Sustainability Risks Policy

February 2024

Introduction and Corporate Structure

1.1 The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires investment firms to formalise how sustainability is integrated into their business and processes, and to make new public and client-facing disclosures on sustainability matters.

1.2 **Nomura Asset Management Co., Ltd ('NAM')** is a leading global investment manager for some of the world's largest institutional investors, and has its headquarters in Tokyo, with overseas subsidiaries in London, Singapore, Kuala Lumpur, Hong Kong, New York, Frankfurt, Shanghai and Taipei. NAM is 100% owned by Nomura Holdings Inc., which is the ultimate holding company of the Nomura Group.

1.3 NAM believes the essence of our business lies in fulfilling both our fiduciary and social responsibilities through the provision of high-quality products and investment solutions that meet the performance and service expectations of its clients. At the same time, we seek to contribute to a sustainable and prosperous society by supporting asset formation and value creation for all our clients and stakeholders, including portfolio issuers. In recent years, the global investment management industry has recognised the growing importance of non-financial measures of company performance, characterised as Environmental, Social and Governance (ESG), which are now widely accepted as material business challenges that companies must address.

1.4 **The NAM ESG Statement was firstly enacted in March 2019.** It shares with our stakeholders the direction of our ESG-related activities and how NAM will respond to environmental and social risks, and to strive to realise a sustainable environment and society. NAM recognises that efforts to solve ESG issues are important in order to support a virtuous circle in the investment chain. As a responsible investor, NAM encourages portfolio companies to operate with an emphasis on ESG practices, whilst conducting its own operations with a focus on ESG.

1.5 The NAM ESG Statement can be viewed **here**

2. **The following sections set out the policies of Nomura Asset Management Europe KVG mbH ("we", the "Firm" or "NAM EU") on the integration of sustainability in our investment decision-making process**

2.1 Nomura Asset Management Europe KVG mbH is one of the NAM subsidiaries. Based in Frankfurt, our client base includes institutional clients like corporate and state pension schemes, sovereign wealth funds, providend funds and insurance companies as well as financial institutions, mutual funds, Asset Managers, banks and individual financial advisor. We provide our clients with a wide range of innovative strategies including single country, regional and global equity products, fundamental index solutions and global fixed income strategies.

2.2 This document sets out the Firm's policies in respect of the integration of sustainability risks in our investment decision-making process, as required by Article 3 SFDR. The policy applies to the Firm, and applies in respect of all portfolio management services, investment advisory services, and pooled fund (including UCITS-compliant fund) management carried on by the Firm.

2.3 The Firm places its clients' interests at the heart of all its activities and those clients are overwhelmingly long-term investors. As such, they are concerned with the long-term performance from the strategies and funds that we manage on their behalf. It is the Firm's belief that investments in securities that exhibit sustainable earnings and/or cash flows are therefore most suited to our clients' needs. More than this, the Firm recognises its role in ensuring that capital markets function for the benefit of society in general. The Firm therefore aims to operate in a sustainable way and to invest in the securities of sovereigns, companies and institutions that also operate in a sustainable way. The Firm's research processes for both fixed income and equity strategies incorporate the explicit consideration of sustainability factors and, depending on the specific characteristics of each client's account, these will be reflected to a greater or lesser degree.

2.4 NAM believes in the regional management of investment portfolios, which results in numerous cross-border delegation arrangements whereby the local office delegates the management of non-regional mandates to the relevant regional entity.

2.5 For some accounts, the Firm delegates portfolio management services, investment advisory services and pooled fund (including UCITS compliant fund) management. For these accounts, the Firm requires the entity to which these services have been delegated to comply with this policy, although its day-to-day approach to meeting the requirements of the policy may differ from those of the Firm itself.

