



Invested in sustainability



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 Cover image:
A Nikko AM Americas volunteer
reading to children at South
Bronx United's Literacy Day

A message from Stefanie Drews, President

From strength to strength

Every year, our firm invests more time, energy, and resources in sustainability. This enables us to take greater action in our three focus areas of environment & climate, reducing inequality, and diversity & inclusion. And it helps to make our firm, our communities, and our world stronger.

In 2023, we strengthened our ability to analyse the potential impact of climate change on businesses. Our latest report for the Task Force on Climate-related Financial Disclosures (TCFD) — to be released in June 2024 and covering the 2023 calendar year — provides the most detailed explanations yet of how Nikko AM manages and governs climate risks and opportunities on our investments.

In October, we strengthened our commitment to protecting biodiversity and the natural

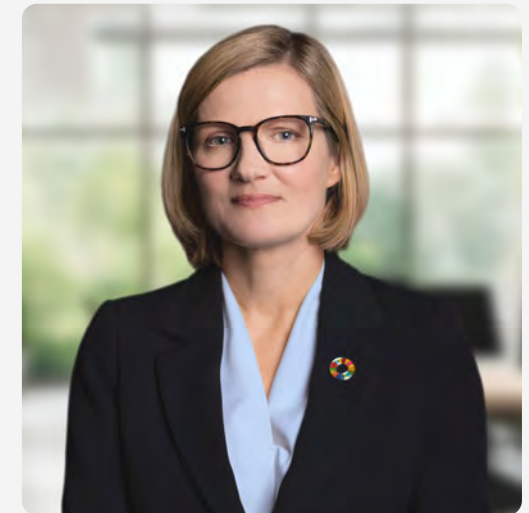
world by joining Nature Action 100 as an investor participant. This global investor-led initiative engages with 100 leading companies in eight key sectors, calling on them to take more urgent action to help reverse habitat loss, reduce pollution, and end their overexploitation of resources. As these firms take meaningful action now, they are ultimately helping to mitigate long-term financial risk.



Signing agreement with Osmosis (Holdings) Limited

Our business also invested more in sustainability through new partnerships. In July, for example, we entered into a strategic partnership with Osmosis, an exceptional investment manager headquartered in London. Its sustainable investment philosophy emphasises resource efficiency as key to long-term outperformance. Nikko AM now has exclusive rights to distribute Osmosis's innovative investment products

“we entered into a strategic partnership with Osmosis, an exceptional investment manager headquartered in London. Its sustainable investment philosophy emphasises resource efficiency as key to long-term outperformance”



in most countries in the Asia-Pacific region. Together, we can better meet the needs of today's environmentally conscious investors and make an even stronger impact on our world.

We added more members to our Global Sustainable Investment team, including a Global ESG Integration Lead and an ESG regulations specialist. As this team grows, we are strengthening our expertise in the field of sustainable investments, allowing us to bring benefits to our clients and make a more significant contribution to society and our environment.

When it comes to corporate sustainability, numbers are also going up. As of December 2023, we had 137 employees involved in 11 sustainability groups, which represents 13% of all employees (up from 11% in 2022). This gets us very close to our 2025 goal of 15%. The result of greater participation is more activity. Sustainability groups organised over 70 initiatives in 2023, making a more significant contribution in our three focus areas than ever before.

“Nikko AM has set a goal to become an industry leader in women’s career progression ... I am committed to supporting our female employees in any way I can; I want to see them go from strength to strength in their careers”

We are very proud to have demonstrated our strengths in DEI in 2023. For the fifth consecutive year, Nikko AM was awarded a Gold rating on the PRIDE Index by the organisation work with Pride for our efforts in cultivating an LGBTQ+-inclusive workplace. This award is important to us because diversity is foundational to our strength.

One area where we need to become even stronger in 2024 is women’s empowerment. We continue to get closer to realising our #30by2030 goal, but we’re not there yet — at the end of 2023, women occupied 23.8% of leadership positions, a 3.6% rise over 2022. As senior management, HR, the Global Corporate Sustainability team, and management at regional offices continue to collaborate, we are confident we will make this a reality.

Nikko AM has set a goal to become an industry leader in women’s career progression and, although we are making progress, we need to move more quickly. Our International Women’s Group has proposed several ways for us to accomplish this — including improving policies to help women’s advancement, providing better support for women when they return from career breaks, and doing more to recognise female leaders — and senior management is looking into how we can implement these ideas. I am committed to supporting our female employees any way I can; I want to see them go from strength to strength in their careers.

In 2023, we marked the five-year anniversary of the creation of the Corporate Sustainability Department. It is so encouraging to see how it has grown and how our sustainability efforts



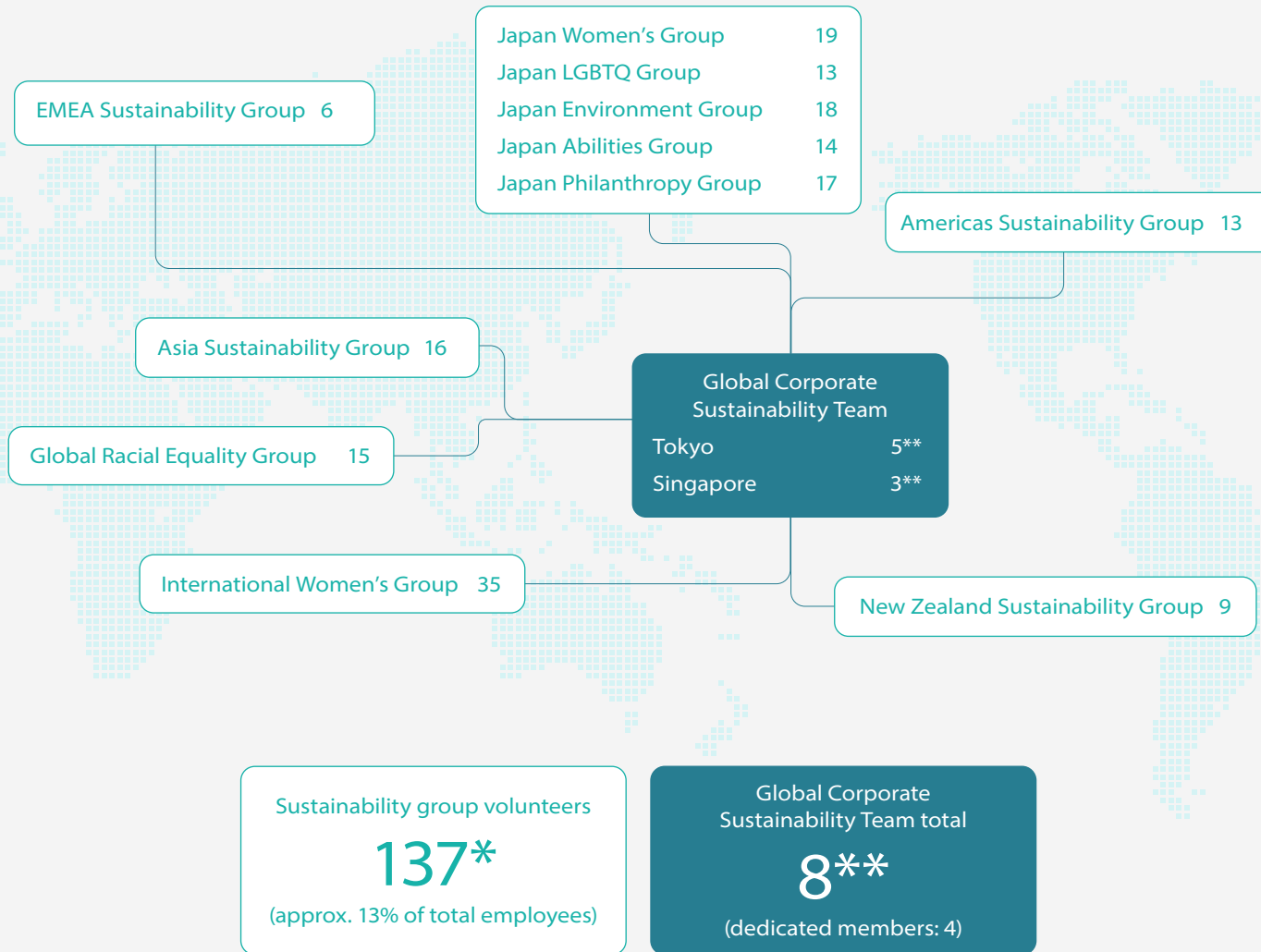
Receiving award at the 2023 Influential Women in Institutional Investing Conference by Pensions & Investments

have increasingly made a difference each year, in many areas. As we continue to invest in sustainability in the years ahead, I know our impact will grow even stronger. ●

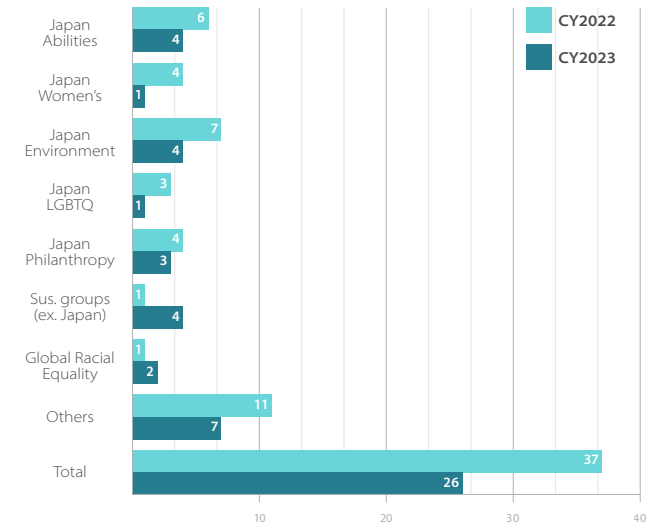
Stefanie Drews

Stefanie Drews
President

A snapshot of corporate sustainability in 2023



Number of internal events (by calendar year)



Percentage of female employees at Nikko AM

	Dec 2020	Dec 2021	Dec 2022	Dec 2023
Ratio of women in total workforce*	36.9%	37.3%	38.7%	→ 39.5%
Ratio of women in managerial roles**	18.5%	20.5%	20.2%	→ 23.8%
Ratio of women on the Board of Directors of Nikko AM	20.0%	25.0%	33.3%	33.3%

*Permanent full-time employees and directors of Nikko AM and its consolidated subsidiaries.
**Defined as functionally Group Manager / Team Lead or above, or with corporate title of Senior Vice President or above.

*Excluding Global Corporate Sustainability Team. Eliminating double counting of dual members.
**Including members concurrently in other departments. As of 31 Dec 2023.

A history of our sustainability activities

1999

Launched Japan's first **socially responsible investment fund**

2007

Became an early signatory of the **UN PRI**

Became the first Japanese asset manager to **disclose proxy voting results on our corporate website**

2010

Launched the **world's first fund to invest only in World Bank Green Bonds**

Developed a corporate **Environment Policy**

2011

Signed the **Japan Ministry of the Environment's Principles for Financial Action for the 21st Century**

Chaired the **PRI-Japan Network**
(April 2011 – March 2014)

2019

Published inaugural **Task Force on Climate-related Financial Disclosures (TCFD) Report**

Started measuring **annual carbon footprint from operations**

Established three firm-wide focus areas:
Diversity & Inclusion, Reducing Inequalities, and Environment & Climate

2018

Became the first Asian-headquartered asset manager to **support all four areas under The Investor Agenda**

Adopted **UN Women's Empowerment Principles**

Established the **Corporate Sustainability Department**

Formed local sustainability groups in all offices

2016

Established **Stewardship and Voting Rights Policy Oversight Committee**

Formed the **Global ESG Steering Committee**

2013

Developed **Creating Shared Value (CSV) equity investment strategy (Japan)**

2020

Published inaugural annual **Sustainability Report** covering 2019

Launched first global sustainability group:
the Global Racial Equality Group

2021

Joined the **Net Zero Asset Managers initiative**

Revised **group-wide environmental policy** and
set a greenhouse gas reduction target

Established **Global Diversity & Inclusion Policy**

2022

Developed **Global Engagement and Stewardship Strategy**

Became signatory to the **UK Stewardship Code (UKSC)**

Established the **Global Sustainable Investment team**

Set 2030 interim target for **2050 net zero goal**

2023

Won **LGBT Great iBT Bronze Award 2023**

Signed strategic **partnership with Osmosis (Holdings) Limited**

Yoichiro Iwama, Outside Director and Chairman of the Board of Directors

Good governance is transformative

Yoichiro Iwama, Outside Director and Chairman of the Board of Directors, speaks with Masahiko Komatsu, Co-head of the Japan Sustainable Investment Department, about Japan's economy and the challenges facing companies today.

Masahiko Komatsu: In March 2024, the Nikkei 225 surpassed its all-time high for the first time in 34 years. I know that you were involved in the establishment of Japan's Stewardship Code and the Corporate Governance Code, specifically the follow-up council reviewing their adoption, so how do you view this historic moment for Japanese stocks?

Yoichiro Iwama: Public opinion is divided on how successful the Abenomics strategy actually was in reviving the Japanese economy. However, its emphasis on

reinvigorating financial and capital markets and encouraging corporate governance reforms have had commendable results. The establishment of Japan's Stewardship Code in 2014 and the new Corporate Governance Code in 2015 improved the perception of the market dramatically.

Masahiko Komatsu: Since then, the approach of institutional investors has changed significantly. They have a deeper understanding of the importance of stewardship and are now promoting the sustainable growth of companies through dialogue and their investment practices.

Yoichiro Iwama: It is worth noting that, in Japan, the Stewardship Code was established prior to the Corporate Governance Code. This is a clear indication that the first step for reform was to address the behaviour of institutional investors and asset owners.

Masahiko Komatsu: It took 34 years for the Nikkei 225 to reach a new high, which is unusual for a developed country. Can you



give us your view on why it has taken so long?

Yoichiro Iwama: It's clear that the impact of the bursting of Japan's economic bubble was greater than we could ever have expected. We refer to the period since as "the lost 30

years". That is why it was not just the market that took longer than expected to recover but Japan's entire economy. Of the three arrows of Abenomics, the third, structural reform, was the most important. Unfortunately, the political, public, and business sectors failed



“Given [Nikko AM’s] extensive practical knowledge of the market, I feel the company can be more active in sharing its perspective as an asset manager externally”

to fully realise the drastic and painful reforms that were needed to achieve this.

Masahiko Komatsu: What challenges remain for the Japanese stock market to achieve sustainable growth in the future? And what are the challenges for listed companies and institutional investors?

Yoichiro Iwama: It is essential for consumption to grow steadily, because it accounts for such a large part of the Japanese economy. That means wages need to increase steadily without being outpaced by rising prices.

It is crucial for institutional investors to engage with the companies in their portfolios to ensure that they develop and implement appropriate growth strategies that lead to sustainable growth and stable wage increases. On the other hand, company management must strive to be fully accountable to their investors.

Masahiko Komatsu: Companies have been enhancing shareholder returns in response to the Tokyo Stock Exchange’s request that all listed companies on the Prime and Standard Markets take “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”. This has been a major

factor behind the recent stock market gains, but do you feel it is sustainable?

Yoichiro Iwama: It goes without saying that companies should return surplus cash to shareholders. It is also true that a company’s ability to achieve sustainable growth in corporate value depends on its ability to create a growth strategy that exceeds its cost of capital. We could say that identifying companies with such abilities and engaging with them is the mission of asset managers.

Masahiko Komatsu: Lastly, please share with us your assessment of Nikko AM’s stewardship activities and your expectations

for them going forward. As Chairman of our Board of Directors, could you also share your impression of our company as an asset manager and what you would like to see from the company in the future?

Yoichiro Iwama: Investment management is a fiduciary business. We have an obligation to fulfil our stewardship responsibilities to our clients.

Nikko AM is a company headquartered in Japan, but it operates at a global level. This is demonstrated by its status as a signatory to the UK Stewardship Code. Given the firm’s extensive practical knowledge of the market, I feel the company can be more active in sharing its perspective as an asset manager externally.

It is essential that our stewardship activities lead to services of the highest quality. I want to see Nikko AM continue its diligent efforts to improve the effectiveness of its engagement activities. ●

Investment Management

 Nikko AM New Zealand employees in a meeting

A message from Hiroshi Yoh, Chief Investment Officer

Investing in a low-carbon future

In 2023, average world temperatures were the hottest ever, continuing a run of more than 10 record-breaking years. The rising heat has been accompanied by disastrous climate-related events all around the globe, from the most devastating fire season in Canada and the worst drought in the Amazon to the highest-ever monsoon rainfall in parts of China, Japan, India, and South Korea. The Paris Agreement of 2015 aimed to cut the rise in world temperatures to 1.5 degrees, but we are already perilously close to breaching that limit long before the target date of 2050.

Our Sustainability Report 2024 demonstrates the importance we place on managing climate change through our investment activities, as well as addressing social and governance issues. Asset managers are particularly well placed to promote change, in view of the influence we can exert over businesses. The best demonstration of our commitment is through our engagement activities with investee companies, illustrated in this report by our case studies.

Progress at some of these companies in 2023 came as a result of our involvement over several years. We saw this in Indonesia, where the dominant electricity company is making strides to decarbonise its generation capacity.

This is something we have been encouraging the firm to do, together with a group of investors, for the last couple of years. In India, one of the world's largest cement producers has committed to reducing its emissions and increasing the use of renewable energy. It was spurred on to make this commitment by an investor group, of which Nikko AM is a member. Over time, we believe these changes can make a difference to real world global emissions, and we will continue to engage with both companies on their progress.

We are also trying to be as strategic as possible when it comes to engagement and proxy voting. In 2022, we conducted a survey of companies in our Global Equity strategy to determine whether they understood the implications of our commitment to a low-carbon future. Their responses allowed us to focus our engagement in 2023 on those companies with the highest carbon intensities or in sectors most exposed to climate-change risks. In Japan, we have been more active in backing climate change resolutions, supporting around 50% in 2023, which is a significant increase over previous years.

