Trussell Trust, a network supporting food banks in the UK. This amount was matched by the firm, so the total amount donated was more than GBP 4,000.

Wrap Up London

Every November, Wrap Up London brings together hundreds of volunteers to collect, sort, and distribute coats to charities and for projects supporting those using its services. A coat doesn't only provide warmth, it is often a gateway for someone to access services that will help them get back on their feet. Our staff generously donated warm winter coats to the initiative.

Our team in London also donated presents to the Salvation Army's Christmas Present Appeal. This annual

initiative gets new toys and gifts into the hands of children who might not otherwise receive a Christmas present. The Salvation Army offers “practical support and services to all who need them, regardless of ethnicity, religion, gender, or sexual orientation”.

Meanwhile our colleagues on the Global Equity team in Edinburgh purchased toys for the Cash for Kids appeal in Scotland.

Also, staff at the Edinburgh office volunteered at an organisation that collects surplus food donations and converts them into breakfasts, lunches, dinners, and snacks. Community volunteers then package these meals into “day packs” for delivery across Edinburgh. Having been inspired by the project, the team collectively made a cash donation to the organisation. ●



Surplus food donations being packaged into “day pack” meals for delivery across Edinburgh

Supporting the fight against modern slavery

Working group initiatives – New Zealand

“It is both our privilege and duty to use the skills and resources at our disposal to be good stewards of everything over which we have responsibility. We are doing this successfully at Nikko AM New Zealand and, specifically, I am proud of how we are raising awareness about modern slavery and helping to bring this horrific problem to an end through our Freedom Fund.”

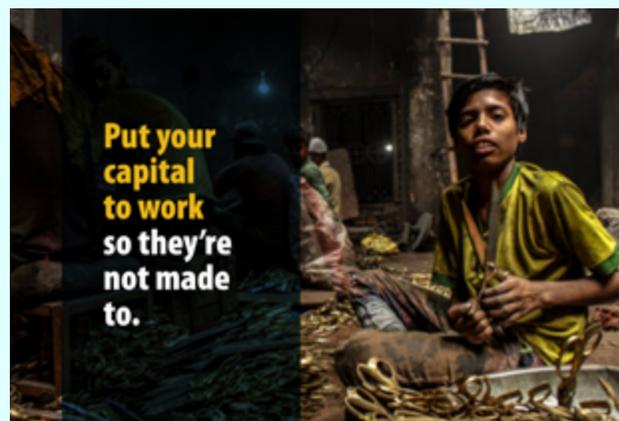


George Carter

— George Carter, Managing Director, Nikko AM New Zealand

Reducing inequality

In 2021, the Nikko AM New Zealand office launched an initiative to help abolish modern slavery and human trafficking by creating the Freedom Fund. It is estimated that there are more than 40 million victims of modern slavery in our world today, so the Freedom Fund gives investors the opportunity to invest in a fund that donates all the fees and returns to the charitable organisation Tearfund. Tearfund works with partners in five of the poorest countries to offer an end-to-end response to the issue of human trafficking and slavery, tackling poverty and injustice through sustainable development. With its focus on fighting modern slavery, our fund gives investors the most rewarding return they will ever get.



Freedom Fund marketing image

In addition, during the holiday season, Nikko AM New Zealand sent thank-you gifts to clients, business partners, and employees through 27seconds, a social impact winery. 27seconds donates all of its profits to its partner organisation, Hagar, which provides trauma recovery care to survivors of slavery, trafficking, and severe abuse in some of the poorest countries.

As we have taken these steps to support the fight against modern slavery, we have come to a deeper understanding of just how significant this issue is and how our everyday choices can make a difference.

Promoting social issues in investments

In 2021, Nikko AM New Zealand, with support from the Nikko AM Group, became a silver sponsor of Mindful Money's seminar series, which promotes social issues in investment such as impact investments, net zero commitments by fund managers, and social housing and investment issues. By leading a presentation in February, we aimed to raise awareness about modern slavery and educate investors about ethical investing. We believe that by doing our part in promoting social issues in investing we will help educate others and make a meaningful change in society.

Internships

For the first time, Nikko AM New Zealand has committed to mentoring university students through an internship programme. This allows them to develop their skillset and prepare for their future careers. It has helped build awareness about the kind of work that goes on behind investment management and has encouraged some students to choose a career in the field. ●

Supporting greater equality in the arts

Working group initiatives – Americas

“Nikko AM has a history of more than 20 years addressing ESG issues, so having a local sustainability working group at Nikko AM Americas is a core part of our values. Sustainability resonates strongly today and should continue to expand.”

— Lawrence Prager, Country Head and CEO, Nikko AM Americas



Lawrence Prager

When it began, the Nikko AM Americas Sustainability Working Group was focused on conducting in-person volunteering activities. However, given the need to work remotely throughout 2021, in-person opportunities for volunteering were limited. Although the pandemic has kept us apart, the reduced commutes to work and the drop in business travel have decreased our overall carbon emissions. Remote work has also inspired the office to transition to electronic statements instead of paper mail when possible.