2.6 More details of these delegation arrangements are shown below.

Name of the strategy	**Delegated company**	**Strategy specific sustainability description**
Japan Active Growth	NAM TK[1)]	Sustainability Risk – Japanese Equities
Japan Active Core	NAM TK	Sustainability Risk – Japanese Equities
Research Active	NAM TK	Sustainability Risk – Japanese Equities
Japan High Conviction	NAM TK	Sustainability Risk – Japanese Equities
Asia Core	NAMS[2)]	Sustainability Risk – Global Equities
Asia High Conviction	NAMS	Sustainability Risk – Global Equities
Global Fixed Income – Sovereign (Active)	NAM UK[3)]	Sustainability Risk – Global Fixed Income
Global High Yield Bonds	NCRAM[4)]	Sustainability Risk – US, Euro and Global High Yield Bonds, Leveraged Loans and Emerging Market Bonds
ACI US Corporate Investment Grade Bonds	ACI[5)]	Sustainability Risk – American Century Investment-Management Inc

1) Nomura Asset Management Co., Ltd.
2) Nomura Asset Management Singapore Limited
3) Nomura Asset Management U.K. Limited
4) Nomura Corporate Research and Asset Management Inc.
5) American Century Investment Management, Inc.

2.7 For reference, the Firm maintains other policies and documentation related to sustainability, including:

- NAM EU Responsible Investment website: https://www.nomura-asset.eu/responsible-investment/esg-sustainable-investment/
- NAM Responsible Investment Report

2.8 This Sustainability Risks Policy applies as from 10 March 2021.

3. <u>Purpose of this policy</u>

3.1 Under SFDR, "**sustainability risk**" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

3.2 Whilst the Firm recognises the potential negative impacts of sustainability risk, our approach to sustainability goes beyond this definition. Our portfolio managers and analysts seek to understand the sustainability problems and/or merits of our investee sovereigns, companies and institutions so that they may actively identify opportunities to add value to client portfolios. For instance, where we identify issuers that operate sustainable, transparent business models that are of benefit to a wide group of stakeholders (creditors, shareholders, employees, customers and society at large), we can have greater confidence that these business models will continue to drive profits and cashflows into the future.

3.3 The Firm recognises that the world faces growing environmental, social, and governance-related risks. A key part of our role as a fiduciary is to act in the best interests of our clients, and this includes appropriately taking account of how those ESG risks could impact on our clients' investments. This policy therefore establishes our framework to identify, measure, manage and monitor ESG risks to our clients.

3.4 For the purposes of SFDR, sustainability risk is <u>not</u> concerned with the risk of harm that our investment decisions may do externally to sustainability factors. In other words, this policy covers "*value*" rather than "*values*". The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a firm's investment decisions on sustainability factors.

3.5 In addition, SFDR is <u>not</u> specifically concerned with the risks that sustainability events may cause to the Firm's own balance sheet or prudential position. Such risks will be separately covered by the Firm's ICAAP process or similar process.

4. <u>Governance and senior management responsibility</u>

4.1 The Firm's Board of Directors (*Geschäftsführer*) is ultimately responsible for the firm's policies and procedures in respect of sustainability risks.

4.2 The Firm's Board of Directors (*Geschäftsführer*) has approved this policy and the related procedures, including the Firm's sustainability risk appetite, and the Firm's integration of sustainability risks into investment decision making.

5. <u>Sustainability risk management</u>

5.1 The Firm aims to identify sustainability issues as part of its broader analysis of securities and for the purposes of the paragraphs in this section, the terms "sustainability" and "Environmental, Social and Governance" or "ESG" will be used interchangeably.

5.2 Given the varied nature of the investment strategies provided or directly managed by the Firm, ESG-based exclusion criteria are kept to a minimum at Firm level. However, the Firm will not invest in companies identified as cluster munitions manufacturers. Further ESG-based exclusion criteria can be (and are) applied more extensively to individual strategies.

5.3 The approaches to analysis of ESG factors vary amongst the investment teams, but the portfolio managers and analysts share a common goal to understand both threats and opportunities to the business models of potential investee sovereigns, companies and institutions from an ESG perspective, and thereby develop a fuller understanding of the downside risks, or potential valuation upside of the securities concerned.