Our Global Sustainable Investment Team further expanded its team during the year, with three new roles added in Singapore,

Tokyo, and London — and more expansion planned for 2024. The team continues to strengthen the integration of environmental, social, and governance considerations into our investment activities.

Our work in this area in 2023 was recognised by a number of awards. Our Global Head of Sustainable Investment, Natalia Rajewska, was named Rising Star at the AsianInvestor Asset Management Awards 2024. Our Asian Equity team won the Best Application of ESG award in the Singapore country category from Asia Asset Management magazine. And the Head of the Investment Technology Fund Management team, Masayuki Teraguchi, was recognised as Japan's ESG Fund Manager of the Year by The Asset, an industry media group.

We also remain focused on our products. We improved the sustainability characteristics of our pioneering Green Bond Fund for when it relaunched in October in a UCITS format, available across the EU. The Green Bond Fund now has a wider remit to invest in suitable corporate bonds. It meets the EU's sustainability requirements under article 9 of the Sustainable Finance Disclosures Regulation and aligns with some of the UN's Sustainable Development Goals. In addition,



we have developed our own ESG labelling framework to help investors choose the most appropriate sustainable investment strategies to meet their climate commitments and sustainability-related goals.

Our work is not done, but we think what we have achieved in 2023 is evidence that we are making advances. We continue to challenge ourselves to do more, which will include developing new products and approaches to support the transition to net-zero. ●

Hiroshi Yoh
Executive Corporate Officer, Global Head of Investment, and Chief Investment Officer

ESG approach, philosophy, and governance

Our ESG approach and philosophy

Nikko AM, as an asset management company, acts as a fiduciary on behalf of its clients and is firmly committed to putting its clients' best interest first. It places fiduciary and ESG principles as the highest guiding theme of its corporate value and actions.

We are a global asset manager, but our origins lie in Japan. Japanese culture values harmony — both with nature and with others — so we have grown with the belief that we must be a good corporate citizen. Our approach to sustainability has evolved with this as our foundation.

We strongly believe that ESG considerations are inherent to long-term corporate value creation and contribute to the realisation of sustainable economic growth. An overview of our ESG policy can be found on the [Fiduciary & ESG Principles page](#) of our website. The principles are based on the UN-supported Principles for Responsible Investment.

Governance

Responsibility for sustainability starts at the top. Both our President, Stefanie Drews, and our Executive Chairman, Yutaka Nishida, have been given specific key performance indicators to enhance the group's ESG activities in line with international standards. The ESG Global Steering Committee oversees our ESG activities. It reports to the Board of Directors, chaired by Yoichiro Iwama, and to the Global Executive Committee (GEC) of senior management, led by the President (see chart).

Governance of our stewardship and ESG activities takes place at both the global and local subsidiary level. The ESG Global Steering Committee is responsible for all ESG activities at Nikko AM. It oversees the integration of ESG within investment teams, sets policy, develops strategy, makes external disclosures, and recommends ESG-related initiatives and participation in external bodies.



The committee is chaired by the Global Head of Investment, Hiroshi Yoh, and its members are the heads of our investment teams worldwide, who are in charge of stewardship implementation in their individual investment processes. It is further supported by the Global Sustainable Investment team, which provides dedicated expertise and implementation support.

Our Global Head of Sustainable Investment, Natalia Rajewska, reports directly to the President and the Chief Investment Officer.

Members in each of the five functions of the Sustainable Investment team report directly to the Global Head of Sustainable Investment.

Each Nikko AM Group subsidiary has an independent executive team led by a regional head who reports to the President and is responsible for formulating and executing targets and plans decided by the Board and the GEC in line with local regulations and customs. ●

Implementing ESG Principles

Practising what we preach

ESG has been an area of focus for Nikko AM for more than two decades, beginning in 1999 when we launched Japan's first socially responsible investment fund.

In 2022, we created our Global Sustainable Investment team (see chart). One of its priorities is to strengthen how each investment team integrates material ESG issues into their investment approach. To support this aim, the team in Singapore hired a global ESG Integration Lead in 2023.

Also, we are required to navigate a complex and fast-changing regulatory landscape for sustainability reporting. Inadvertently failing to meet regulatory requirements and our clients' expectations can result in both financial and reputational costs. So, the team also hired an ESG Regulations Specialist in 2023 to help us manage these risks.

The Global Sustainable Investment team is divided into five functions:

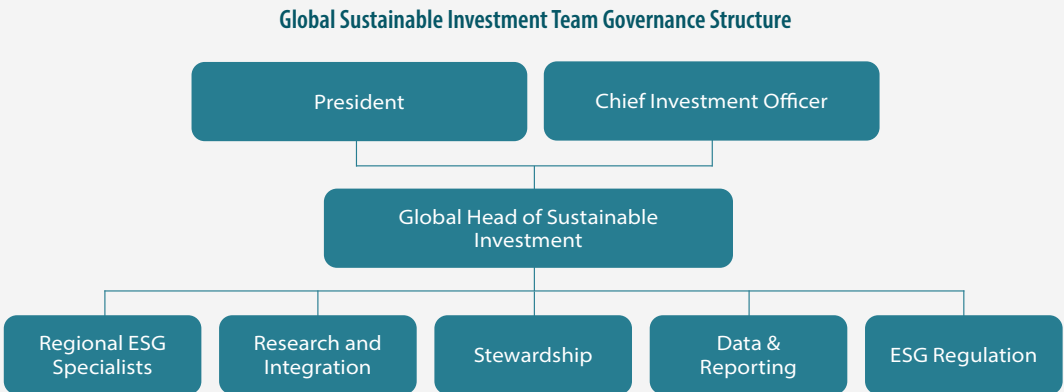
Regional ESG Specialists: The ESG specialists on this team work closely with the regional investment teams to support their ESG integration and stewardship efforts. They also work with other functions, such as client services and product development.

Research and Integration: This function, which was expanded in 2023, is responsible for providing our investment teams and ESG specialists with subject matter expertise while ensuring we continuously improve our integration efforts.

Stewardship: This function, which is still being developed, coordinates and supports our firm-wide stewardship efforts. It aims to continuously improve our stewardship activities, including engagement, proxy voting, and ESG research, as well as their respective disclosures.

Data and Reporting: Team members are dedicated to sourcing, storing, validating, and disseminating ESG data globally, as well as providing support with ESG data analytics and reporting.

ESG Regulation: This function is responsible for identifying, assessing, determining, and supporting our approach to ESG regulations and standards globally, with a focus on regulations in EMEA.



Led by our global network of more than 200 investment professionals, Nikko AM has integrated sustainability in the investment process of most asset classes. Together with the portfolio manager and analysts, the Global Sustainable Investment team is responsible for ensuring sustainability practices are integrated into each of our investment approaches.

Most investment employees have undertaken suitable training in stewardship and sustainability principles. These include internal training in the recommendations of the Task Force on Climate-related Financial Disclosures and courses offered by the PRI Academy.

In Japan, our Japan Sustainable Investment Department makes judgements on voting and stewardship activities for our Japanese portfolios, as well as engaging with those Japanese companies not already covered by sector analysts in actively managed portfolios. It was fully integrated into the

Global Sustainable Investment team in early 2023. The scope of its work was increased to cover all asset classes managed by our Japanese investment teams. Read more about the Japan Sustainable Investment Department on page 14.

In November 2023, Nikko AM acquired a minority stake in the UK-headquartered Osmosis (Holdings) Limited. It is a research-based quantitative investment manager focused on delivering improved risk-adjusted investment returns with better environmental outcomes. Through this partnership, we have exclusive distribution rights in Asia for Osmosis' investment products and strategies. This investment is a significant step forward in our inorganic growth strategy and shows our ever-deepening commitment to sustainability.

Implementing ESG Principles

Helping clients meet their sustainable investment goals

In 2023, we developed a new classification framework for our range of ESG products. This framework provides a methodology for categorising our ESG Inside products, the name we use for all our products that incorporate material ESG factors in their investment processes.



ESG Inside

Three categories of products that incorporate material ESG factors and negative screens



ESG Managed

Strategies managed to a range of binding ESG investment criteria to achieve or promote certain environmental or social characteristics.



ESG Themed Investing

Strategies investing in themes or assets specifically contributing to sustainable solutions (eg. decarbonisation, net zero, clean energy).



ESG Impact

Strategies that hand pick companies that provide environmental or social impacts through their businesses while pursuing investment return objectives.

The new categories will help our clients choose the most appropriate sustainable investment strategies to meet their ESG or sustainability-related investment goals. The three categories of ESG Inside products, which relate to the type of approach adopted, are: ESG Managed, ESG Themed Investing, and ESG Impact.

This classification framework is not intended to match a current or future taxonomy or regulatory system (although, ESG Impact currently only includes funds that meet article 9 of the EU's Sustainable Finance Disclosure Regulation). We will regularly review and amend it as necessary to ensure it complies with applicable regulatory requirements.



Some members of the Global Sustainable Investment Team

Greenwashing

Greenwashing began as an industry buzzword but has become a rapidly growing category of risk. It is a situation where investment firms make misleading or exaggerated claims about their sustainability practices of its products and approaches. The primary cause of greenwashing among investment firms is ambiguous regulatory guidance, which creates room for errors of interpretation that may come back to haunt them.

As there is rising interest in ESG funds, we have taken a number of steps to protect ourselves against greenwashing claims and meet regulatory requirements. Our sustainability categorisation framework provides a coherent structure for defining the range

of ESG approaches used in our investment processes. We want to ensure clients have access to reliable and accurate information, so we provide details and, where possible, additional examples to support the validity of the investment process. Every year, we report on our ESG activities to the Principles of Responsible Investment (PRI) reporting framework. Through the PRI report, we demonstrate transparency and accountability in our ESG activities. ●

Japan Sustainable Investment Team

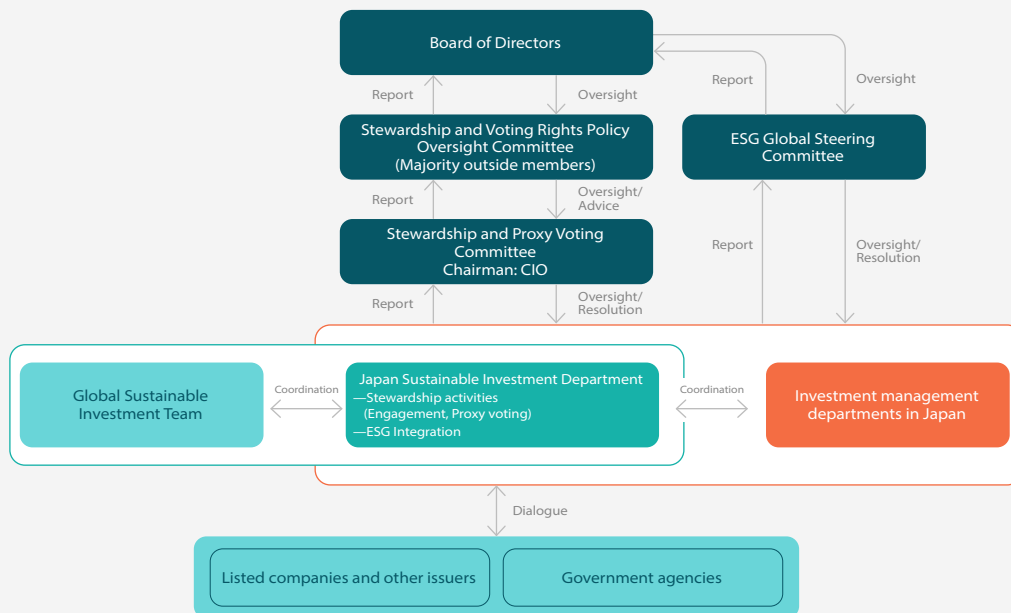
Encouraging companies to improve

Stewardship activities Implementation framework

The Japan Sustainable Investment Department was established on 1 April 2023 to further enhance stewardship activities and ESG integration in Nikko AM Japan teams. It also works to strengthen our efforts to meet

global sustainability standards through close collaboration with the Global Sustainable Investment Team. The primary tasks of this new department are: (1) to conduct sustainability-focused engagement, (2) to promote responsible investment activities at Nikko AM, and (3) proxy voting.

Organisational structure for stewardship activities



Members of the Japan Sustainable Investment Team

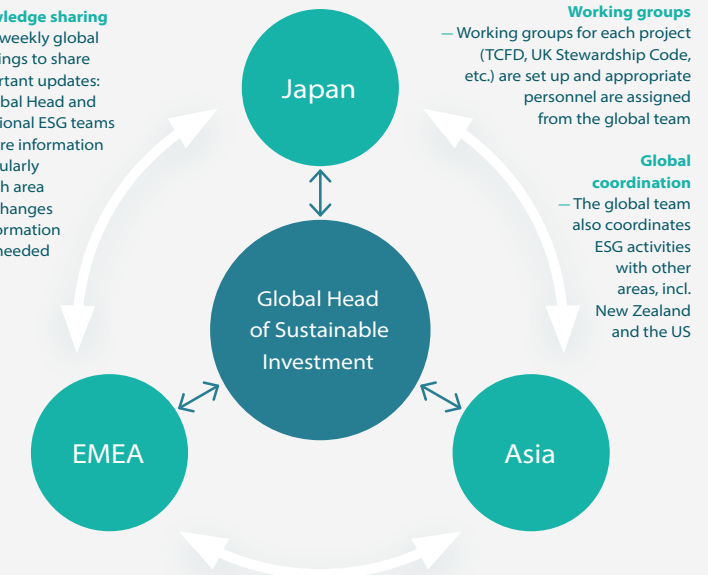
Global collaborative framework

The Japan Sustainable Investment Department is part of the Singapore-based Global Sustainable Investment Team, which is led by the Global Head of Sustainable Investment. Team members from Japan, together with those in Asia and EMEA, hold weekly information-sharing meetings to keep track of the latest ESG knowledge. The department in Japan aims to reflect these insights in our investment management operations.

Knowledge sharing

Hold weekly global meetings to share important updates:

- Global Head and regional ESG teams share information regularly
- Each area exchanges information as needed



Working groups

Working groups for each project (TCFD, UK Stewardship Code, etc.) are set up and appropriate personnel are assigned from the global team

Global coordination

The global team also coordinates ESG activities with other areas, incl. New Zealand and the US

Japan Sustainable Investment Team

Conflict of interest control framework

We have established a [Conflict of Interest Control Policy](#), which is published on our corporate website. Based on this policy, we manage transactions and other activities, which could potentially cause conflicts of interest, in a way that ensures we conduct business appropriately. In addition, the Stewardship and Voting Rights Policy Oversight Committee works to prevent conflicts of interest through monitoring and supervision in accordance with the policy. A majority of its members are from outside Nikko AM.

If we need to make a proxy voting decision and Nikko AM's parent company is involved — a situation where conflicts of interest are of particular concern — it is discussed in advance by the Stewardship and Voting Rights Policy Oversight Committee. Decisions are made based on the results of monitoring and oversight regarding conflicts of interest.

Engagement

Engagement policy

We focus our engagement on issues that are material to the sustainability of a company. Medium- to long-term issues differ from company to company, so we identify the appropriate sustainability issues that need to be addressed before engaging with a company. If necessary, we have advance discussions internally with the relevant investment professionals.

Following an engagement meeting, we share the content of our discussion with the investment management departments. Then the investment management professional in charge makes the final investment decision. For investee companies that have medium- to long-term issues, we engage with them

regularly to follow up on progress made and to encourage improvements.

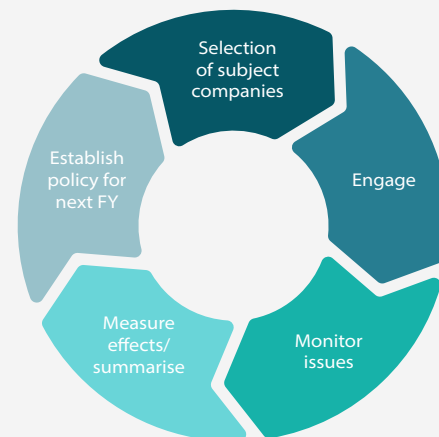
Key ESG themes

We believe that actively addressing ESG issues is essential for companies to grow sustainably. After conducting a review in May 2023, we expanded our list of key ESG themes to six. These themes are primarily used as a framework to help us prioritise the companies that we need to focus on and to help us follow a specific engagement agenda when we meet with these firms.

ESG Category	Key ESG Themes
E	Action for a decarbonised society
E	Biodiversity
S	Human capital and productivity
S	Diversity
S	Human rights
G	Effective Governance

Engagement process

We conduct organised engagement in line with the process shown below.



Select companies to engage with:

In addition to selecting companies for engagement based on our key ESG themes, we carry out focused engagement for stocks held in our active funds.

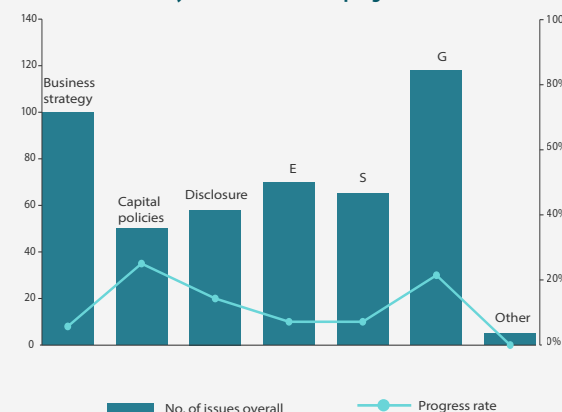
Monitor issues to be addressed:

The challenges we identify through engagement are classified into stages and registered in our issue management platform for continuous monitoring. As of the end of December 2023, 267 companies and 515 issues were being managed on this platform.

