**Nomura Asset Management Europe KVG mbH**

**Integration of Sustainability Risks – Japanese 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 **Japanese Equities, which is delegated to Nomura Asset Management Co., Ltd ('NAM') in Tokyo.** It should be read in conjunction with the Firm-wide Sustainability Risks Policy.

## 1. Introduction

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.

This document applies as from 10 March 2021.

## 2. Purpose

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

NAM aims to identify sustainability issues as part of its broader analysis of Japanese 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.

As part of the broader risk management processes when investing in Japanese Equities, NAM has implemented procedures to

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

**(i) Identify and Assess**

NAM has separately reviewed the sustainability risks which may cause a material negative impact on the value of 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.

NAM has a requirement that every Japanese stock analysed for investment purposes 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.

In addition to data from third party ESG specialists such as ISS, Sustainalytics and MSCI, NAM's investment decision makers for Japanese equity products rely on data provided by an in-house team of ESG specialists in the Responsible Investment Department. This data assists investment decision makers in the identification and assessment of ESG concerns. NAM does not rely on ESG scores or ratings produced by third parties, rather the ESG specialists of the Responsible Investment Department produce their own ESG scores based on their own broader analysis and assessment in the context of the Responsible Investment philosophy. This analysis is conducted with the assistance of NAM's investment analysts in the Japanese Equity Research Department, and can include third party ESG and other data. The analysis undertaken varies depending on the security in question, as some are more prone to environmental and others social risks, but always incorporates a detailed review of the governance practices of the security's underlying entity.

Each security is evaluated by the research team, including analysts and ESG specialists, 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 research is a proprietary ESG score which is logged and stored for future reference with any updates similarly stored.

In most cases the ESG specialist 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 ESG specialist or investment analyst will provide feedback to the entity in question raising any ESG issues identified and to encourage improvement.

**(ii) Decide**

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 it is a requirement on the portfolio manager(s) to take account of the rating given and the sustainability factors associated with the investment more generally.

NAM prefers to rely on the detailed judgemental analysis, ratings and decision making undertaken by its investment professionals. However, NAM does comply with the application of Firm-wide exclusionary screening, which states that no strategy may invest in any security issued by cluster munitions manufacturers. The exclusion list is enforced though coding into the relevant trading systems.

The nature of the final investment decision depends on the client and / or strategy. The Firm 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, the Firm's Responsible Investment philosophy and the requirements of the specific client / strategy. The Firm chooses not to provide services to clients that do not accept its philosophy on Responsible Investment.

**(iii) Monitoring**

It is the responsibility of the relevant 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, should a security be given a low ESG score, that dialogue will often focus on encouraging improvement.

In addition to the active engagement NAM actively exercises the proxy votes for all matters, including sustainability, based primarily on a bespoke in house created policy. 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.

Should some new piece of ESG / Sustainability information come to light NAM's ESG specialists and other investment professionals will assess the impact of the new information with a view to re-scoring the security. NAM has developed a consistent framework for determining whether the new information is material, and the ESG specialists use this framework to assess securities as necessary and should a security be given a new score, all portfolio managers will be promptly alerted.

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