5.4 The portfolio managers and analysts make extensive use of data from third party ESG specialists, including ISS, MSCI, Sustainalytics, etc. This data can assist them to identify potential ESG concerns. However, it can only be a starting point. As a (potential) provider of either equity or debt capital, the Firm has the ability to engage with and understand issuers' business models in depth, and the portfolio managers and analysts conduct fundamental analysis in order to reveal and evaluate potential ESG factors.

5.5 Analysis helps the Firm to understand the risks and opportunities. The factors are then debated more broadly amongst our investment professionals, and ESG ratings and risk assessments are ratified and officially recorded as part of the investment processes for both equity and fixed income strategies.

5.6 Where the investment professionals identify ESG factors which they believe can be improved or addressed, they engage directly with the relevant companies or issuers to make their views known. This part of the investment processes is not limited only to issuers in which the Firm's strategies have invested.

5.7 The Firm maintains a comprehensive proxy voting policy that covers its approach. For the purposes of this document, it is simply noted that the analysts' ESG research may influence how such votes are cast.

5.8 ESG ratings and factors are kept under regular review, and updated whenever our research on a particular company, sovereign or institution is updated. Reviews are subject to the formal ratings ratifications processes for the relevant strategies – these are detailed in the strategy-specific sections shown section 2.6.

6. <u>Relevant sustainability risks</u>

6.1 As noted above at section 5 of this policy, the Firm has taken steps to identify each key environmental, social and governance risks which could, if they occur, cause an actual or a potential material negative impact on the value of an investment. These are summarised in this section 6.

6.2 **Environmental** sustainability risks for the value of our clients' portfolios may include, but not be limited to:

- Energy and Climate change
- Carbon emissions
- Air pollution
- Water pollution
- Harm to biodiversity
- Deforestation
- Energy Security
- Energy inefficiency
- Resource Use
- Environmental Vulnerability
- Poor waste management practices
- Increased water scarcity
- Rising sea levels / coastal flooding

- Wildfires / bushfires

6.3 **Social** sustainability risks for the value of our clients' portfolios may include, but not be limited to:

- Basic Needs
- Health and Well-being
- Gender Inequality
- Equity and Opportunity
- Human Development
- Human rights violations
- Human trafficking
- Social Cohesion
- Socio-Economic Inequality
- Demographic Pressure
- Modern slavery / forced labour
- Breaches of employee rights / labour rights
- Child labour
- Discrimination
- Restrictions on or abuse of the rights of consumers
- Restricted access to clean water, to a reliable food supply, and/or to a sanitary living environment
- Infringements of rights of local communities / indigenous populations
- Cluster Munitions

6.4 **Governance** sustainability risks for the value of our clients' portfolios may include, but not be limited to:

- Government Effectiveness
- Corruption
- Investor Protection
- Regulatory Environment
- Economic Competitiveness
- Rights and freedoms
- Lack of diversity at Board or governing body level
- Inadequate external or internal audit
- Infringement or curtailment of rights of (minority) shareholders
- Bribery and corruption
- Internal Stability
- Geo-Political Risks

- Market Development
- Innovation
- Lack of scrutiny of executive pay
- Poor safeguards on personal data / IT security (of employees and/or customers)
- Discriminatory employment practices
- Health and safety concerns for the workforce
- Poor sustainability practices in the supply chain
- Workplace harassment, discrimination and bullying
- Restrictions on rights of collective bargaining or trade unions
- Inadequate protection for whistle-blowers
- Non-compliance with minimum wage or (where appropriate) living wage requirements

Where appropriate, more details of specific investment strategy approach to these factors are contained in the links attached to the table in section 2.6.

7. **<u>Disclosure of this policy</u>**

7.1 SFDR requires that the Firm must publish on our website information about this policy. The Firm satisfies this requirement by disclosing this policy itself on our website.

7.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products, a description of the manner in which sustainability risks are integrated into our investment decisions. The Firm satisfies this requirement by disclosing a separate summary of this policy in pre-contractual disclosures.

7.3 For these purposes, "pre-contractual disclosures" means the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.