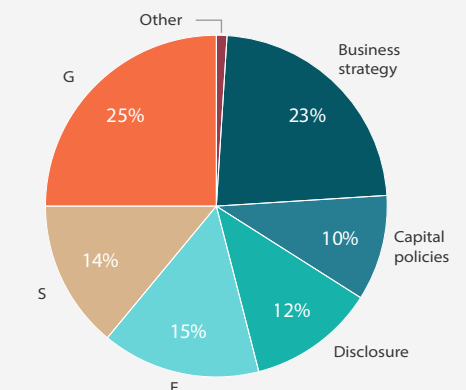
Stage	Category	Confirmation method	Stage description
0	Nikko AM's identification of issues	—	Nikko AM identifies issues
1	Presenting issues to company	—	Issues presented, but unable to reach understanding with company (lack of shared understanding)
2	Reaching shared understanding of issues with company	Engagement	Shared understanding of issues with company
3	Presenting measures to address issues	Disclosure	Company announces measures to address issues
4	Implementing measures to address issues	Engagement/disclosure	Company implements measures to address issues
5	Resolving issues	Engagement/disclosure	Issues have been resolved or company is able to resolve issues itself

Measure and review effectiveness: We also manage the rate of progress made on addressing issues. In FY2023, progress was made on 14.5% of the issues that had been identified as of the end of 2022.

No. of issues by theme and rate of progress



Distribution of Issues



*Rate of progress is "No. of issues progressed to stage 3 or higher/total number of issues"

Japan Sustainable Investment Team

Establish policy for next fiscal year: Every July, we establish our objective for the next fiscal year based on effectiveness measurements and full-year overviews. We believe that carrying out a Plan–Do–Check–Action cycle is essential to improving our stewardship activities.

Coordination with investment management teams

Team members in the Japan Sustainable Investment Department are assigned responsibility for different sectors. They partner with analysts in the Equity Research Group, as necessary, to exchange information on the sectors and stocks they cover. This gives the team an understanding of the fundamental issues that investee companies are facing and enables them to conduct high-quality engagement.

The department also holds meetings with members of the Equity Fund Management Department twice a month to share engagement case studies, discuss the progress of engagement for each company, and review the latest sustainability topics. This is an opportunity to tell investment management personnel about the latest information on sustainability.

Gaining ESG knowledge through collaborative engagement

We have been a lead investor in the Climate Action 100+ initiative since June 2023. The role involves encouraging companies to take further action on decarbonisation in cooperation with other investors. We also work to expand our ESG knowledge through participation in initiatives including the Asia Investor Group on Climate Change (AIGCC) and the 30% Club Investor Group.

In October 2023, we joined Nature Action 100, a global investor-led initiative, to help put pressure on companies that are overexploiting natural resources to protect biodiversity. It is also an opportunity for us to gain more insights into biodiversity. This is just the latest in our increased efforts to join collaborative initiatives and our first concerned with nature and biodiversity.

Proxy voting

We also work to integrate our engagement with our proxy voting by reflecting the content of our engagement in voting decisions. We also provide investee companies with feedback during engagement meetings on voting results, as necessary, and request improvements if there are proposals we have voted against.

In addition, we have revised our proxy voting guidelines in view of the content of

our engagement with companies as well as changes in the business environment. The changes we have made include expanding the coverage of our standards on female directors (applicable from April 2024).

Although in the past we have opposed climate change-related shareholder proposals, we voted in favour of approximately half of such proposals at the general shareholders meetings held in June 2023, considering the importance of environmental issues. For those companies whose shareholder proposals we opposed, we sent a letter containing our reasons for approval or disapproval and expectations of their future actions. Our intention is to avoid situations where our votes against climate change-related shareholder proposals are interpreted as us signalling that companies can slow down their decarbonisation initiatives. ●

Item	Change
Director appointments (Expanded markets covered by requirements regarding female directors)	Previously, in principle, we voted against proposals to appoint directors who are top managers at companies listed on the Tokyo Stock Exchange's Prime Market that have no female directors → In 2023, we began applying this principle to all markets, not only the Prime Market
Outside director appointments (Raised required percentage of board meeting attendance)	Previously, we voted against the reappointment of directors if their board meeting attendance was lower than 75% → In 2023, we raised the minimum percentage of attendance required for us to vote in favour of reappointment to 80%
Appointment of statutory auditors (Added principle of opposition in case of misconduct)	Previously, we had no standard. → In 2023, we established a standard of opposing proposals for appointments, in principle, if a candidate is deemed to be involved in or responsible for misconduct
Statutory auditor appointments (Raised required percentage of meeting attendance)	Previously, we voted against the reappointment of statutory auditors if their directors/board of statutory auditors meeting attendance was lower than 75% → In 2023, we raised the minimum percentage of meeting attendance required for us to vote in favour of reappointment to 80%
Shareholder proposals (Clarified stance on proposals on climate change action)	We make decisions on shareholder proposals after examining them on a case-by-case basis, in view of potential improvements in medium- and long-term shareholder value. In principle, we vote in favour of shareholder proposals on the disclosure of action to address climate change, except for in these two cases: 1) where action taken by the company is in line with the proposal's content 2) where putting the proposal into practice would disadvantage the company or constrain its business activities → In 2023, we stipulated these specific criteria

Japan Equity Team

CSV scores lead to excess returns



Company assessments based on CSV

The Japan Equity Fund Management Department is responsible for the active investment management of Japanese equities based on bottom-up research. Our assessments of major Japanese companies are founded on their ability to sustainably co-create economic value, with a focus on corporate earnings as well as social value linked to ESG factors. This approach stems from the concept of Creating Shared Value (CSV), a form of corporate management proposed by Professor Michael Porter of Harvard University in 2011.^[1] Professor Porter and his co-author proposed that companies should play a central role in solving social challenges and that the solutions they provide can result in innovation, thereby sustainably creating social as well as economic value. They also emphasised that companies performing these socially centred activities would exemplify a preferred form of capitalism.

Nikko AM was an early supporter of CSV and started conducting CSV-based evaluations of major Japanese companies in August 2013. Professor Porter has stated that, to his knowledge, Nikko AM was the first asset manager to introduce CSV-based corporate evaluations. As shown in the chart,

we divide CSV into three broad fields: ESG, market competitiveness, and financial. Firms are evaluated on a total of 12 factors across these three fields. The social challenges and business opportunities of a company differ greatly depending on the industry to which it belongs, so our corporate analysts use a range of evaluation items to examine each company, in line with relevant issues and the business environment. This allows them to evaluate each firm's ability to create shared social and economic value as a CSV score. In the field of ESG, evaluations are based on a cross-functional approach that includes impartial assessments by the Japan Sustainable Investment Department, which is primarily responsible for ESG-focused engagement, and the managers of the Japan Equity Research Group.

In 2022, we introduced an engagement platform to facilitate systematic and effective engagement with investee companies. The platform enables us to manage the list of companies that we have identified as having room to increase their corporate value. We also use it to manage material issues and progress. As of the end of December 2023, we are monitoring a total of 515 material issues for 267 companies.



Yasushi Ishikawa, Head of the Equity Fund Management Department

“Nikko AM was an early supporter of CSV and started conducting CSV-based evaluations of major Japanese companies in August 2013”

^[1] M. Porter and M. Kramer, “Creating Shared Value,” Harvard Business Review, January–February, 2011 Issue

Japan Equity Team

“In recent years, a particularly pronounced tendency is for share prices of companies with high CSV ratings to be given a premium and those with low CSV ratings to be discounted”

Analysts and fund managers from the Japan Equity Fund Management Department and the Japan Sustainable Investment Department are working together to conduct engagement. In many cases, these engagement efforts have led to an improvement in the CSV score, and they give analysts and fund managers the opportunity to identify signs of improvement in corporate value.

The predictive quality of CSV stock prices

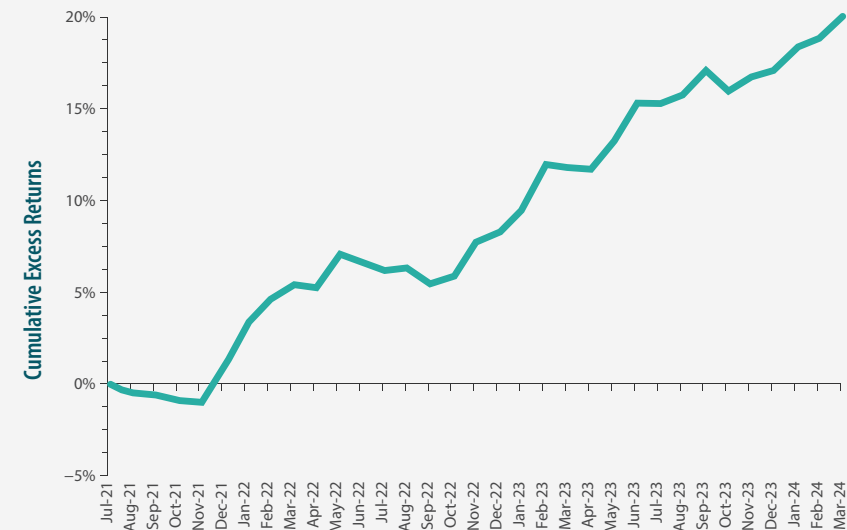
In August 2021, we began calculating “CSV stock prices” as a fair-value stock price when the CSV assessment is accurately reflected in the market. The move was intended to strengthen our ability to integrate CSV in our investment management.

As we shared in the 2023 Sustainability Report, CSV scores have become increasingly significant to our stock valuations since the second half of 2017, when awareness of ESG investment began to rise in the Japanese market. It became even more significant in the latter half of 2020, when the Japanese government announced its carbon neutral target. In recent years, a particularly pronounced tendency is for share prices of companies with high CSV ratings to be given a premium and those with low CSV ratings to be discounted.

In such a market environment, can the CSV stock price lead to future excess returns? The chart on the right shows the cumulative excess returns for an equal-weighted basket of stocks, for which CSV scores have been calculated, comprising the top 20% of expected returns. The figures were calculated by comparing the CSV stock price with the stock price at each point in time, every month since July 2021 when the CSV stock price was introduced. This group of stocks has consistently generated excess returns, with an annualised excess return of 7.25% and an information ratio of 2.2, which indicates a very high investment efficiency.

This result suggests that even in a market environment where CSV valuations have been significantly factored in, there are still CSV factors that have not been fully accounted for, and stocks expected to see upsides from CSV stock prices are generating excess returns. Given the current Japanese equity market, we believe that assessing a company's ability to co-create economic and social value is an essential focus point for generating excess returns. ●

Cumulative excess returns of the top performing stocks implied by CSV stock prices



Note: Analysis period is August 2021 to March 2024.

Source: Nikko Asset Management

Japan Equity Team — Equity Research Group

The future of corporate value

In 2023, the Equity Fund Management Department marked the tenth year since we introduced CSV (Creating Shared Value) scores. Since 2013, we have assigned CSV scores to over 680 stocks. In addition, in 2021 we started calculating CSV stock prices based on these scores. We disclose them in our research reports alongside analysts' investment decisions and share price targets. Our aim is to facilitate the integration of CSV scores in actual investment management by converting them into market values that we are familiar with.

In the wider business environment, the Tokyo Stock Exchange has called for companies to take action to implement “management that is conscious of cost of capital and stock price”. We feel that, as a result, the business execution abilities of corporate management is being called into question more than ever before. Furthermore, personnel shortages and stagnant wages are becoming increasingly pressing issues for company management to address. The corporate value of a company in five to ten years' time will likely differ depending on how it addresses these issues. Two key

ESG themes for Nikko AM, “effective governance” and “human capital and productivity” — which have been assigned CSV scores — will help us make even more effective assessments of these issues as social and economic conditions in Japan change.

Management initiatives to maximise corporate value can sometimes have a negative impact on short-term performance. Drastic improvements in compensation are a good example of this. Although a large increase in salary levels naturally puts pressure on

short-term earnings, it will also be recognised as a step to higher corporate value in the medium term through the recruitment and retention of superior talent as well as increased employee motivation. In fact, we are beginning to see such companies in the market.

By combining the traditional approach of focusing on earnings forecasts and valuation analyses with CSV assessments, we aim to avoid underestimating corporate value and achieve stable performance. ●



Masanori Hoshino, Equity Research Group Manager

“Two key ESG themes for Nikko AM, ‘effective governance’ and ‘human capital and productivity’ — which have been assigned CSV scores — will help us make even more effective assessments of these issues”

Japan Equity Team — Research Active Management Team

Getting companies to use cash effectively

On the Research Active Management Team, we believe that sustainability is becoming an increasingly important element of asset management. This is because societal demands on investee companies are growing, even as the constraints on human and natural capital become more evident. We also see declining global economic growth and increasingly oligopolistic capital markets. So, investment managers need to invest in companies that can enhance corporate value by avoiding external diseconomies and reducing capital market risk.

Our team is responsible for managing the Japan Cash Rich Company Equity Strategy, which aims to generate returns by investing in companies that have healthy balance sheets and the potential to improve return on equity through the effective use of surplus cash.

As Japan moves to end deflation, the rationale for companies to hold cash is fading and the trend of using their cash is expected to gain momentum.

Companies are increasingly responding to calls by the Tokyo Stock Exchange to take action to implement “management that is conscious of cost of capital and stock price”. Although we are encouraged to a certain degree by their response, we believe that share buy-backs and other short-term measures to boost stock prices will only have a temporary effect. Our view is that progress in creating corporate value over the medium to long term will therefore need to be monitored.

In this context, it is becoming increasingly important for companies to use their cash effectively — in other words, good governance. Through our engagement with companies, we actively incorporate this concept in our corporate value assessment.

Aside from engagement, one screening tool we use to detect potential change at companies is to monitor the diversity of the management team by checking the members’ professional background, age, and gender. As we observe changes in these attributes, we can identify companies that appear to be making progress in their diversity journey and proceed to engage with them. We seek to identify companies that — in addition to governance issues — are tackling issues that need to be addressed to help create a more sustainable society, such as climate change and human capital, while improving their own profit growth and market competitiveness. We aim to include such stocks in our investment portfolios and deliver outperformance for our clients. ●



Yu Sato, Fund Manager, Research Active Management Team

“We seek to identify companies that — in addition to governance issues — are tackling issues that need to be addressed to help create a more sustainable society”

Japan Investment Technology Fund Management Team

Sharing what we learn

Our ESG investment approach

The Investment Technology Fund Management team is responsible for developing and managing index and quantitative active funds. We actively research and use sustainability information in our fund management processes. We believe it is important to approach ESG investment with a theoretical and empirical understanding of the wide range of factors — such as future returns, cost of capital, and time horizons — through which ESG can impact shareholder value. This means we continuously conduct in-depth research into each of the environmental (E), social (S), and governance (G) components of ESG using a quantitative approach.

Sharing information with asset owners

We believe that ESG investments can generate social and economic value when a virtuous circle is created in the investment chain, which encompasses investee companies, asset owners (such as pension funds, banks, and insurance companies), and asset managers (like Nikko AM). As an asset manager, we are committed to communicating our ESG investment approach to asset owners so they have a clear understanding of our philosophy.

One example of this is our participation in the 17th Global Fiduciary Symposium, held in November 2023. It was attended by about 300 participants, most of whom



Members of the Investment Technology Fund Management Team

were institutional investors, including representatives for public and private pension funds and university funds. The team's Masayuki Teraguchi appeared on a panel called "Human capital management, which is gaining importance, and its impact on the Japanese equity market". Masayuki explained that Japan's investment in human capital as a percentage of GDP is remarkably low compared with other developed countries,

adding that Japan's labour productivity per worker is the lowest among G7 nations. He presented an analysis, created by Nikko AM's machine learning model, that showed human capital is the ESG factor most strongly associated with Japanese stock returns in the TOPIX 500 Index. The data showed that there are higher shareholder value gains in companies with the management discipline to invest skilfully and actively in their people.

"The data showed that there are higher shareholder value gains in companies with the management discipline to invest skilfully and actively in their people"

“the Japanese Equity Human Capital Empowerment Strategy... was recognised for setting itself apart from other investment strategies with its focus on human capital investment efficiency as one of its key concepts”

Also in November 2023, Yasushi Kato — a product specialist in the team — spoke on a similar theme at an external seminar for pension funds and other institutional investors. After giving an overview of current trends in human capital investment by Japanese companies, he introduced the audience to the Nikko AM Japanese Equity Human Capital Empowerment Strategy, which is focused on investment in people, and gave details about the strategy’s effectiveness.

ESG Fund Manager of the Year (Japan) Award

The success of the Japanese Equity Human Capital Empowerment Strategy during 2023 was recognised in April 2024 when Masayuki Teraguchi and his team received the ESG Fund Manager of the Year (Japan) Award from the multi-media firm The Asset.

Investment strategies focusing on the society pillar of ESG generally tend to emphasise one particular perspective, such as diversity & inclusion or women’s career activities. However, this strategy was recognised for setting itself apart from other investment strategies with its focus on human capital

investment efficiency as one of its key concepts.

Our cutting-edge ESG research

Visiting Professor Ryohei Yanagi from the Graduate School of Accountancy at Waseda University, together with his team, and Kyoji Hasegawa, a quantitative analyst in the Investment Technology Fund Management team, conducted a joint study on the growing importance of non-financial factors, such as ESG, in assessing corporate value. Professor Yanagi proposed the Yanagi Model, which emphasises the relationship between ESG and corporate value, and it is highly regarded by academics and finance professionals in Japan and overseas.

After reviewing a wide range of ESG Key Performance Indicators, the team conducted detailed analyses of the impact of ESG initiatives on corporate value in each industry sector across the Japanese market. Their research provided important insights into investment management and stewardship. We also plan to share the knowledge we have gained with the industry by publishing some of our findings in the Capital Markets

Research Institute’s monthly periodical (which, as of May 2024, is scheduled for publication in the July 2024 issue).

Masahiro Suzuki, a quantitative analyst in the team and an expert in machine learning in economics and natural language processing, won the Most Innovative Application of Artificial Intelligence award at the 2024 Best of the Best Awards, which are presented by the Hong Kong-based Asia Asset Management magazine. The award was established in 2023.

Nikko AM is researching deep learning using Japanese text data from the financial sector and other similar information to enhance the accuracy of our analyses of investee companies, the economy, and capital markets. These efforts are also intended to further improve investment performance and realise even more sophisticated ESG assessments and risk management.