The working group helps to keep the office connected, which has been increasingly important during the pandemic. It is made up of around 10 employees, or 30% of the office, from almost every department. The diversity of experience and backgrounds fosters thoughtful discussions during our meetings.

Each one of these employees is very environmentally and socially responsible. Our meetings give us opportunities to share personal initiatives and to learn from each other. In 2021, some members went vegan, eliminated the use of plastic bags, planted gardens, started composting, or cleaned up local beaches. These generous employees continually strive to make a positive impact in our community.

We are thankful for the corporate support we receive from Tokyo for our philanthropic initiatives.



Classical Theatre of Harlem

© Classical Theatre of Harlem

Our office remains committed to supporting the arts and culture, donating USD 10,000 to local nonprofits in 2021. For example, we started helping the Classical Theatre of Harlem (CTH) in 2020 and have stayed connected with the organisation throughout the pandemic.

CTH’s mission is to equalise access to the arts and make New York’s performing arts scene more diverse and inclusive. The organisation works to bring the professional theatre experience to low-income areas, putting on theatrical productions and providing educational programmes for little to no cost in Harlem and beyond. Our donations have supported their digitalisation and other efforts.

One initiative CTH is working on is a project to convert classical playwrights’ works into a series of short animations. The goal is for local schools to use this series as a tool to teach the classics.

Our sustainability working group believes that the arts should not be reserved for the rich, and the Classical Theatre of Harlem shares our core values of diversity, inclusion, and equality. It is also a growing organisation with great leaders who have a lot of ambition. We hope to continue this partnership for many years. ●

Looking Ahead

Looking ahead

Staying focused

At Nikko Asset Management, every one of our teams is striving to do better in various aspects of sustainability, in spite of the challenges and uncertainties of today.

As we finalise our Sustainability Report 2022 for publication, all eyes are on Russia and Ukraine. The crisis has eclipsed the constant nagging concern of living with the COVID-19 pandemic and perhaps has even overtaken our heightened awareness of the need for greater sustainability. The uncertainty of the future makes it all the more necessary for us to stay focused and make clear plans to become more sustainable.

As responsible investors, we will continue to add resources that will help our investment teams enhance processes related to ESG and expand our collaboration with the investment community.

We are committed to continuing to raise internal awareness of our drive towards sustainability, and we believe the support of senior management will help us to increase the number of staff volunteers in the sustainability working groups from 8% to 15% of our total workforce by 2025. The level of participation internally is a barometer of engagement and the cultural shift taking place within the firm, so reaching a critical mass of support from our employees is key to the full activation of our sustainability strategy.

In the area of corporate sustainability, a critical change we want to make is to designate active sponsors from the senior management team for each of our three pillars: diversity & inclusion (D&I), reducing inequalities, and environment & climate.



An important aspect of our D&I strategy is the engagement and empowerment of women through internal platforms. The year 2022 will see the launch of Power Pact, which is an advanced iteration of the Power Chat online seminar series we offered in 2021. Power Pact aims to equip women, as well as men, in soft skills that are relevant to effectively navigating work and home life. The series begins with helping participants identify how they can take charge of their own career paths and personal growth.

In every region where we operate, we are also looking to be a change agent to help reduce inequality at the company level, the industry level, or even at the national level.

In 2022, we will conduct our first racial equality survey, which is a major project helmed by our Global Racial Equality Working Group. This survey will be conducted across all our offices. The objective is to identify potential

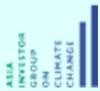
biases and gaps in racial equality in our organisation and take action to address them. The findings will also contribute to our D&I strategy.

In the environment & climate space, we have cut carbon emissions through the reduction of business travel, and we now need to review other aspects of work as we enter a post-COVID era. These include considering non-business travel plans, switching office energy supplies to renewable sources, and replacing office desktops with secure laptops. We also intend to continue contributing to reforestation projects.

As we develop new goals and programmes, we will also keep reviewing what we have put in place to ensure we remain focused and outcome driven. ●

External commitments

Our participation in external initiatives

	<p>Asia Investor Group on Climate Change (AIGCC)</p>	 <p>Japan Association of Value Creating ERM (Nikko AM Tokyo)</p>
	<p>CDP</p>	 <p>Principles for Financial Action for the 21st Century (Nikko AM Tokyo)</p>
	<p>Climate Action 100+</p>	 <p>30% Club Investor Group (Nikko AM Tokyo)</p>
	<p>International Corporate Governance Network (ICGN)</p>	 <p>TCFD Consortium (Nikko AM Tokyo)</p>
	<p>United Nations-supported Principles for Responsible Investment – Principles for Responsible Investment (PRI)</p>	<p>Stewardship Codes – Japan Stewardship Code (Nikko AM Tokyo) – Singapore Stewardship Principles (Nikko AM Asia)</p>
	<p>Task Force on Climate-related Financial Disclosures (TCFD)</p>	 <p>Women's Empowerment Principles</p>
	<p>The Investor Agenda</p>	<p>Global Investor Statement to Governments on Climate Crisis</p>
	<p>The Net Zero Asset Managers Initiative</p>	

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