

Nomura Asset Management Europe KVG mbH

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Integration of Sustainability Risks – Global Equities

10 March 2021

(In this document, capitalised and abbreviated terms have the same definition as in the Firm-wide Sustainability Risks Policy of Nomura Asset Management Europe KVG mbH).

This document describes the integration of sustainability risks in the investment decision-making process for **Asia Pacific Basin ex Japan equities (Asia Core and Asia High Conviction strategy)**, which is delegated to **Nomura Asset Management Singapore Limited (NAM SG)**. It should be read in conjunction with the Firm-wide Sustainability Risks Policy.

1. **Introduction**

- 1.1 The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires the Firm to formalise how sustainability is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability matters.
- 1.2 This document applies as from 10 March 2021.

2. **Purpose**

- 2.1 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. **Sustainability risk management**

- 3.1 NAM SG 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.
- 3.2 As part of NAM SG’s broader risk management process when investing, NAM SG has implemented procedure to:

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- (i) **Identify and assess sustainability risks**
- (ii) **Make consistent decisions related to sustainability**
- (iii) **Monitor sustainability risks**

(i) Identify and Assess

- 3.3 NAM SG has separately reviewed the sustainability risks which may cause a material negative impact on the value of our clients' investments, should those risks occur. These are summarised in section 6 of NAM EU's firm-wide Sustainability Risks Policy, and are broadly divided into the three categories of environmental, social and governance risks.
- 3.4 NAM SG has a binding requirement that every security analysed for investment purpose must be assessed for sustainability / ESG risks. This assessment must be logged and taken into account in any subsequent investment decision making. The investment analyst must consider the total value created, the fair sharing of that value and the way that developments in the value creation and sharing and / or external sustainability factors (such as natural disaster) might impact an investment in the related security.
- 3.5 NAM SG's investment analysts make use of data from third party ESG specialists such as ISS, Sustainalytics and MSCI. This data assists them in the identification and assessment of ESG concerns. NAM SG does not rely on ESG scores or ratings produced by third parties; rather the investment teams produce their own ESG ratings based on their own broader analysis and assessment in the context of NAM SG's Responsible Investment philosophy. This analysis can include third party ESG and other data. The analysis undertaken varies depending on the security in question, as some securities may be more prone to environmental, and others to more social risks for example, but it always incorporates a detailed review of the governance practices of the security's underlying entity.
- 3.6 Each security is evaluated by the relevant investment team, including analysts and portfolio manager, with sustainability matters included in two ways. Firstly, as an implicit part of the economic outlook for a potential investment in that security and secondly explicitly as a possible specific downside risk for that investment, for example the impact on the investment of the loss of a specific asset due to natural disaster. The conclusion of that discussion is a rating of the security on ESG matters as either "Uninvestible", "Issues – Improving", "Issues – Not Improving" or "No Issues". NAM SG mandates that the ratings be logged and stored for future reference with any updates similarly stored.
- 3.7 In most cases the analyst will have some interaction with the underlying entity of the security in question and will take that opportunity to raise ESG / Sustainability matters. After rating the company, the analyst will provide feedback to the entity in question, raising any ESG issues identified and encouraging improvement.

(ii) Decide

- 3.8 The Portfolio Manager(s) of each strategy are ultimately responsible for the investment decisions in the portfolios / strategies they manage. Thus, the final investment decision, as pertains to ESG matters, is at the portfolio manager(s) discretion. However, if a security is rated "Uninvestible" it is not available for investment in any strategies for any client under any circumstance. Where the rating

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is “Issues – Improving”, “Issues – Not Improving” or “No Issues” the security is available for investment, from an ESG perspective. However, it is a binding requirement on the portfolio manager(s) to take account of the rating given and the sustainability factors associated with the investment more generally.

3.9 NAM SG prefers to rely on the detailed judgemental analysis, ratings and decision making undertaken by NAM SG’s investment professionals. However, NAM SG does apply some firm-wide and some investment team specific exclusionary screening. The exclusion lists are enforced through coding into NAM SG’s trading systems.

- Firm-wide: No strategy may invest in any security issued by cluster munitions manufacturers.
- Team specific: Entities with very weak governance, high GHG emissions and / or negative social or environmental impact may be excluded from the investible universe of certain strategies / teams. NAM SG has a well-developed and consistent framework for assessing, on a case-by-case basis, whether a security should be rated “uninvestible” (e.g. in the light of new information) and team based exclusion criteria is based on this framework.

3.10 The nature of the final investment decision depends on the client and / or strategy. NAM SG does not subscribe to any generalised industry approach as pertains to ESG decision making, rather decisions are taken on a case-by-case basis, based on the in-house analysis and rating, NAM SG’s Responsible Investment philosophy and the requirements of the specific client / strategy. NAM SG chooses not to provide services to clients that do not accept its philosophy on Responsible Investment.

(iii) Monitoring

3.11 It is the responsibility of the relevant investment analysts and portfolio managers to monitor the investments made on behalf of clients. This includes financial items as well as sustainability matters. The investment professionals are required to maintain dialogue with investee entities on multiple matters, but, as mentioned above, should a security be rated as having issues that dialogue will often focus on encouraging improvement.

3.12 In addition to the active engagement NAM SG actively exercises the proxy votes for all matters, including sustainability, based primarily on a bespoke in-house created policy based on the Responsible Investment philosophy. On occasions the relevant investment team will deviate from the policy, based on specific in-depth research, although again the Responsible Investment philosophy provides the conceptual framework.

3.13 Should some new piece of ESG / Sustainability information come to light, NAM SG’s investment professionals will assess the impact of the new information with a view to re-rating the security as either “Uninvestible”, “Issues – Improving”, “Issues – Not Improving” or “No Issues”. NAM SG has developed a consistent framework for determining whether a security be deemed “uninvestible” as a consequence of some event or new information. The investment professionals will use this framework to assess securities as necessary and should a security be newly rated “uninvestible” it will be sold from all strategies.

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3.14 NAM SG believes in transparency, particularly on sustainability / ESG matters. Thus, NAM SG provides a quarterly report of Responsible Investment activity including details on all corporate engagement and proxy voting. This allows clients and potential clients to continually monitor NAM SG's activity just as NAM SG's investment professionals monitor their investments.

4. **Further Information**

4.1 Further information on the integration process at individual strategy level is contained in the relevant pre-contractual disclosure document/s available from the Firm.