A collaboration between industry and academia

The Consortium for Human Capital Management and Corporate Value, a research organisation strengthening collaboration

between industry and academia, was launched in June 2023. Chaired by Professor Takaaki Hoda of Keio University and Satoshi Sasaki, Principal Researcher at Persol Research and Consulting, the consortium was created to support human capital management at Japanese companies to help them increase their corporate value. Nikko AM is a consortium participant and endorses its activities. The consortium is scheduled to publish its research findings as a book. ●

Japan Fixed Income Team — Credit Research Group

Human capital and corporate value

The focus of our credit ESG analysis

On the credit research group of the Japan Fixed Income team, we believe ESG considerations are key factors when analysing qualitative risks that cannot be covered exhaustively by financial analysis. We focus on eight ESG items, displayed in the diagram below: two of these are related to the environment, three are related to society, and three are related to governance. We began this type of analysis in 2009, and we periodically review and update these focus areas based on case studies we conduct.

Environmental (E)	Society (S)	Governance (G)
Changes in environmental regulations	Human capital	Corporate governance
Environmental pollution	Manufacturer responsibility	Accounting fraud
	Relationship with antisocial forces	Corporate ethics

Integration of ESG factors

Our credit analysts consider ESG factors in addition to the fundamentals of each issuer. ESG factors are integrated into investment decisions for the industries and issuers we cover. ●

Case study

In-depth discussions on human capital with life insurers

We regard bonds issued by Japanese life insurers as key investment assets. To date, we have enjoyed favourable performance by actively investing in these bonds. We believe we can further improve investment performance by seeking to enhance the corporate value of each company through discussions and proposals that help to strengthen their business capabilities. As part of these efforts, we are holding more in-depth discussions on human capital with these life insurers.

Issue

Dedicated sales personnel are at the core of Japanese life insurers' business capabilities. We monitor changes in sales personnel numbers as an important indicator of the current status of each company's sales infrastructure. Our analysis shows that companies that have maintained and strengthened their sales staff channels see steady gains in new business as well as improvement in their corporate value. The analysis also demonstrates that companies whose sales channels have grown weaker experience sluggish growth in new business and see less of an increase in their corporate value.

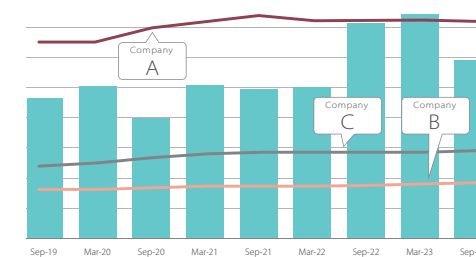
Some of the issuers in which we invest are currently seeing declines in sales personnel numbers. These companies have significant room to increase their corporate value in the future by strengthening their sales channels. We believe that we can help to

Trends in sales personnel numbers and new business at different companies

Companies where sales personnels have increased

Polyline: Number of staff in thousands

Bar chart: Total annualised premium from new business



further improve investment performance by engaging with these companies on the theme of human capital in relation to sales personnel.

Engagement

There are limited opportunities to engage with Japanese life insurers as many of them are not publicly listed. However, given our focus on researching these companies because of their importance to us as investment targets, we hold one-on-one meetings with representatives from these firms approximately twice a year.

In the meetings we held with life insurers in November and December 2023, we reviewed their analyses of the factors behind changes in sales personnel numbers. We also suggested the following actions:

- Use separate analyses for non-sales employees and sales personnel when conducting employee engagement surveys

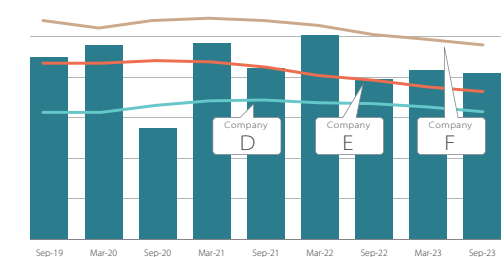


Akihiko Yoshino, Credit Research Group Manager

Companies where sales personnels have decreased

Polyline: Number of staff in thousands

Bar chart: Total annualised premium from new business



- Set KPIs related to working environment and job satisfaction of sales personnel
- Include a sales personnel training approach and policy reforms in business plans
- Expand the evaluation framework for sales personnel to include activities other than sales performance and more qualitative evaluation items

Outcome

Companies have generally responded positively to our suggestions. For example, they have acknowledged the need to analyse the proportion of sales personnel who are managers and to consider ways to measure work environment and job satisfaction. In the future, we expect to see them making more effort in these areas. We also intend to evaluate the results by observing both quantitative trends in sales personnel channels and qualitative progress through regular engagement.

Japan Fixed Income Team — Global Bond Fund Management Team

Evaluating the soundness of societies

The focus of our sovereign ESG analysis

Sovereign bonds, both domestic and foreign, are a major component of our current fixed income investments. As they do with corporate bonds, major rating agencies — S&P, Moody's, and R&I — provide ratings for debt issued by leading countries in both their local currencies and foreign currencies. Ratings are based on analyses of the risk of default, which generally take into account countries' fiscal balances and their debt levels, as well as other information such as financing structures, economic growth trends, and the stability of their markets.

Interpreting our sovereign ESG analysis

If, for example, a country scores extremely poorly on environmental factors, it may be prone to more frequent and severe disasters associated with environmental degradation over the long term. This may undermine social stability more than in countries that have achieved a low-carbon society. In turn, this may adversely impact a country's sustainable growth.

Also, a nation with poor social factors may not be fully utilising its human capital. In the long term, this may widen the gap between rich and poor, contribute to widespread social unrest, and hinder long-term growth. Similarly, poor governance factors are likely to increase political risks. Alongside greater risks

of terrorism and conflict, elevated political risks raise the likelihood of adverse effects on debt soundness by increasing unsound government spending.

The scatterplot shows the relationship between the International Monetary Fund (IMF) estimate of GDP per capita in purchasing power parity (PPP) terms and the sovereign ESG score calculated by our department (as of March 2024). It covers sovereign debt that the Fixed Income Fund

Factors evaluated for sovereign ESG scores

Environmental (E)	Society (S)	Governance (G)
Greenhouse gas emissions/capita	Human development	Corruption
Greenhouse gas emissions/GDP	Gender equality	Government effectiveness
Climate change vulnerability and resilience	Average life expectancy	Political stability
Sustainability of forest resources	Secondary education penetration	Regulatory quality
Sustainability of mineral resources	Electricity penetration rate	Rule of law
Sustainability of energy resources	Modern slavery (forced labour)	Government response to modern slavery
Sustainability of freshwater resources	Gini coefficient	Freedom of speech

Management Department has invested in, all of which is issued by countries included in the FTSE World Government Bond Index. Most of these countries are developed nations and the deviation in their sovereign ESG scores is relatively small. Even then, the sovereign ESG score and GDP per capita (in PPP terms) of these countries show a strong correlation.

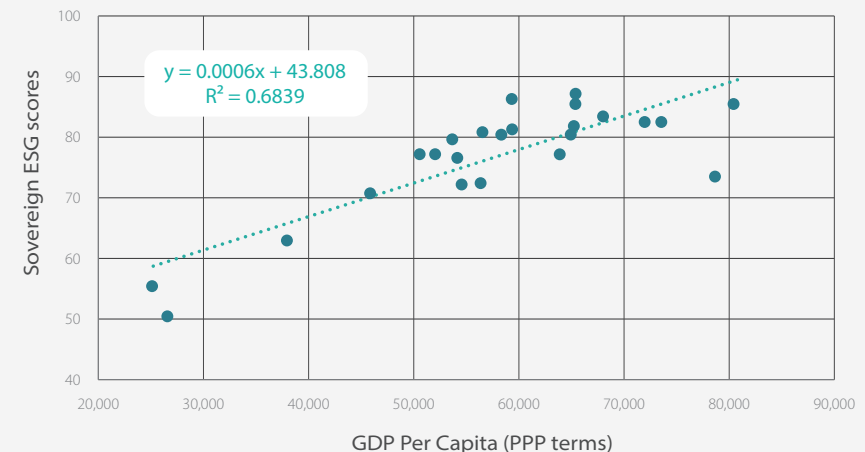
We see ESG factors as useful measures of the sustainability of a society as well as the stability and soundness of its economic, political, and social infrastructure. ESG factors are also thought to have an effect on



Osamu Matsubayashi, Fund Manager,
Japan Fixed Income Team
Global Bond Fund Management Team

a country's debt over a long period of time. Monitoring these factors to supplement credit ratings, which focus on the fiscal conditions of a country, is therefore seen as an effective way of enhancing the long-term stability of bond investments. ●

Sovereign ESG scores and GDP per capita (PPP terms)



Asian Equity Team (Ex. Japan)

Knowing the score

Our ESG methodology

The consideration and integration of ESG factors is a core part of our Asian equity investment process. This is linked to our fundamental belief that companies with strong or improving ESG performance can achieve high, sustainable returns. While we recognise there are potential risks, we think firms prioritising ESG offer good opportunities for shareholders.

Our ESG Materiality Map, which we have customised for Asia, allows us to identify the material issues and opportunities for each of the companies we cover. As part of our proprietary ESG scoring methodology, individual companies are assessed and scored on environmental, social, and governance factors alongside fundamental analysis, which informs the overall company score. The case study below illustrates how we apply these scores.

In 2023, Asian companies continued to improve their ESG data disclosures, but the lack of consistent and verifiable data is still a prevalent issue across the continent. As such, firms in Asian markets — where an understanding and appreciation of ESG investing is still developing — lend themselves naturally to active ESG engagement, which we supplement with ESG-focused research. We rely on our research analysts and their engagement with companies to identify material ESG risks and opportunities.

Additionally, with the many complex, diverse, and fast-changing economies in Asia, we believe ESG implementation is more nuanced in the region than elsewhere, and there cannot be a one-size-fits-all approach. As we assess materiality, we are always cognisant of the differences in ownership, culture, and stages of development compared with developed markets.

We have continued to enhance our ESG-integrated investment framework to help us keep up to date with ever-evolving global regulations and to determine their effect on shareholder returns. This research involves close collaboration with our dedicated ESG Asia (ex. Japan) analyst and the broader Global Sustainable Investment Department.

Engagement

A key aspect of our ESG-integrated investment framework is engagement. We continue to engage with companies not only to better understand their ESG risks and opportunities, but also to encourage them to improve their disclosures and performance. While adherence to ESG principles in Asian nations still lags that of developed countries, we have seen some improvement. Companies are generally more aware of the importance of ESG, and some are making an effort to mitigate the risks.



Members of the Asian Equity Team

“We have continued to enhance our ESG-integrated investment framework to help us keep up to date with ever-evolving global regulations and to determine their effect on shareholder returns”

Asian Equity Team (Ex. Japan)

Case study

ESG scoring in action

Issue

First Resources, one of the leading palm oil producers in Indonesia, has courted controversy over deforestation and the impact of its operations on biodiversity. Additionally, our materiality map (see table) had flagged a number of other issues that warned of problems at the company. We decided we had to engage with First Resources to see how it was seeking to improve in these areas.

Activity

The Asian Equity team met the company in March 2023 and again in December. At these meetings, we learned that it was on track to achieve its sustainability commitments and that it was actively addressing the issues we raised. In 2022, the Roundtable on Sustainable Palm Oil industry group certified 34% of the company's operations, more than double the 15% it achieved in 2020. While this is still considerably lower than the 77% coverage achieved by

its competitor Wilmar International, we think First Resources will be able to reach the same level in 2024. The company's MSCI sustainability score should also improve over the next two years. Although it is far from perfect with regard to ESG implementation, First Resources is no worse than average and is on track to improve its sustainability performance.

Outcome

We will continue to engage with the company and monitor its progress as it improves biodiversity, uses land more sustainably, and starts a new project to develop biofuels.

Asian Equity Team ESG Materiality Map

Environmental Pillar (50%)				Social Pillar (30%)			Governance Pillar (20%)		
Climate Change	Nature Capital	Pollution & Waste Management	Environmental Opportunities	Human Capital	Product Liability	Social Opportunities	Corporate Governance	Corporate Behaviour	Governance Opportunities
GHG Emissions from Operations	Water	Toxic Emissions & Waste	Clean Tech	Labour Management	Product Safety & Quality	Access to Basic Services (Food, HC, Finance, Power, Comms, Education)	Beneficial Ownership Assessment (Individual, SOE or Capital Market)		Ownership & Management Change
GHG Emissions from Product/Customers	Land & Biodiversity	Packaging Material & Waste	Green Building	Labour Development	Privacy & Data Security		Minority Interest Alignment	Business Ethics & Fraud	
Physical Risk	Resource Management	Electronic Waste	Renewables	Health & Safety	Responsible Investment	Opportunities in Health & Wellbeing	Principal-Agency Alignment	Anti-Competitive Practices	
Financing Environmental Impact				Supply Chain Management	Financial System Instability	Community Development	Board	Corruption & Instability	
							Pay	Past Transactions	
							Accounting Practices	Transparency & Disclosure	



Primary Risk
Issues which can put a company out of business



Secondary Risk
Issues which can have a material impact on shareholder returns.



Opportunities
Issues which can lead to a material enhancement in shareholder returns



Pre-defined General Secondary Risk
Climate Change and ESG-Governance

The individual issue names identified on this page are not a recommendation to sell or purchase an individual issue and do not guarantee holding or non-holding in a fund or strategy.

Asian Fixed Income Team (Ex. Japan)

A holistic view

Our approach to ESG

ESG analysis is integrated into our credit research process as part of the bottom-up fundamental analysis of issuers, forming a component of our Internal Credit Rating (ICR) framework. It provides us with a more holistic view of issuers because it enhances the process of identifying investment opportunities and helps to manage risks. We believe that material ESG factors can impact a company's credit profile, and companies with strong and/or improving ESG performance outperform over the long term.

Our ESG Materiality Map, modified for Asia, is the starting point for our credit analysts in

identifying the key ESG issues that issuers face (see materiality map).

Our credit research analysts conduct ESG analysis as part of the bottom-up credit research process. They have the best understanding of the material ESG issues faced by the issuers within the sectors they cover. These analysts then assign a weight to the individual environmental (E), social (S), and governance (G) pillars to determine the materiality of these key ESG issues to the issuers, then they assign a score for each pillar, reflecting the issuer's performance in these areas. This analysis allows us to form a holistic understanding of the issuer and

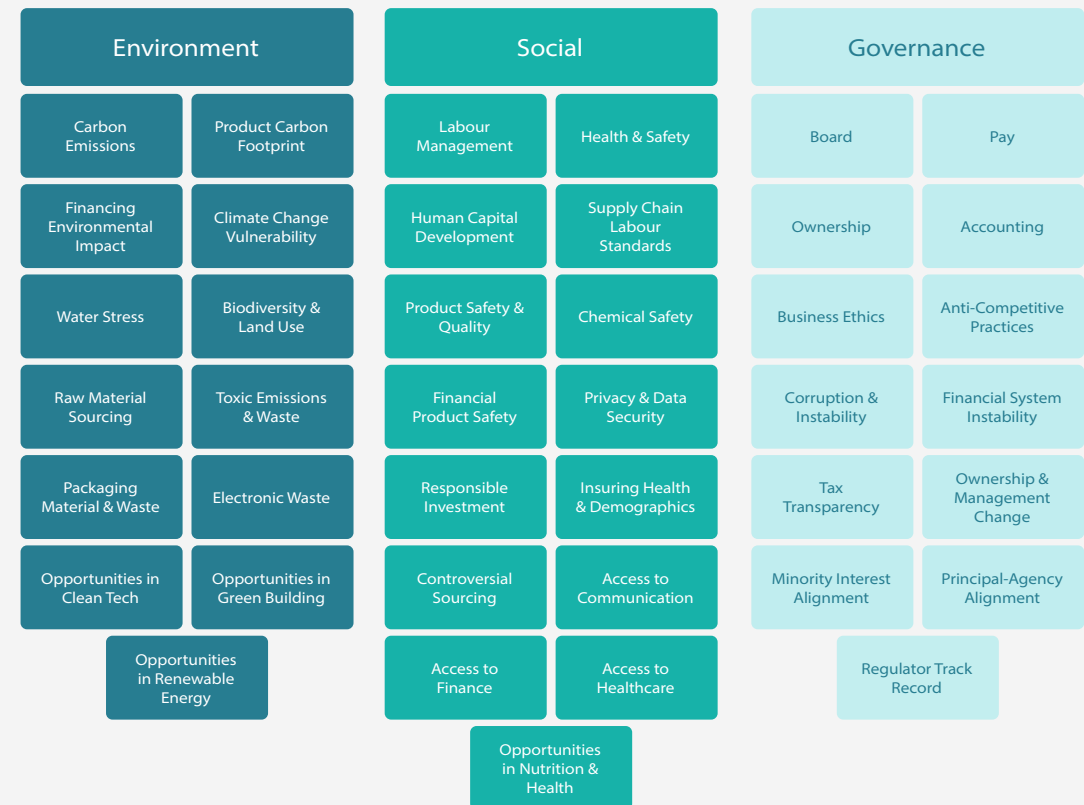
provides an insight into how that issuer is performing relative to its peers, helping us to identify leaders and laggards.

Issuers are also assigned an ESG outlook of "Deteriorating", "Stable", or "Improving" by considering the expected ESG trends of the issuer over the next 12 to 18 months. This

helps us to find and support companies that are improving their ESG performance.

We use a different model to evaluate and quantify a country's exposure to, and management of, ESG risk factors. Our proprietary ESG Sovereign Rating Model was developed in 2022 by the

Asian Fixed Income team's ESG Materiality Map



Members of the Asian Fixed Income Team

Asian Fixed Income Team (Ex. Japan)



Members of the Asian Fixed Income Team

Fixed Income (Ex. Japan) team and the broader Global Sustainable Investment team.

