Nomura Asset Management Europe KVG mbH

Integration of Sustainability Risks– Global Fixed Income

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 **Global Fixed Income, which is delegated to Nomura Asset Management U.K. Limited (NAM UK).** 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 UK 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 NAM UK´s fixed income analysts use a mixture of quantitative and qualitative analysis within the research process to identify and understand ESG influences on the securities held within NAM UK´s fixed income accounts. At all times, NAM UK´s aim is to identify sustainability issues that may impact the ability of a fixed income security issuer to meet its financial obligations. By doing so, NAM UK seeks to lower the potential volatility of its clients' portfolios due to future credit events, with a particular focus on avoiding downside ESG and sustainability risks.

3.3 For sovereign issuers, a diverse set of non-financial data deemed material and relevant to assessing sustainability risks for investors at the macro-economic level is used. Using a proprietary method, the data is systematically aggregated into relative scores (Sovereign ESG Scores) with weights based on a combination of the expected probability for each sovereign ESG risk factor to affect a country's potential growth rate, and the relative time required for such impact to occur. NAM UK recognises sovereign ESG factors as potential indicators of growth risk and that they tend to correlate with traditional credit ratings. The ESG ratings assigned are therefore relative, and this process enables the investment professionals to achieve more comprehensive assessments than with traditional economic and financial analysis alone, as well as potentially improving investment research and the ability to take appropriate risks.

3.4 NAM UK´s ESG research into corporate issuers begins with a proprietary quantitative model which examines ESG-relevant data compiled by third party sources, with various ESG-related factors weighted according to their materiality to observed fixed income returns within each industry sector. For instance, for an issuer within the Bank sector, more weight will be applied to "Social" and "Governance" factors than are applied to "Environmental" factors, whereas for the Chemicals sector, a far greater emphasis on "Environmental" factors is applied. A composite ESG score for each of the issuers in NAM UK´s coverage is derived, based on a consistent and transparent process. Scores are updated on a regular and frequent basis.

3.5 In addition, the Global Credit Analyst team conducts broad-ranging qualitative research into the companies in their coverage. The quantitative scores derived by the process described above may influence the analysts to probe areas of perceived strength or weakness with respect to ESG criteria. However, the analysts are free to question and examine any element of a company's business model, income or balance sheet if it is necessary for them to understand the relative value characteristics of that company's bonds. This research can also lead to the discovery of ESG issues not identified by the quantitative analysis.

3.6 NAM UK´s analysts continuously question the scores generated by the quantitative model, and may adjust the overall ESG assessment based on their own expertise and bottom-up research.

3.7 NAM UK require the analysts to present both their overall Relative Value recommendations and specific ESG-scores to its entire fixed income team through the Bond Credit Risk Committee. Their views are challenged and questioned and further research may be requested prior to a formal ratification of the ratings and scores.

3.8 Where the analysts identify ESG issues which NAM UK´s analysts believe can be improved or addressed, they engage directly with the relevant companies to make their views known. This part of the investment processes is not limited only to companies in which NAM UK's strategies have invested, but also to potential investee companies.

3.9 During the life of an investment, sustainability risk is monitored through review of ESG data to determine whether the level of sustainability risk has changed since the initial assessment was conducted. This review is performed on a periodic basis, not less than annually. Should some new piece of ESG / sustainability information come to light regarding a new security, its impact will be assessed with a view to reconsidering the security's ESG score.

3.10 ESG and sustainability are integrated in a manner that is tailored to each market and asset class. For example, investment themes such as emerging market sovereign external debt may apply Sovereign ESG scores directly to the assessment of relative credit risk, whereas for currency-focused and developed market rate investment themes, the focus is on considering certain long-term ESG trends such as structural decarbonisation and how these may affect specific economic variables including growth and inflation in specific countries.

3.11 For the avoidance of doubt, NAM UK does not insist on portfolio managers aligning decisions to ESG scores. The scores serve as indicators of potential issues and causes of potential sustainability-related volatility. Hence, outside the exclusion criteria mentioned above, even issues with poor ESG scores may be selected for portfolios (subject to individual account guidelines) if their valuations are sufficiently attractive on a risk-adjusted basis.

4. Relevant sustainability risks

4.1 As noted in section 6 of NAM UK Sustainability Risk policy, NAM UK has taken steps to identify key environmental, social and governance risk which could, if they occur, cause an actual or potential material negative impact on the value of an investment.

4.2 Environmental sustainability risks for the value of NAM UK´s Corporate Debt ESG framework include:

- GHG emissions
- Water stress
- Waste intensity
- Natural capital

Environmental sustainability risks for the value of NAM UK´s Sovereign ESG framework include:

- Energy security
- Energy / CO2 intensity of GDP
- Environmental Capital (Environmental Vulnerability, Natural Resources)

4.3 Social sustainability risks for the value of NAM UK´s Corporate Debt ESG framework include:

- Corporate Extended Responsibility
- SDG Contribution
- Social License
- Human Capital Management

Social sustainability risks for the value of NAM UK´s Sovereign ESG framework include:

- Human Capital (Human Rights, Human Development, Female Participation)
- Socio-Economic Risk (Inequality, Social Cohesion)
- Demographics (Demographic Pressure and Policies)

4.4 Governance sustainability risks for the value of NAM UK´s Corporate Debt ESG framework include:

- Corporate Sustainability Strategy including Climate Change initiatives by management
- Corporate Behaviour
- Governance Quality
- Regulatory Scrutiny

Governance sustainability risks for the value of NAM UK´s Sovereign ESG framework include:

- Strategic Governance
- Rule of Law
- Security

4.5 Each of the issues noted above is formally defined and assessed across a variety of factors, updated regularly and tracked over time.

5. Further Information

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