Nomura Asset Management Europe KVG mbH

Integration of Sustainability Risks– US, Euro and Global High Yield Bonds, Leveraged Loans and Emerging Market Bonds

10 March 2021

(In this document, capitalised and abbreviated terms have the same definition as in the main 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 **US, Euro, and Global High Yield Bonds, Leveraged Loans and Emerging Market Bonds,** which is delegated to Nomura Corporate Research and Asset Management Inc. ('NCRAM'). It should be read in conjunction with the Firm-wide Sustainability Risks Policy.

Introduction

1.1 The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firm to formalise how sustainability is integrated into the 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 NCRAM 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 NCRAM's aim is to identify sustainability issues that may impact the ability of an issuer to meet its financial obligations. By doing so, the investment professionals seek to add to their understanding of the issuers, and improve their ability to make attractive risk-adjusted investments.

3.3 NCRAM has established an ESG Committee to interface with industry groups and other Nomura Asset Management companies regarding ESG issues, frameworks, standards and implementation. Members of the Committee provide ESG training to the investment team based on material from both industry groups and internal sources.

3.4 NCRAM's analysts use primarily qualitative fundamental analysis within the research process to identify and understand ESG influences on the securities held within accounts. The analysts perform the vast majority of the research utilized in the management of the portfolios. Analysis of ESG factors is based on both direct communication with the issuers as well as secondary sources. The Firm has also engaged Sustainalytics to provide external research on ESG factors to supplement internal research.

3.5 In undertaking ESG research, the analysts will generally consider whether an issuer acts in a sustainable way with regard to the environment and with regard to their employees and other constituents. The analysts also generally consider how the issuer treats the communities in which they operate and their impact on their customers. Climate change and carbon emissions are also generally considered as part of an environmental risk analysis where possible, incorporating a company's environmental record into an assessment of the issuer. The analysts also generally weigh an issuer's governance with regard to how they treat bondholders, their corporate structure, and other factors.

3.6 NCRAM believes that engagement helps its professionals understand how companies are committed to incorporating ESG issues into their ownership and management, and their plans to address those ESG risks that may have a material financial impact in the future. The analysts engage with companies on ESG issues in various settings, including new issue meetings, regular company calls, and group meetings. In those interactions, the analysts encourage investee companies to engage in proactive dialogue with their investors and encourage companies to increase their disclosure of ESG related activities and risks. Through disclosure and dialogue, NCRAM seeks to understand ESG issues and solutions for the companies invested into or under consideration for investment. Analysts incorporate their ESG engagement activities in their regular investment updates and recommendations for portfolio managers.

3.7 The analysts will synthesize an issuer's strengths and risks with regard to ESG factors in communication with portfolio managers, and will rank most issuers in a system that incorporates ESG risk, ESG disclosure, and plans to mitigate ESG risk. The analysts and portfolio managers consider ESG factors as a component of their holistic credit analysis. They will assess whether ESG strengths and risks, along with other aspects of an issuer's credit attributes, are priced into market yields and spreads. Generally, as ESG risk is considered alongside other factors, it is not the only factor in an investment decision.

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

4.1 NCRAM has taken steps to identify possible environmental, social and governance risks which could contribute to a negative impact on the value of an investment. Analysts may choose to consider some of these risks for a given issuer, though they do not need to consider all of them for each issuer.

4.2 Environmental sustainability risks may include:

- Climate change
- Air and water pollution
- Biodiversity

- Deforestation
- Energy efficiency
- Waste management
- Water scarcity

4.3 Social sustainability risks may include:

- Human rights and labor standards
- Customer satisfaction
- Diversity
- Employee engagement
- Community relations
- Conflict zones

4.4 Governance sustainability risks may include:

- Tax avoidance
- Executive compensation
- Bribery and Corruption
- Board composition
- Audit committee structure
- Lobbying
- Political contributions

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.