Engagement

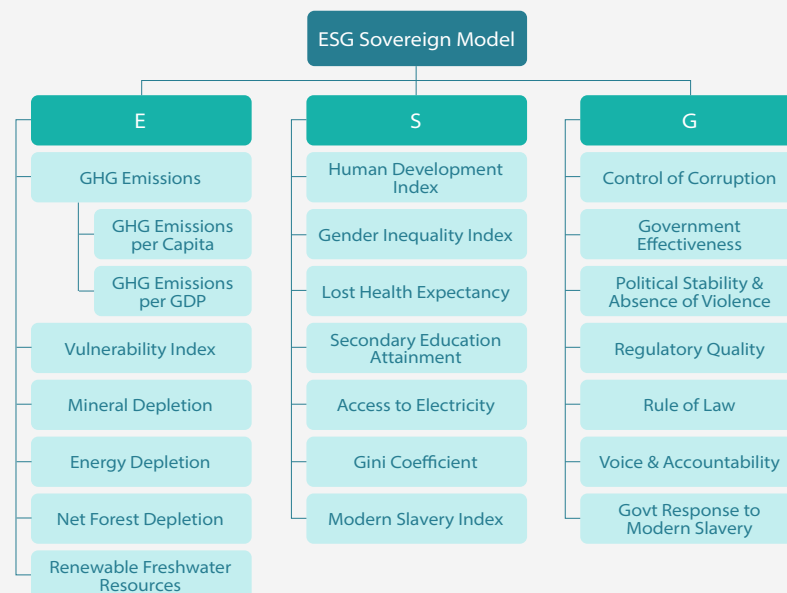
In addition to assessing our issuers on their disclosures, we have for many years made engagement an important aspect of our credit research process. Our analysts actively engage with companies about the downside and upside risks of ESG factors and how they may affect operations or help to drive sustainable returns over time. We find that engagement provides us with better insight into the issuer and how ESG considerations are factored into their overall business

strategy. Engagement can either take place between our team and representatives from a company or, where possible, collaboratively, with other investors as part of investor initiatives.

Our engagement activities have led to a marked improvement in companies' understanding of their own ESG risks and opportunities, which is something we illustrate in our case study. As part of our stewardship activities, we will continue to work on enhancing our engagement approach and educating our investee companies on the impact of ESG risks and opportunities. ●

Asian Fixed Income team and the Global Sustainable Investment team. In 2023, we further refined this model by reviewing the E, S, and G indicators used and incorporating new ones, such as the "Modern Slavery Index", which we thought were of growing relevance. We arrived at a total of 21 indicators, from publicly available sources, that broadly cover all three pillars. Sources included the World Bank, the United Nations, and the European Commission Emissions Database for Global Atmospheric Research.

This model helps us to better evaluate ESG elements and has added substantially to the quality of our investment analysis. We continue to enhance our ESG-integrated investment framework by researching ESG issues and keeping up to date with global regulations. Then we try to better understand how those issues and regulations could affect us and the companies we invest in. We conduct our research in close collaboration with a dedicated ESG analyst on the Asian



The individual issue names identified on this page are not a recommendation to sell or purchase an individual issue and do not guarantee holding or non-holding in a fund or strategy.

Case study

Powering change through engagement

In our 2023 Sustainability Report, we described an engagement we undertook in 2022 as part of the Asian Utilities Engagement Programme (AUEP) of the Asia Investor Group on Climate Change (AIGCC). In 2023, we continued this collaborative engagement with the company, Perusahaan Listrik Negara (PLN), and saw it make further progress.

Issue

The state-owned company is the dominant power generation, transmission, and distribution provider in Indonesia. With close to 90% of its production powered by thermal sources, PLN is heavily exposed in the transition to zero carbon. Not surprisingly, it scores poorly among Asia-Pacific utilities firms for both absolute and relative carbon emissions. In addition, the Indonesian government appoints half the directors, severely limiting the board's independence. The AUEP has focused on encouraging the company to address these environmental and governance issues.

Activity

We had two collaborative meetings with PLN as part of AIGCC's AUEP engagement in 2023, which followed on from our two meetings with the firm in 2022.

— In May, we received an update on PLN's decarbonisation plans. We learned that the company was working with the Indonesian government to finalise the early closure of several thermal coal-fired power plants. We also discussed potential financing structures to help underwrite the shutdown process.

— In June, we had a discussion with the company on Indonesia's transition to net zero, which involved other AUEP investors as well as representatives from Indonesian government ministries. Investors provided feedback on what they are looking for in transition planning and ideas about potential financing.

Outcome

PLN has made strides in its efforts to decarbonise. Since the start of our collaborative engagement in 2022, the company has announced the cancellation of a substantial amount of new coal-fired power plant capacity and agreed to halt new developments. Recently, it announced Indonesia's first early shutdown of a coal-fired power plant, subject to certain conditions being fulfilled.

Taken together, we view these efforts as signifying the company's commitment to clean energy and, ultimately, zero carbon. Together with fellow investors in the AUEP, we will continue to monitor the firm's progress through our engagement.

Multi-Asset Team

Carefully screening portfolios

Multi-asset investing, by definition, involves a wide range of assets, including equities, fixed income securities, and real estate investment trusts (REITs). The Multi-Asset team manages a broad range of portfolios using a variety of investment approaches, and our ability to integrate ESG considerations varies across our diverse client portfolios.

In situations where we use Nikko AM's active equity and credit funds, we undertake ESG integration and company engagement on material issues. But where we invest using passive funds, such as exchange traded funds, our ability and opportunity to integrate ESG can be limited.

As we draw on our proprietary research of the return potential for different asset classes, our experience with portfolio construction, and the expertise of Nikko AM's Global Sustainable Investment team, we can support clients with additional ESG requirements.

Firm-wide exclusions on cluster munitions apply across all our strategies where we have discretion. Together with an ESG specialist, we screen portfolios to identify companies that breach social safeguards such as those listed in the Ten Principles of the United Nations Global Compact and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises on Responsible Business Conduct. Companies that have been flagged as being in breach of social safeguards will be further assessed, which might entail engagement to clarify areas of concern, before we divest as a last resort.

We always aim to invest in the best interests of our clients, so we are always transparent in our communications and discussions of how we integrate ESG considerations in our investment process.

As ESG regulations and disclosure requirements evolve, we are committed to exploring further opportunities with our Global Sustainable Investment team to further embed ESG considerations into our investment process. ●



Members of the Multi-Asset Team

“Together with an ESG specialist, we screen portfolios to identify companies that breach social safeguards such as those listed in the Ten Principles of the United Nations Global Compact”

New Zealand Equity and Bond Teams

Regularly reviewing ratings and risks

ESG integration

Nikko AM New Zealand's equity and bond teams speak with a united voice on ESG issues. As medium- to long-term investors, we use our extensive experience to understand and evaluate the materiality of industry and company ESG factors and how they may impact our investment decisions, through our bottom-up fundamental approach. On some occasions ESG factors may not be material enough to alter our conclusions. There is no set formula.

We rely on the experience of team members to understand ESG impacts and document them in our investment research reports. While these reports form an important element in our approach, they cannot be assessed and managed in isolation. Other factors, such as the quality of a management team, must also be carefully assessed.

Engagement and proxy voting

On a quarterly basis, we screen the investments we hold across all portfolios — together with investments on watch or under active assessment — using a tool from MSCI ESG Research. This process assists the team by adding another layer of scrutiny to our knowledge of companies. Many debt

issuers are also listed on the New Zealand Stock Exchange and are captured during this screening.

The outcome of this process is that companies are rated against the standards and performance of their industry peers on a scale from AAA to CCC. We engage with companies in an effort to raise the bar in areas where improvement would be beneficial to stakeholders. These areas may be identified by MSCI research or our own research. A rating of BB or less does not necessarily mean we should not invest in a company, but that we need to engage with the company on the main issues causing the poor rating.

Similarly, a higher MSCI rating does not alone dictate a higher investment weight. The primary driver of a company's weight in our portfolios will still be determined by the relevant portfolio manager, based on a range of both quantitative and qualitative factors. The MSCI rating is only one of the quantitative factors that feeds into our investment process. Companies that have higher ratings or are



Members of Nikko AM New Zealand's equity and bond teams

actively improving their ESG standards will ultimately be recognised by market participants, so our process should highlight these opportunities.

We also monitor the carbon footprint and weighted average carbon intensity of our portfolios. This information helps to form a baseline, which we use to find opportunities in areas that we can invest in. Then we try to encourage these firms to move towards a lower carbon future.

We may also take action to combat other risks to our portfolio. In our previous sustainability report, we described our efforts to clamp

down on modern slavery in supply chains. In 2023, we screened our bond portfolio for exposure to uninsured climate change risk (see case study).

In our opinion, voting is an integral part of responsible stewardship of capital. Analysis of a company's corporate governance structure helps to form our view of the quality of a management team. We exercise proxy voting rights independently and solely in the interests of our clients and beneficiaries. When we vote against a company resolution, it is our policy to write to the management to explain our reasons in an endeavour to advance the company's development. ●

New Zealand Equity and Bond Teams

Case study

Anticipating the ramifications of climate change in New Zealand

Issue

Climate change is affecting New Zealand, as elsewhere, resulting in more extreme weather. In early 2023, floods and a cyclone caused widespread damage to property. Should such weather events worsen and become more regular, bond holders will increasingly face risks due to losses on damaged assets and uninsured or under-insured property.

Activity

The New Zealand Fixed Income team reviewed potential risk exposures across its holdings. Risks were deemed to be any assets that could be significantly damaged by weather events or where insurance might be insufficient, such as securitised vehicle and equipment loans and their providers. To better understand and manage these risks, the team questioned all issuers and primary financiers about these types of assets to ascertain whether:

- full insurance is a requirement for such finance or leases
- there is a mechanism to ensure borrowers or lessees do not let their insurance lapse and that the finance provider is a notifiable party on insurance policies
- there are risk management systems in place to ensure insurance is maintained as loans age

Outcome

This exercise allowed the team to more precisely quantify our exposure to extreme weather events — and assured us that no undue risk currently exists. However, we acknowledged that risks could increase in the future. We will continue to stay abreast of developments in this area to determine whether intervention may be necessary in the future.



The Ngaruroro River in Hawkes Bay, New Zealand, overflowing a day after Cyclone Hale hit the region on January 11, 2023.

US Investment Team

Sustainable collaborations

ESG integration

The US investment team has increasingly focused on ESG considerations in our investment process. We do this through our sub-advisers, which provide us with investment advice for managing our different equity mandates. Each sub-adviser has its own dedicated approach to analysing companies in relation to ESG. We hold monthly and ad hoc conversations with them, where we discuss the potential risks to the investment strategies as well as the opportunities that may arise from the changing environment. We use various tools and metrics to assess ESG risks and opportunities, including ESG ratings from third-party providers.

The investment team's philosophy is based on the belief that companies with strong ESG practices are better positioned to deliver sustainable, long-term financial performance. We recognise that addressing ESG risks and opportunities is critical to managing risk and maximising returns.

Each sub-adviser has a slightly different approach to ESG. However, they all integrate ESG into their investment process by considering a broadly similar range of factors, such as environmental impact, labour standards, and business ethics. In practice, some advisers place more focus

on these factors than others. An important part of the process is engagement. Both our sub-advisers and our investment team engage with companies to encourage them to adopt sustainable business practices.

Another key pillar of the ESG framework is finding innovative companies that are developing new ways to address ESG issues. We believe that companies that are focused on innovation and new technologies are more likely to be sustainable and have a positive impact on the environment and society. They are also more likely to outperform financially in the long term.

Making every vote count

The area where we believe we can have an impact in implementing our ESG philosophy is through proxy voting. We take our proxy voting responsibility seriously and work as a team to review all ballots before voting. We also use a proxy adviser, which recommends how we should vote, and its recommendations are based on our group voting policy. When assessing proxy ballots, we find it useful to engage with companies to complement the proxy adviser's recommendations.

One proxy ballot item that we review with increased scrutiny is the shareholder opinion on executive compensation. The

Say-on-Pay vote asks investors to vote on the compensation of the top executives of a company. It is an advisory vote that is not binding, but we expect management to make changes in the event of low shareholder approval. As an asset manager, we take Say-on-Pay votes extremely seriously, reflecting our commitment to ensure alignment between executive compensation and company performance. We use the proxy ballot to convey our concerns when we perceive a disconnection between pay and performance.

By actively engaging in these votes, we assert our fiduciary responsibility to protect shareholder interests and advocate for transparent compensation practices. The frequency of these votes differs for each company but, given the option, we support the ability to vote on executive compensation annually. Ultimately, leveraging our voting power for Say-on-Pay resolutions underscores our dedication to promoting sustainable long-term value creation and fostering trust between management and shareholders.

"The investment team's philosophy is based on the belief that companies with strong ESG practices are better positioned to deliver sustainable, long-term financial performance"

Executive compensation plans vary by company and often have different goals, depending on the size of the company, the business sector, or the stage of the company's development. Additionally, as ESG metrics are increasingly used in incentive compensation, we believe it is important for investors and proxy advisers to question companies on the use of such metrics and whether they have achieved any related goals.

A collaboration to improve emissions in the skies

Together with Climate Action 100+, an industry initiative, the US investment team is involved in a collaborative engagement with a major US airline. We have calls with the airline to learn how it is working to reduce carbon emissions and encourage it to improve its reporting and disclosures.

The company has been receptive to investor feedback and is making large investments towards a more sustainable future. It has committed to an interim target of reducing its carbon emissions intensity by 50% by 2035, compared with 2019, and a long-term target of achieving net zero by 2050. To reach this goal, the company is improving efficiency, adopting more sustainable alternatives, and collaborating with partners. One of its main areas of focus is finding ways to expand the supply of sustainable aviation fuel, which requires working together with policymakers, suppliers, and airports.

We will continue to engage with this company and encourage them to stay on track with their commitments. ●

Global Equity Team

Sustainability in depth and breadth

We have long believed that sustainability should be at the core of our stock selection process. Our Future Quality investment approach helps us to identify those companies we think are well positioned to sustain high returns into the future, while creating value for all stakeholders and our planet. Our underlying belief is that the market will increasingly recognise that these companies will not only weather future challenges, but also be able to deliver solutions to the problems that we face.

ESG analysis is undertaken by each portfolio manager and analyst, and is fully integrated into the stock-selection process. This ensures that we can robustly evaluate the materiality of each factor and its potential impact. We rely on our four-pillar Future Quality analysis, which includes in-depth evaluations of ESG factors, to determine their effect on a company's risks and returns. Our research includes an analysis of a company's corporate governance, social practices, the environmental sustainability of its products or services, and its ability to fund its growth and ESG commitments.

Engaging within and across the portfolio

In creating a sustainable portfolio, picking the right stocks is only part of the job. It is also crucial to make sure the chosen companies remain committed to pursuing sustainable practices. Our investment team engages with investee companies to help promote better ESG practices if we believe there is room for standards to improve (see our case study below). From time to time, these engagements can embrace the whole portfolio — when we believe there is an issue that affects many companies. Climate change is a prime example.



Members of the Global Equity Team

In our 2023 Sustainability Report, we described a survey undertaken by our Global Equity team of companies in our Global Equity strategy to determine whether their management teams understood the implications of our commitment to supporting and contributing to a low-carbon future. In light of their responses, in 2023, we focused on the companies in the portfolio with the highest carbon intensities or those in sectors most exposed to climate change risks, even if their carbon footprint might be relatively low.

Through this process, we identified a number of engagement priorities where there were

particular areas for improvement. The priorities were specific to each company as we wanted to ensure that our engagement added value to the company and helped us to improve our investment thinking. We adjusted our expectations according to the size of each company's carbon footprint. For example, we made one company a priority for engagement even though it already has in place an ambitious climate strategy compared with its peers. It is by far the largest emitter of greenhouse gases in our portfolio and, therefore, demanded higher expectations and a higher degree of scrutiny. ●

Global Equity Team

Case study

Keeping clear of conflict minerals at an IT company

Hexagon is a global provider of design, measurement, and visualisation technologies held in our Global Equity portfolios.

Issue

MSCI reported that the company had below-average disclosures and procedures for auditing suppliers that might be involved in sourcing raw materials from controversial parts of the world. In our 2023 Sustainability Report, we reported steady improvement at the company following our engagement. This progress continued in 2023.

Activity

The Global Equity team started engaging with Hexagon in 2021, when we first discussed with its representatives the problems associated with sourcing minerals from countries enduring conflict or human rights abuses. These minerals are often referred to as "conflict minerals". Our engagement in 2023 was to ensure the company was pursuing its commitment to conduct supplier audits.

In April, the company published an update on its progress in its Sustainability Report. It had set a target of auditing 100% of its suppliers in high-risk countries — a total of 75 at the time — by the end of 2023. At the end of 2022, the number of these suppliers had been reduced to 56 and, of these, 11 audits had been completed. The report confirmed that the company stood by its goal of auditing all of these suppliers by the end 2023.

In August, we held one of our regular company calls with Hexagon's CEO and investor relations team, and they promised to give us further updates later in the year. In December, the company reiterated its commitment of auditing 100% of its suppliers in high-risk countries by the end of the year. Subsequently, when Hexagon presented its full year results in January 2024, it was confirmed that the commitment had been fulfilled.

Outcome

As a result of this effort, the company's processes to ensure that raw materials are sourced from areas free from conflict are now better than its peers in the industry, and MSCI scores Hexagon above the industry average on controversial sourcing. We consider our engagement on this particular issue is complete, although the company's sustainability efforts will continue to be monitored through the Future Quality process used by our Global Equity team to evaluate investments.



■ Metal raw materials stacked at a freight terminal

Global Fixed Income Team

Consistency is the foundation for sustainability

We start from the premise that the world economy is gradually moving, albeit rather haphazardly, towards sustainability.

Therefore, it is incumbent on us to incorporate ESG principles into our investment process. We have always believed in employing a consistent process that relies on quantitative and qualitative inputs to generate ideas and construct high conviction portfolios, which should reward us suitably for the risk we take.

ESG implementation

ESG factors are considered across all our products at the research and screening stage of the investment process. We continue to develop our proprietary ESG monitoring tools and are increasingly taking ESG considerations into account when selecting bonds. Our assessment of corporate governance focuses mainly on general management quality, while environmental and social analyses tend to capture risks and opportunities linked to a specific industry or region.

Given that the majority of our fixed income assets are in AAA-rated bonds, it is sometimes challenging to ensure that the environmental and social aspects of a business align with every one of our investors' wishes. However, we strive to make sure these businesses meet the standards set out by the UN-supported Principles for Responsible Investment.

ESG considerations are incorporated where they are deemed material to the investment case and in line with our clients' risk appetite and perspectives on ESG investing. For example, for clients with high sustainability expectations, our Global Green Bond strategy has historically invested strictly in green bonds from global AAA-rated sovereigns, supranationals, and agencies with the strongest sustainability credentials. Issuers include the World Bank, the European



Members of the Global Fixed Income Team

“We have always believed in employing a consistent process that relies on quantitative and qualitative inputs to generate ideas and construct high conviction portfolios”

Global Fixed Income Team

Investment Bank, and KfW, the German state-owned investment and development bank. However, in 2023 we expanded our investable universe to include corporate credit as a means of supporting clients' growing desire to help fund the transition to a net-zero future.

Our Global Green Bond strategy — relaunched in October and managed from London — includes social and sustainable bonds from corporate issuers, and it provides the ability to invest in sustainability-linked bonds in the future. It complies with article 9 of the EU's Sustainable Finance Disclosure Regulation, giving investors across the EU access to bonds that finance affordable and clean energy, sustainable cities and communities, and climate action. It falls under the impact category of our ESG classification system, covering funds that invest in companies that have an environmental or social impact, while also pursuing return objectives (see the implementation section on p. 13 for more details).

Limited leverage

It is more difficult for a fixed income investor to have a direct influence on the direction of investee companies. A bondholder lacks the voting rights that accompany equity ownership. Even so, it is important for us to engage with management when we see areas that can be improved.

With regard to corporate credit, our Global Fixed Income portfolio managers and research analysts work alongside our ESG analysts to engage with the companies in which we invest. These discussions cover the firms' corporate earnings and financial

strategies, as well as other non-financial information, including their management policies, business strategies, and material ESG matters, as part of an assessment of corporate value that ultimately informs our investment decisions (see our case study for an example).

However, given our relatively small exposure to corporate bonds and emerging markets, we are realistic about the practical limits to our influence, and we avoid situations where we might end up in corporate actions that would disproportionately tie up resources and time. ●

Case study

Ensuring lessons have been learned at Iberdrola

This Spanish multinational electric utility company is one of the world's largest producers of both electricity and wind power.

Issue

While performing due diligence on a bond issued by the company for possible inclusion in our Global Green Bond fund, we came across a historical controversy involving hydro-electric plants it built in Brazil, notably the Teles Pires Dam. The company had been criticised for its lack of consultation with indigenous populations during the dam's construction.

Activity

The Teles Pires Dam is no longer owned by Iberdrola. Nevertheless, we wished to ensure that lessons had been learned, that the principles of the UN Global Compact had not been breached, and that we would not fund projects that did significant environmental or social harm. We therefore decided to undertake enhanced due diligence and arranged a call for early January 2024.

The company was transparent with us about the controversy and the work it had done to address the social and environmental aspects of its Brazilian dam projects. It is undertaking systematic stakeholder engagement and has conducted major in-depth assessments to reduce similar risks in the future. It also confirmed that remedial measures in relation to the dam were carried over to the new owner when the project was sold. Furthermore, it told us that it is not planning any major new hydro-electric projects in South America and provided us with a detailed report on the social and environmental impact and mitigation activities relating to its Brazilian dam projects still active.

Outcome

We are satisfied with the measures the company has taken to reduce the environmental and social risks associated with its hydro projects. We have therefore downgraded the status of our investment from "Enhanced Due Diligence Required" to "Monitor". No further action is required at this stage.

Portfolio Solutions Group

How we monitor external managers

Philosophy and policy

The Portfolio Solutions Group evaluates, selects, and monitors external managers. We believe that ESG factors are inherent to long-term corporate value creation and sustainable economic growth. We therefore embrace ESG to better manage investment risk, deliver better quality long-term investment returns, have a positive impact on our communities, and be good stewards of our environment. We uphold a high standard in integrating ESG considerations into our investment process.

“our team regularly monitors whether external managers are fully integrating ESG factors into their investment management process and, if necessary, encourages them to step up their activity”

We have had most external managers sign letters of intent affirming their commitment to integrating ESG into their investment management. They are expected to implement a process for assessing and observing current and future ESG-related investments. Nonetheless, our team regularly monitors whether external managers are fully integrating ESG factors into their investment management process and, if necessary, encourages them to step up their activity. Our periodic assessments of external managers’ ESG initiatives — in terms of their companies, personnel, research, and investment processes — means ESG plays a key role in our manager selection.

The Portfolio Solutions Group operates an inter-regional ESG Working Group for managing external managers, comprising members from our Tokyo, Singapore, and New York offices. The working group is led by Naoyuki Murota of the Portfolio Solutions Group in Tokyo. It conducts research into the rapid changes that are taking place in ESG



Members of the Portfolio Solutions Group

investment and keeps up to date with the evolution of ESG investment requirements.

Based on this research, we regularly review our ESG evaluation framework to properly reflect ESG requirements for the asset management industry. We include those considerations in our assessments of external managers and use them in our discussions with these managers to ensure that ESG is

integrated effectively into their investment activities.

Updating our ESG evaluation framework

Attention to ESG factors is increasing year by year in the asset management industry, especially concerning climate change. There is an urgent need to accelerate the transition towards global net-zero emissions and we firmly believe asset managers need to be at

Portfolio Solutions Group

“We believe that engaging with investee companies and exercising voting rights are powerful tools for us to fulfil our stewardship obligations”

the forefront in driving that change. In order to better evaluate how external managers are supporting the transition, we revised our ESG Evaluation Framework and ESG Due Diligence Questionnaire again in 2023. We will continue to review and update these documents to improve our ESG evaluation process.

Engagement and voting

We believe that engaging with investee companies and exercising voting rights are powerful tools for us to fulfil our stewardship obligations. For funds managed under discretionary investment contracts, we exercise voting rights in line with Nikko AM's proxy voting policy, rather than delegating them to external managers. When exercising our voting rights, we refer to recommendations from Institutional Shareholder Services, a proxy voting adviser, and conduct stringent checks on proposals, such as those relating to

the remuneration of senior staff, the composition of boards, and the reappointments of directors.

Improving external managers' ESG integration

We aim for uniformly high standards but, ultimately, each external manager integrates ESG factors into their investment process to differing degrees. Where integration is found to be inadequate, managers are encouraged to raise their standards.

For example, we saw that one external manager was investing in fast-growing small-cap stocks that did not disclose sufficient ESG-related information, particularly environmental data. As a result of our repeated engagements and advice on ESG processes, the manager started to deepen its understanding of ESG issues, leading to



Members of the Manager Research Team

the creation of its own ESG checklist and improved ESG research to feed into their stock selection process. In 2023, it went further. Where the original checklist items were merely rated with a “yes” or “no”, it has now established a more precise survey with a five-level rating system.

Some other external managers are beginning to integrate ESG factors explicitly into their investment processes, while yet others with partial ESG integration have introduced self-developed models and started to take into account how climate change will affect the financial performance of their investments.

ESG integration is developing fast among our external managers, but we will continue to make sure it becomes a universal and effective part of their investment processes. ●

Stewardship — Engagement on ESG topics

Helping companies stay on a sustainable path

As a leading asset manager, we recognise that engagement and stewardship are important parts of our fiduciary duty, particularly with reference to sustainability.

We engage with our investee companies on their strategy, operations, and financial decisions, as well as their performance and management with respect to material ESG issues.

Investment teams engage with companies on relevant ESG issues, both before and during the period of investment. Our Global Sustainable Investment team also participates in industry-led engagements through collective investor groups, such as the Asia Investor Group on Climate Change and Climate Action 100+. Information from these engagements is shared with the respective investment teams. The analysts and portfolio managers in our investment teams are ultimately responsible for assessing the ESG risks and opportunities that inform portfolio

buy and sell decisions and for engaging with the companies they cover.

Three overarching principles guide our engagements:

Materiality: Our engagements are driven by material factors, especially ESG factors

Intentionality: We establish clear objectives and expectations for our engagements

Effectiveness: We engage in a constructive, positive, and pragmatic manner



Members of the Global Sustainable Investment Team

Within those principles, several key factors decide how we prioritise companies for engagement, which can differ by region and asset class:

- the size of our holding and/or our influence
- a poor ESG score or the scope for improvement
- the nature of an issue and/or the severity of a breach
- a voting event
- our ESG thematic priorities
- the client's priorities
- the company's openness to dialogue

The details of our engagement approach are outlined in our [Group Engagement and Stewardship Strategy](#)[↗]. It formalises our engagement and stewardship activities, ensures unity across regions, and allows us to share with the market our global engagement commitments. Examples of our engagement can be found in the case studies that follow and in other sections of this report. ●

Stewardship — Engagement case studies

Case study 1

Encouraging a major Korean steel maker to do more for nature (Asian Fixed Income and Asian Equity)

POSCO Holdings is a South Korean group involved in businesses ranging from steel to electric vehicle battery materials. It is held in our Asian Fixed Income portfolios.

Issue

POSCO Holdings has laid out a carbon-reduction roadmap to reach net zero by 2050. Nevertheless, the group's short-term targets fail to meet the ambitions of the Science Based Targets initiative (SBTi), a UN-backed group pushing companies to adopt a clearly defined path towards reducing emissions in line with the Paris Agreement.

Also, the group's listed subsidiary POSCO International has been criticised for contributing to deforestation in New Guinea. It has since announced a policy of "No Deforestation, No Peatland, No Exploitation". But it has not committed to making the disclosures recommended by the Taskforce on Nature-related Financial Disclosures (TNFD), a corporate initiative that promotes doing business in a more nature-friendly way.

Therefore, we wanted to engage with POSCO Holdings on its carbon-reduction strategy. Also, through the holding company, we planned to push for more of their subsidiaries to sign up to SBTi, and specifically for POSCO International to sign up to TNFD. We believe these moves would clearly demonstrate the group's commitment to meeting international sustainability targets. The chart shows the ESG issues our investment team considered crucial to its analysis.

Activity

Representatives of our Asian Fixed Income team and an Asia ex-Japan ESG analyst met POSCO Holdings in September 2023 to discuss several key ESG issues, focusing on the Environment pillar. Discussions included POSCO International's biodiversity management practices and whether it would sign up to the TNFD, as well as the group's intention to have more subsidiaries sign up to the SBTi.

The POSCO representatives understood our concerns about POSCO International not being a signatory to TNFD while the group was. However, they said POSCO International would report on how its operations are adhering to best practices on safeguarding biodiversity for 2023. The company has hired a biodiversity expert and will start reporting on biodiversity on an annual basis.

We also learned that, as part of its plans to reduce carbon intensity, POSCO Holdings is looking to implement hydrogen reduction steelmaking, which uses 100% hydrogen to make direct reduced iron. The process produces no carbon emissions. The group is also shifting its fuel supplies from coal to natural gas, which will generate 30% less carbon emissions compared with current steel production.

Outcome

We will continue to review the group's overall ESG progress and monitor its carbon reduction strategy. For POSCO International, we will continue to monitor how they are mitigating its biodiversity risks, including if it signs up to TNFD.

POSCO Materiality

Environment High
Carbon Emission, Opportunities in Clean Tech

Social Moderate
Health & Safety, Product Safety & Quality

Governance High
Ownership, Corruption & Instability, Board

Case study 2

Sustained investor pressure pays off at a major Asian property group (Asian Fixed Income)

This large, privately owned fund manager specialises in real estate, with operations spanning China, Japan, and Europe. Although we sold the publicly listed bonds in 2022, we continue to monitor the company.

Issue

The company has traditionally had minimal green building targets, with only a small portion of its portfolio classified as sustainable. As a private company, it is subject to a significantly lower standard of governance than its publicly listed rivals, with fewer restrictions on related-party transactions and controls over dividend policy. It also has minimal reporting requirements.



Activity

Although we are no longer bondholders, we are keen to see the company improve its green credentials so we can invest in it again in the future. Therefore, we wanted to engage with management to see if it would increase green building representation in its portfolio. We also wanted it to improve its financial disclosures and transparency.

In May 2021, during a green bond group investor call, we pointed out that the proportion of green building assets in its portfolio was low. However, the

company said it had no specific targets for improving the portfolio's sustainability. We also argued that a proposal to introduce limits on equity dividends to protect bondholders would be ineffective given that, as a private company, it could easily pass cash around the group in the form of inter-company loans.

In May and August 2022, we engaged with the firm to push for greater disclosure, particularly in relation to significant inter-company loans and related-party transactions over the previous year. However, management was only willing to disclose minimal details, stating that more would be revealed at a later date. We felt this was not acceptable, given the size, opaqueness, and impact of these transactions, so we sold the bonds shortly afterwards.

Despite no longer being an investor, we engaged with the company in 2023. We gave our support for a new related-party transactions committee that was set up in October 2022 in response to pressure from investors, but we continued to urge the firm to introduce stronger controls on related-party transactions.

Outcome

We believe that our sustained pressure has led to steady progress at the company. In 2021, after listening to our criticisms, it modified the terms of its bond structure to ensure inter-company loans were also covered by the limits on dividends. The following year, the company announced its first environmental target, namely that all new property developments should meet the requirements of the GRESB, an internationally recognised standard for ESG performance in real estate and real assets. Then, in 2023, following the establishment of the new related-party transactions committee, we learned that the company had significantly reduced related-party transactions.

We will continue to monitor the company to determine whether we want to invest again in the future.

Stewardship — Engagement case studies

Case study 3

Paving the way to lower emissions at India's biggest cement company (Asian Equity)

Our 2023 Sustainability Report highlighted our collaborative engagement with UltraTech Cement, one of the world's biggest cement companies. It illustrated our support for [Climate Action 100+](#) (CA100+), an investor-led initiative that calls on the world's largest corporate greenhouse gas emitters to take action on climate change. In 2023, we saw further positive developments.

Issue

UltraTech Cement (UltraTech) is one of 170 companies targeted by CA100+. We hold it in our Asian Equity and Asian Fixed Income portfolios. It operates in a sector where emissions are hard to abate.

The company has been proactive in addressing the transition to zero carbon. For instance, it is a signatory to the Global Cement and Concrete Association (GCCA) Climate Ambition 2050 and is committed to the GCCA's Net Zero Concrete Roadmap. It also has made commitments to EP100 and RE100, two lobby groups promoting the move to zero carbon.

Activity

In November 2023, we had another collaborative engagement call with UltraTech. Our discussion centred on the company's decarbonisation efforts. Analysts from both our Asian Equity and Asian Fixed Income teams have been participating in the collaborative engagement.

The investor group questioned UltraTech as to why its 2050 net zero carbon target is not validated by the Science Based Targets initiative (SBTi). UltraTech said it would look at aligning with the SBTi but was conscious that it needed to balance the more demanding emissions target against the cement requirements of customers.

The investor group wanted to learn the next steps in UltraTech's plans to scale up its use of greener power sources to meet its target of raising the proportion of renewables from 19% in 2023 to 100% of electricity requirements by 2050. To reduce its reliance on thermal coal, UltraTech is developing a number of solar energy farms. It has also signed renewable energy power purchase agreements and is looking at introducing waste heat recovery systems.

At the time of our meeting, UltraTech said its power consumption from renewables was closer to 30%, well above its goal of 19% for 2023. By 2026, the company aims to raise that to between 50% and 60%, using both renewables and heat recovery. UltraTech's decarbonisation roadmap is not solely reliant on renewables, in part because several regions of India face implementation problems caused by the limited availability of renewable power. As a result, the company's decarbonisation strategy covers three main areas:

- improving operational efficiency, notably in clinker processes (raw material extraction)
- diversifying the business
- reducing dependency on thermal fuel, which amounts to 30% of company emissions

Outcome

Representatives from the company responded well to the call and asked for our feedback on its progress, as well as our thoughts on areas where we think it can improve. We will continue to engage with UltraTech and review how it further develops its decarbonisation strategy.



UltraTech is developing a number of solar energy farms

Case study 4

Flexing our muscles with Nestlé and Coca-Cola to address plastic pollution (Global Equity)

Issue

Food and drinks giants Nestlé and Coca-Cola have both been accused of being among the largest plastic polluters in the world by the Ellen MacArthur Foundation, a pressure group promoting the circular economy. This is despite both companies being strategic partners of the foundation and signatories of the Business Coalition for a Global Plastics Treaty, a group seeking a UN treaty on plastics.

Activity

The Global Equity team wanted to follow up on issues specific to each company.

- Coca-Cola: In May 2023, a report from Oceana — a lobby group dedicated to protecting the oceans — pointed out that Coca-Cola was not going to meet its target of having 25% of its products sold in reusable packaging by 2030. In fact, the share fell from 16% to 14% in 2022.
- Nestlé: In early 2023, MSCI moved Nestlé's rating on plastic packaging pollution from "moderate" to "severe" due to a change in MSCI's rating methodology. In July, it responded to a controversy related to Nestlé's palm oil sourcing and deforestation activities in Indonesia by moving its rating from "moderate" to "very severe".

We see the impact of both Coca-Cola and Nestlé on biodiversity as a material risk. We wrote to Coca-Cola in June 2023 asking it to comment on its progress in meeting reusable packaging targets and other commitments. We did not get a response.

In June, we had a constructive discussion with representatives from Nestlé about the company's plastics targets and concerns over the lack of regulation and infrastructure in most countries to support progress in this area. We also probed the company on what measures it has taken over the past few years to monitor its supply chain and address deforestation.

Despite both companies adopting sector-leading targets, the total amount of plastic they produce continues to increase every year. Their current targets are focused on changes in the use of material, such as reducing the weight and changing the design of packaging. Neither company has a target to reduce single-use plastics.

Considering the companies' lack of meaningful plans to reduce the amount of plastic waste they are responsible for creating and the absence of a response from Coca-Cola, we looked to other means of engagement to escalate our concerns. As a result, during the third quarter of 2023, we decided:

- to publicly support a call by investors for intensive users of plastic packaging to take urgent action to reduce plastics. It is an initiative coordinated by VBDO, a Dutch sustainable investor network, which has set out clear expectations for companies such as Coca-Cola and Nestlé, including reduction targets for single-use plastics. The collaboration also gave us access to a new engagement channel with Coca-Cola and Nestlé.
- to become an investor participant in Nature Action 100 (NA100), a new investor-led initiative that supports nature and combats biodiversity loss. We asked to participate in the direct engagement group with Nestlé. However, given our expertise in Asia, we were instead allocated companies in that region (and Coca-Cola is unfortunately not among NA100's target companies).

Outcome

It is still just the beginning of our efforts to drive improvements at Nestlé and Coca-Cola. Our influence is limited by being a relatively small investor in both companies. However, by joining the two new investor-led coalitions, we hope that we will gain better access to management and increase our leverage to effect change. We will monitor both firms' progress against biodiversity targets to ensure they stay on track. We will also consider using our voting rights to escalate any concerns at the companies' next AGMs.

Stewardship — Proxy voting on ESG topics

Good stewardship requires active voting

Proxy voting is a key part of being a good steward of our clients' money. We take great care to ensure that our voting serves the interests of both companies and clients, particularly in sustainability matters, where we are guided by ESG principles.

Proxy voting is an integral part of our active stewardship approach and we endeavour to vote all shares where we have voting authority. We believe voting is an important mechanism for holding boards and management teams to account, especially in passive strategies, when selling the stock is not always a feasible option. In our fixed income investments, where we do not have the voting rights that are available to shareholders, we aim to be active owners by engaging with the issuer on matters of concern.

The [Nikko AM Group Proxy Voting Policy](#) establishes our company-wide approach to proxy voting decisions. This policy establishes the principles we use for determining how we exercise our voting rights at the group level.

Implementation of the group-wide policy is undertaken by our regional offices, which have the freedom to interpret the principles to suit local conditions.

As a result, there are some variations in how our voting and wider stewardship activities are implemented across the group. For example, in our Global Equity strategy in the UK, we have a supplemental proxy voting policy for addressing environmental and social principles and, in Japan, we have a separate policy, Standards for Exercising Voting Rights on Japanese Stocks.

Our detailed Guidelines on Exercising Voting Rights form part of the company-wide proxy voting policy. Some of the considerations it covers include:

Breakdown of voting by region, January to December 2023

Region of company incorporation	Number of shareholder meetings	Number of resolutions	Votes for management (Number)	Votes for management (%)	Votes against management (Number)	Votes against management (%)
APAC ex. Japan	2,502	18,161	15,816	87.1%	2,345	12.9%
EMEA	1,080	18,149	16,574	91.3%	1,575	8.7%
Japan	2,405	23,939	19,883	83.1%	4,056	16.9%
Latin America	192	1,884	1,672	88.7%	212	11.3%
North America	1,037	12,338	11,340	91.9%	998	8.1%
Total	7,216	74,471	65,285	87.7%	9,186	12.3%

- shareholder return
- the separation of executive and supervisory functions
- the size and composition of the company's board of directors
- the auditors
- executive compensation systems
- new share issuance
- company control and takeover defences

A summary of our firm-wide voting records for 2023 is listed in the table. We analysed 7,216 shareholder meetings and voted on 74,471 resolutions. Overall, across all regions, we voted against management on 12% of resolutions. The most common reason for voting against management was in relation to the election of directors.

We use Institutional Shareholder Services (ISS) to execute our proxy voting decisions. ISS also provides research and customised voting recommendations based on our proxy voting policies. The portfolio manager or analyst takes a nuanced approach to reviewing the research and recommendation from ISS, supplementing it with our own proprietary research on the company. Ultimately, it is the investment teams that are responsible for the final voting decisions. Examples of our voting activities can be found in the case studies that follow. ●

Stewardship — Proxy voting case studies

Case study 1

Voting for greater dividends and diversity at a Japanese media group (Japan Equity)



Issue

We were dissatisfied with the absence of women on the board and the low level of dividends at this large Japanese media group, held in our Japan Equity portfolio.

Activity

To register our disapproval, we voted against the directors at the shareholders' meeting in June 2022 and engaged with the company that October to encourage it to increase the pay-out ratio and appoint a female director. We warned their representatives that we would again oppose the company's proposals to elect directors at the next AGM if there was no action.

Outcome

At the shareholders' meeting in June 2023, we voted in favour of the directors as the payout ratio now met our requirements and a female director had been newly appointed. The vote passed with 88% in favour.

Case study 2

Banking on better green targets at a large Japanese financial services group (Japan Equity)

Issue

We hold this large Japanese banking and financial services group in our Japan Equity portfolio. A shareholder resolution on climate change was proposed at the 2023 AGM by three non-governmental environmental organisations: Kiko Network, Market Forces, and Rainforest Action Network. The resolution stated that the group's significant involvement in carbon-intensive sectors exposed it to substantial financial risk but that it had not made sufficient efforts towards achieving zero emissions by 2050. It called on the group to set suitable zero-emission targets.

Activity

The group said it had been "earnestly working" to address climate change, including by:

- committing itself to achieving net zero carbon emissions across the group by 2030 and in its loan and investment portfolio by 2050
- setting reduction targets for 2030 for its lending to the power, oil, gas, and coal sectors, aimed at achieving the Paris Agreement's 1.5°C reduction goal

Therefore, representatives said they believed they had already made the commitments required by the shareholder proposal. It also laid out the group's plans for further measures:

- In 2023, it would set emissions reduction targets for its lending to the steel and automobile sectors
- By October 2024, it would set targets for lending to sectors accounting for roughly 90% of total global greenhouse gas emissions
- By 2030, it would end lending to thermal coal mining in member countries of the Organization for Economic Co-operation and Development and by 2040 for non-members

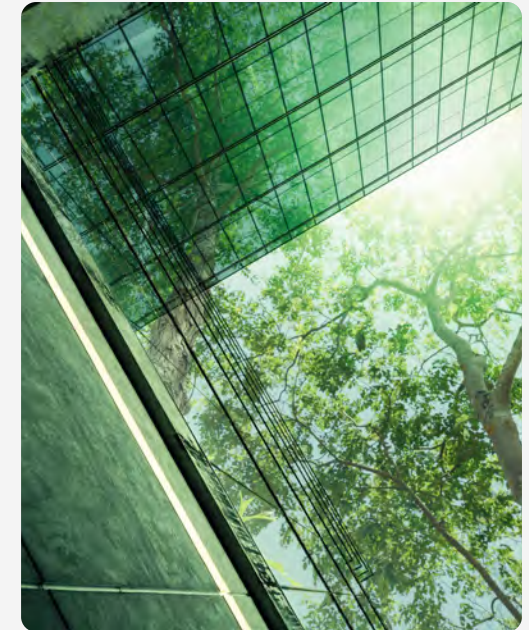
- By 2040, it would end loans for coal power generation

In its report to the Japan Equity team, Institutional Shareholder Services (ISS), our proxy voting agent, suggested that some of the shareholder criticisms were fair. However, it suggested their concerns were more than offset by actions the group had taken. ISS did not recommend supporting the shareholder proposal.

Outcome

We agreed with ISS and voted against the resolution. We acknowledged the merits of the proponents' case but noted that the group had committed itself to enhancing disclosure and releasing new carbon reduction targets for its lending. We believed the company's activities were in line with global frameworks and, in our opinion, already satisfied the demands made by the shareholders. In the vote, the resolution failed, with only 27% support.

Although we opposed this proposal, we have continued to impress on the company the key role of financial institutions in controlling emissions and the importance of its further engagement in this area. We intend to continue applying pressure on this firm to support the transition to a decarbonised society.



Stewardship — Proxy voting case studies

Case study 3

Attempting to strengthen human rights policy at Microsoft (Global Equity)

Issue

Microsoft is held in our Global Equity portfolio. In May 2023, plans by the software giant to open data centres in countries with questionable human rights records, such as Saudi Arabia, provoked a backlash from a number of human rights groups. As a result, certain shareholders submitted a proposal to the 2023 annual shareholders' meeting requesting that the company prepare a report on its human rights due diligence process for high-risk countries.

The proponents expressed particular concern over the plans to expand data centres in locations shown by the US State Department's Country Reports on Human Rights Practices to have poor human rights records. They noted, for instance, that Saudi Arabia's cloud computing laws and regulations are not aligned with international human rights standards, undermine the right to privacy, and allow state surveillance.

Activity

ISS recommended that we vote in favour of the resolution. We agreed with its assessment that the resolution addressed legitimate concerns over possible complicity in human rights violations, which could increase reputational, legal, and workforce risks for the company. ISS added that, as the company builds more data centres, additional disclosures would improve shareholders' evaluation of the company's management of these risks.

Outcome

Given our general agreement with these arguments, we voted in line with the ISS recommendation. However, the resolution failed to pass, with only 33.6% of votes in favour.

Case study 4

Voting to clean up deforestation policy at Procter & Gamble (Global Equity)

Issue

Procter & Gamble (P&G), one of the world's biggest consumer goods companies, is held in our Global Equity portfolio. In May 2023, the company generated controversy by abandoning a 2020 pledge not to buy wood pulp from degraded forests. As one of the biggest buyers of wood pulp, this drew widespread criticism from green lobby groups, investors, and others.

The company went ahead with the move despite a resolution on deforestation that passed at the 2020 AGM with the support of more than two-thirds of shareholders. That resolution had noted the lack of any comprehensive plan from P&G to reduce its exposure to deforestation and forest degradation. It requested that P&G issue a report assessing its efforts to eliminate deforestation and the degradation of forests in its supply chains. These failings were addressed by company policies in 2021, so the reversal on the forest degradation pledge was a clear step backwards.

Outcome

To show our displeasure, we voted against the re-election of the chair of the Governance & Public Responsibility Committee to hold her accountable for overseeing the removal of the pledge. However, the vote passed with 89.4% of shares voting for her re-election.



Stewardship — Collaborative Engagement

Careful collaboration starts to pay dividends

Our engagement with companies is an important way for us to encourage change. However, there are times when our voice alone is not enough. Collaborative engagement with like-minded investors can increase shareholders' influence on companies' corporate behaviour and ESG performance.

While these collective initiatives are becoming more common in many regions, collaborative engagement is still in relatively uncharted territory in certain parts of the world. For example, in some countries in Asia, one-to-one engagement can be viewed as more constructive and culturally appropriate as it is a way to build trust.

Japan accounts for the majority of our equity assets and we are mindful that collaborative engagement in the country can be more difficult due to local regulations covering reporting requirements. Therefore, we only participate in collaborative engagement after careful consideration. Recently, we have been engaging as part of a consultation initiative organised by the Japan Stewardship Forum about the current state of stewardship regulation. We hope that the changes we anticipate will be made following these

discussions and will allow investors to engage with companies more freely in the future.

Most of our collaborative engagements are the result of our membership in industry-led initiatives. These include:

- The Asian Utilities Engagement Programme of the Asia Investment Group on Climate Change (AUPE & AIGCC)
- Carbon Disclosure Project (CDP)
- Climate Action 100+ (CA100+)
- Global Investor Statement to Governments on the Climate Crisis
- International Corporate Governance Network
- The Investor Agenda
- Nature Action 100 (NA100)
- Net Zero Asset Managers initiative
- Principles of Responsible Investment
- Task Force on Climate-related Financial Disclosures

Strength in numbers

In 2023, we increased our active participation in various collaborative engagements. This is illustrated by the case studies elsewhere in this report. For example, we have continued our collaborative engagement under industry initiatives such as CA100+ ("Paving the way to lower emissions at India's biggest cement company" on p. 41) and the AIGCC ("Powering change through engagement" on p. 28). We also publicly supported an initiative led by VBDO, the Dutch Association of Investors for Sustainable Development, and became an investor participant in NA100 ("Flexing our muscles with Nestlé and Coca-Cola to address plastic pollution" on p. 41).

For several years, we have been a member of CDP, an international group aiming to improve climate-related disclosures. We have worked through two of its initiatives, the Non-Disclosure Campaign (NDC) and the Science-Based Targets initiative. In 2023, we served as the lead investor in engaging two companies under the NDC. This included a call with a renewable power generation company in Japan. We were happy to see that this company subsequently disclosed its carbon emissions data for the first time.

Until recently, most of our engagement has been restricted to a single asset class. However, in some regions we have started to combine our engagement activities, sending representatives from both equity and fixed income teams to those companies where we have both equity and fixed income holdings as a way to increase our leverage. (For example, "Encouraging a major Korean steel maker to do more for nature" on p. 40 and "Paving the way to lower emissions at India's biggest cement company", mentioned above.)

Our criteria for collaboration

The decision to join with other shareholders to achieve a common cause is generally based on the following criteria:

- whether the initiative is consistent with our Group Engagement and Stewardship Strategy as well as the particular issues we want raised
- whether the initiative is likely to be successful, taking into account, for instance, past results and other participants in the initiative
- whether the cost, time, and effort involved is commensurate with the anticipated effect
- whether the organisation sponsoring the initiative is one with which we want to be associated ●

Promoting ESG

Spreading the word

We believe that being a good corporate citizen includes sharing our knowledge while also being willing to learn from the wisdom of others in the industry. With that in mind, we participated in a number of events relating to sustainability in 2023.

One of the major themes for us throughout the year was the importance of investing in human capital for better investment returns. An event we participated in that had a focus on this theme was a study group on human capital management led by Professor Takaaki Hoda of Keio University and Satoshi Sasaki, Principal Researcher at Persol Research and Consulting. Nikko AM's Head of Investment Technology Fund Management, Masayuki Teraguchi, outlined his research, which included findings on how ESG factors affect share prices.

He showed that investing in human capital effectively increases labour productivity over an extended period, and companies that maintain management discipline while skilfully and aggressively investing in people tend to be more likely to achieve higher valuations. This is supported by recent studies that

have shown companies that take diversity and inclusion seriously are more competitive.

Nikko AM's second speaker of the day, Masahiko Komatsu, Co-Head of the Japan Sustainable Investment Department, discussed the wider impact of good human capital practices. He argued that — considering Japan's shift from a long period of deflation to an inflationary economy, an ageing population with a declining birthrate, an increase in capital investment, and a labour shortage — the skilful management of human capital will determine the sustainable growth of companies.

Another event on the importance of human capital management was the Global Fiduciary Symposium, which brought together representatives from pension funds, endowments, and asset managers. Masayuki appeared on a



Masayuki Teraguchi, Investment Technology Fund Management Team

panel discussing human capital management in the Japanese equity market. He gave details about our analysis showing that human capital is the ESG factor with the highest correlation to equity returns among companies on Japan's TOPIX 500 Index.

In November, we took our message about the value of investing in people to four of Japan's largest cities: Tokyo, Osaka, Nagoya,

“One of the major themes for us throughout the year was the importance of investing in human capital for better investment returns”

and Fukuoka. Yasushi Kato of the Equity Fund Management Department was invited to take part in a seminar series titled “Managing Pension Fund Assets in a World of Inflation and Rising Interest Rates — Securing Returns and Managing Risk in a Changing Environment”, which was organised by our sister company Sumitomo Mitsui Trust Bank.

The premise of the series was that the key to generating additional returns in the current circumstances is to focus on non-financial assets and human capital. Yasushi outlined recent trends in human capital investment by Japanese companies and told the audience about our Japanese Equity Human Capital Empowerment Strategy, which focuses on firms that are committed to investing in their people. A total of 700 representatives, mostly from pension funds, attended the event. We were very pleased with the positive feedback we received about Yasushi's presentation.

Promoting ESG

“we are aiming to bring the highest global standards to Asia, using both top-down and bottom-up approaches”

Apart from the theme of human capital, we were involved in events on other topics relating more generally to sustainability. In the summer, Natalia Rajewska, our Global Head of Sustainable Investment, spoke at a press gathering organised by Asia Research and Engagement, a non-profit-making industry pressure group, called “Catalysing Decarbonisation in Asia”. She explained how Nikko AM integrates sustainability into the investment processes, addresses climate change and other aspects of ESG, as well as how we overcome problems with ESG data and the importance of tailoring ESG analysis to Asian portfolios. Twelve Asian journalists from media groups such as AsianInvestor and The Business Times attended the event.

In October, Natalia spoke on the “Bridging the ESG Skills Gap” panel at the PRI in Person conference in Tokyo. She said that we are aiming to bring the highest global standards to Asia, using both top-down and bottom-up approaches. In the same month, we showcased our sustainable investment capabilities at the Morningstar Sustainable Investing Summit in Amsterdam, with representatives from Nikko AM speaking about Green Bonds, Japan Value Equity, Global Equity, and Asia ex. Japan Equity.

These are only some examples of our speaking engagements related to sustainability in 2023. We will continue to look for opportunities to share our knowledge on this important subject in the years to come. ●



■ Natalia Rajewska, Global Head of Sustainable Investment, speaking at the Asia Research and Engagement event

Corporate Sustainability

 A Nikko AM Europe employee abseiling at Forth Bridge, Scotland, to fundraise for charity

A message from Yutaka Nishida, Executive Chairman

Honing our ability to listen

Every two years, Nikko AM conducts an employee engagement survey, and we carried out our latest survey in 2023. We ask all employees about a range of important topics, and their responses help the firm to identify our strengths as well as areas where we need to improve.

The results showed an improvement in how employees evaluate communication from senior management. I believe this is because we have placed an increased focus on providing a clearer picture of our firm's long-term business strategy to our employees.

We also found that employee satisfaction with their work-life balance was high. This reflects our commitment to maintaining a flexible work environment for every one of our employees, enabling them to maximise their abilities.

However, I feel there is one area where both management and employees have room to improve: our ability to listen.

It goes without saying that an investment management company must fulfil its fiduciary duty of managing and growing clients' assets, and it also needs to earn society's respect through its actions as a good corporate citizen. To do this most effectively, it is crucial that we know how to listen to others well. We must listen carefully to our clients. We also need to listen attentively to all our other stakeholders — including our shareholders, employees, service providers, and business partners. This is how we will remain a sustainable business.

The prerequisite for attentive listening is an open environment where we respect each other's differences and where people feel they can speak up. This means we have to foster a culture that embraces diversity. I have no doubt that diversity is a source of innovation and competitiveness. As employees come to a deeper understanding of the positive benefits

of diversity for our company — and, by extension, society — this culture will take root.

When it comes to diversity at Nikko AM, in the area of women's career advancement, I am very pleased to see that the percentage of women in management positions is moving closer towards our 30% by 2030 goal. But this is only an interim milestone. In the years beyond, we will continue our efforts to promote DEI — not only in terms of gender, but also race, age, disability, sexual orientation, and all other aspects.

Also, as the number of people hired after the pandemic rises, it will become increasingly important for us to ensure we can strike the right balance between maintaining flexible

"I feel there is one area where both management and employees have room to improve: our ability to listen"



workstyles and the human connections that are created through face-to-face communication, which includes listening to one another.

As each employee gains a clearer sense of how they can contribute to the company's growth and finds this optimal balance, it will improve the sustainability of the organisation over the long run and help us navigate the challenges we face.

By further honing our ability to listen carefully to the voices of our diverse employees and by advancing our DEI efforts, I am confident our management of the company will keep improving. ●

Yutaka Nishida
Executive Chairman

Environment

Striving to shrink our carbon footprint

Nikko AM Group greenhouse gas emissions

With the help of a UK-based third-party consultant, Carbon Footprint Limited, we measure greenhouse gas (GHG) emissions from the Nikko AM Group's corporate operations, based on firm-wide energy consumption and transportation data.

The assessment covers our direct and indirect emissions from our operations in Scope 1 (i.e. fuel combustion) and Scope 2 (i.e. consumption of purchased electricity), as well as certain indirect emissions in Scope 3 (e.g. business travel, as well as activities not included in scopes 1 or 2 that require fuel and energy use).

We have set a goal to reduce our GHG emissions from corporate operations by 40% per employee by the year 2030, compared with 2019 levels.

Scope	Activity	2019 tonnes CO ₂ e	2020 tonnes CO ₂ e	2021 tonnes CO ₂ e	2022 tonnes CO ₂ e	2023 tonnes CO ₂ e	% change from Baseline Year
Scope 1	Site gas	8.6	8.0	10.0	8.5	8.5	-0.1%
Scope 2	Electricity generation	785.3	624.3	502.0	259.1	144.2	-81.6%
	District cooling	N/A	N/A	N/A	N/A	43.7	N/A
Scope 3	Home-workers	N/A	352.6	446.6	442.8	404.3	N/A
	Flights	4,491.7	755.8	95.2	802.5	1,412.8	-68.5%
	Rail travel	95.3	32.5	28.9	76.2	48.3	-49.3%
	Electricity transmission & distribution	40.1	29.4	24.6	14.7	5.8	-85.6%
	District cooling Electricity transmission & distribution	N/A	N/A	N/A	N/A	1.1	N/A
	Taxi travel	23.9	10.8	12.8	42.7	18.8	-21.4%
	Non-controlled site electricity	N/A	5.9	4.8	5.2	6.2	N/A
	Hire cars	18.6	3.6	2.5	6.3	6.7	-64.2%
	Employee owned car travel (grey fleet)	4.2	N/A	N/A	0.2	1.3	N/A
	Bus travel	1.9	0.0	N/A	0.0	0.0	N/A
Scope 3 subtotal		4,675.7	1,190.5	615.3	1,390.5	1,905.2	-59.3%
Total tonnes of CO ₂ e		5,469.5	1,822.8	1,127.3	1,658.1	2,101.6	-61.6%
Tonnes of CO ₂ e per employee		5.9	2.1	1.2	1.2	2.1	-63.9%

For 2023, our total market-based carbon footprint — which recognises a reduced emission factor for green energy contracts — was 2,101.56t CO₂e (2.11t CO₂e per employee) compared with 1,658.11t CO₂e in 2022 (1.21t CO₂e per employee). Compared with our baseline year of 2019, when we generated 5,469.5t CO₂e (5.9t CO₂e per employee), this

represents a 63.9% reduction in emissions per employee.

Business flights accounted for 67% of the total carbon footprint, while electricity usage from our offices and remote-working employees' homes accounted for 7% and 19%, respectively.

Compared with 2022, on-site electricity generation decreased, mainly due to a green electricity contract at our Tokyo office, which was in effect for the full year. Also, there was a marked increase in emissions from business flights in 2023. However, this was expected as global travel was still somewhat

limited in 2022 due to the pandemic.

Carbon offset projects

We offset greenhouse gas emissions from our operations through the purchase of an equivalent amount of certified voluntary carbon credits from projects that help capture or

reduce carbon emissions from the atmosphere.

We are aware of the scepticism over carbon offsets and recognise that carbon credits are not a long-term solution. Reducing the absolute reductions of our operation carbon footprint is our ultimate goal.

Environment

Reducing GHG emissions

Business travel is crucial for our operations, but we have implemented steps to raise awareness among employees about its impact on the environment.

Since 2022, everyone making overseas travel requests is required to include the carbon footprint of their international flights on their application forms. This policy helps the employees taking the flights and their managers to understand how much each flight adds to our firm's total carbon footprint. The aim of this initiative is to encourage them to consider reducing the number of people travelling, bundling more meetings into a single trip, or planning routes more efficiently.

Every quarter, we take the overseas travel data for each region and post it on our intranet platform for all employees to see. We plan to add domestic flights to this visualisation in 2024.

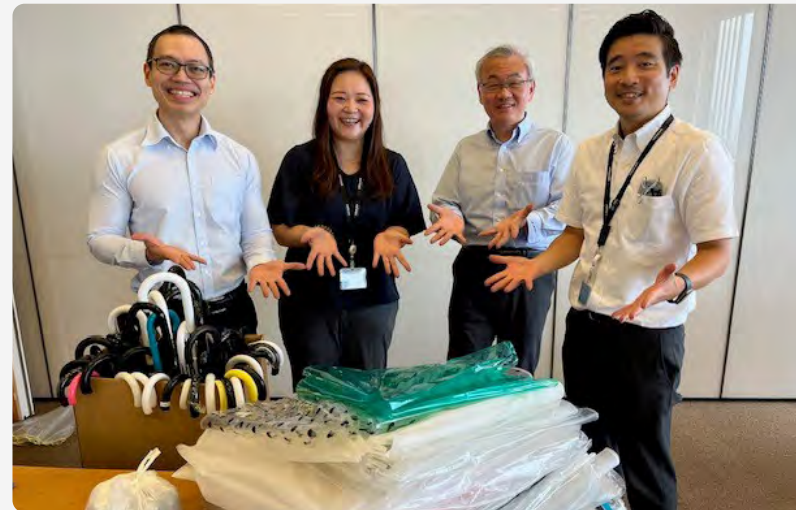
Environmental initiatives at the Tokyo office

At the Tokyo office, as part of our commitment to environmental sustainability, we stopped giving visitors water in plastic bottles in 2023 and now offer them water in small eco-friendly paper cartons.

Throughout 2023, the Tokyo office collected used items from employees to be upcycled or used for various social initiatives. Approximately 13,000 plastic folders were collected and sent to the stationery company ASKUL to be recycled into pellets, which are used to create materials for the firm's recycled product line. Also, volunteers removed the plastic from plastic umbrellas left at the office to be reprocessed into stylish fashion items by PLASTICITY, a brand specialising in upcycling.

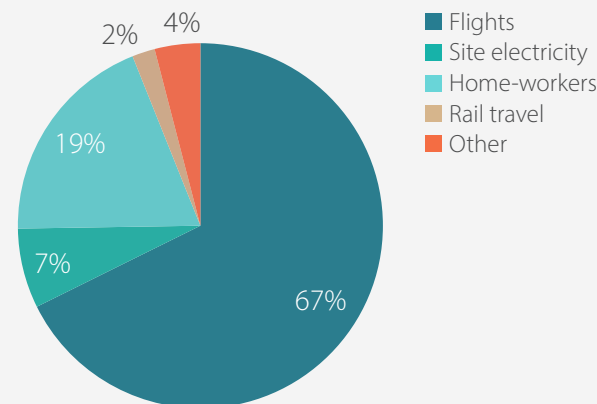
Funds from the sale of about 280 used books donated by our colleagues were given to social charities such as the food bank Second Harvest Japan and The Big Issue Japan Foundation, an organisation supporting the homeless. In addition, over 980 unused postcards were donated to the Japan Committee of Vaccines for the World's Children, which paid for the delivery of vaccines and syringes for more than 115 children in developing countries.

We will continue to collaborate with our sustainability groups and internal stakeholders to come up with ideas — big or small — to contribute to the sustainability of our environment and our community. ●



Volunteers removed the plastic from plastic umbrellas to be reprocessed into stylish fashion items

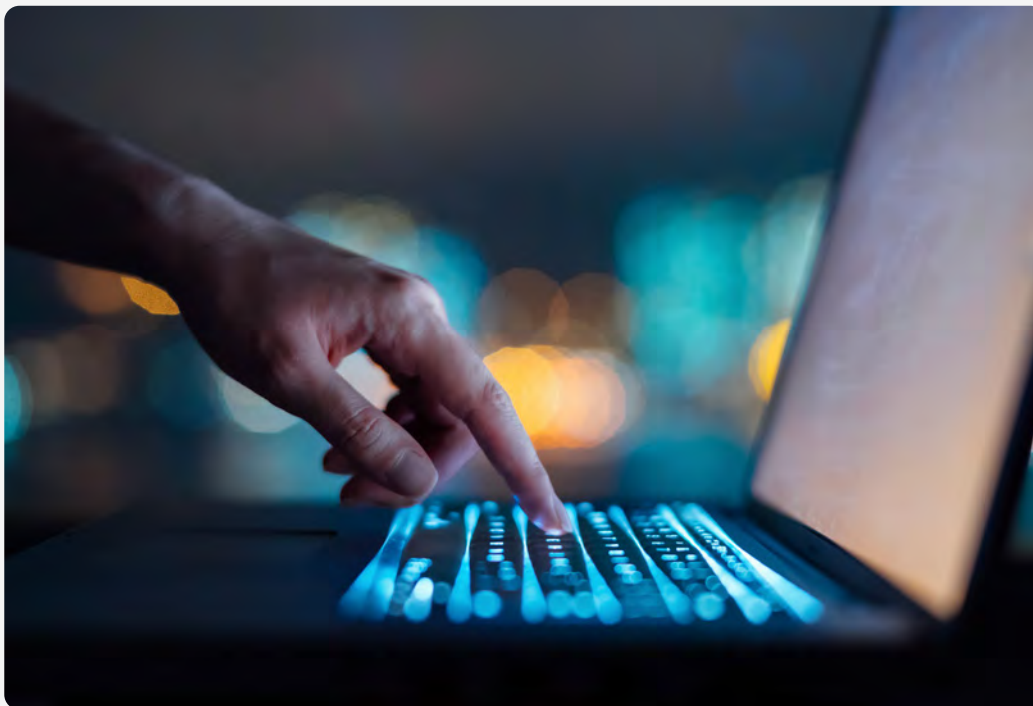
2023 Market-based Emissions Breakdown



Cybersecurity

Sustainability through cybersecurity

In a report from 2022, the World Economic Forum states, “Cyber risk is the most immediate and financially material sustainability risk that organisations face today. Those that fail to implement good governance on cybersecurity, using appropriate tools and metrics, will be less resilient and less sustainable.”



We consider cybersecurity a part of our corporate sustainability because data breaches have the potential to hurt business continuity, as well as long-term value and trust. So, it is of the highest priority for us to do everything we can to protect our systems and all the data we store — including that of our clients, our employees, and our company — and, by extension, prevent identify theft, financial fraud, and other harms.

Nikko AM has implemented cybersecurity measures for all our offices. These include anti-malware software, a firewall, and access control, as well as annual penetration testing to ensure their effectiveness in detecting and preventing potential threats. We have also implemented an IPS (Intrusion Prevention System), email filtering protection, endpoint security software for servers and terminals, and a web filtering system to block access to malicious websites. When necessary, security patches are also quickly applied.

As a foundation to these steps, we have established global policies on information technology, cybersecurity, and information handling, and we work with the Risk Management and Compliance departments to ensure that all systems, policies, and procedures follow industry best practices and comply with rules and regulations.

“it is of the highest priority for us to do everything we can to protect our systems and all the data we store — including that of our clients, our employees, and our company”

It is necessary to conduct due diligence on third parties and critical service providers to make sure they are implementing appropriate cybersecurity management, so we do this regularly. We also provide our employees with security training, which covers areas such as protocols for reporting cybersecurity incidents, how to respond to threats, examples of potential threats, protecting against data loss, avoiding clickbait, and how to identify a phishing email. They are given quizzes to confirm they can effectively use the skills they have learned.

In the event of an infection, we have established procedures to take appropriate action and minimise damage. ●

Social Impact

It's good to give

In 2007, Nikko AM started a donation scheme that is connected to one of our funds. The fund was designed so that a portion of direct revenue from the investment management fees would be donated to those who need the money most. Since then, the scheme has been adopted for other funds. We believe this is a good way for us to give back to society.

The first of these funds to be set up takes a portion of the investment management fees from one of our global fixed income products and donates it to the International Development Association (IDA). It is a division of the World Bank that provides grants and low-interest loans to help low-income countries invest in their futures, improve lives, and create safer, more prosperous communities. In 2023, we donated approximately JPY 5 million through this scheme. In total, we have given over JPY 550 million to IDA since the initiative began in 2007.

Every year since 2018, Nikko AM has also been donating a portion of our investment management fees from a fund that invests in companies in the genomics industry. The donations go to charities dedicated to supporting the rights and interests of patients with rare diseases and their families. These contributions also help institutions where scientists are conducting research on the

practical application of genomic medicine to cure these diseases. In 2023, we donated over JPY 9 million to eight patient organisations and research institutions. Since we began this scheme, we have donated more than JPY 62 million.

Following a natural disaster, our employees are always eager to donate to support those in need. For example, after hearing about the devastating earthquakes that struck south-eastern Turkey and northern Syria in February 2023, an employee suggested at our Idea Generation Forum that we should make a donation. Then a cyclone hit New Zealand in March, and an employee at the New Zealand office suggested raising some funds and that the company could match the amount raised, since New Zealand is part of Nikko AM's network of offices.

The Global Corporate Sustainability team and sustainability groups from each region



 Wreckage of collapsed buildings after the 2023 Turkey-Syria earthquake

responded immediately and launched fundraisers to collect donations for humanitarian aid in the affected regions. More than 145 employees joined the campaign, resulting in a total of more than JPY 3.5 million for international aid organisations. This amount includes the personal donations of the participating staff members and the matching donations from the firm.

As part of the Nikko AM Employee Charity Programme in Japan, a pool of funds is set aside from the monthly contributions of the programme participants to be activated when a severe natural disaster strikes. In 2023, record rainfall and flooding hit parts of

western and northern Japan, resulting in the loss of lives and property. In response, JPY 400,000 in donations from the programme and the firm were made to a relief fund set up by the Japanese Red Cross Society.

In another area of social impact, Nikko AM has become a corporate sponsor of the NHK Symphony Orchestra. We donated 30 tickets for the orchestra's family concert to a local NPO, which provides support for children who have stopped going to school.

We will continue to look for ways, large and small, to make a positive impact in our local communities. ●

DEI at Nikko AM

A path to sustainable success

Diversity, equity, and inclusion (DEI) are crucial drivers of sustainable growth and long-term success in today's business landscape. At Nikko AM, we recognise the transformative power of DEI in enhancing decision-making and creating a workplace where every individual feels valued and respected. We are committed to nurturing an inclusive culture where diversity thrives.

An example of our commitment to diversity is our collective #30by2030 goal of having women hold at least 30% of our managerial roles by the year 2030. To help us make progress towards this goal, the Global HR team established guidelines for all senior managers to help them build more inclusive leadership teams.

The guidelines start by having senior managers recognise the current status of female leadership in a department, then set an achievable long-term target within a reasonable timeframe. These targets vary based on the current status. For example, if representation is currently below 15%, a senior manager should aim to initially reach 25%, or if it is currently

above 25%, they should aim to achieve more than 40%. Finally,



Takahide Miyawaki,
Global Head of HR

“Senior leaders are challenged to think about how they can change the corporate culture in more inclusive and equitable ways”



Nikko AM Japan employees having discussions outdoors

senior managers are asked to submit annual goals to help them achieve their long-term targets.

“These targets provide a roadmap, but we are not just trying to achieve numerical goals,” explains Taka Miyawaki, Global Head of HR. “Senior leaders are challenged to think about how they can change the corporate culture in more inclusive and equitable ways so that we can achieve our broader DEI aspirations.”

Nikko AM has always promoted an inclusive workplace culture in which

every individual, irrespective of gender, sexual orientation, age, race, or ethnicity, feels valued and empowered. The firm also empowers its volunteer sustainability groups — such as the Global Racial Equality Group, the International Women's Group, the Japan Women's Group, the Japan Abilities Group, and the Japan LGBTQ Group — to drive progress in their respective aspects of DEI.

We believe that unconscious biases and prejudice come from a lack of awareness, information,

and empathy. Therefore, we aim to continuously provide opportunities for employees to learn about and understand the challenges faced by marginalised individuals in society. In turn, this contributes to the creation of a truly inclusive culture within our organisation.

We understand that diversity is not just a goal to achieve but a journey to embrace. As we look to the future, we remain determined in our commitment to strengthening DEI at Nikko AM as a driver of our growth. ●

Sustainability Town Hall

Doing good together

On 19 September, Nikko AM's Global Corporate Sustainability team held the third Sustainability Town Hall, under the theme #DoGoodTogether. The event underscored the commitment of the firm and its employees to sustainability — both from an investment standpoint and as a responsible corporate citizen.

Approximately 470 colleagues attended the event live on Zoom. In addition to Nikko AM employees and outside directors, a select number of employees from our parent company Sumitomo Mitsui Trust Holdings and sister company Sumitomo Mitsui Trust Asset Management attended to learn about our initiatives.

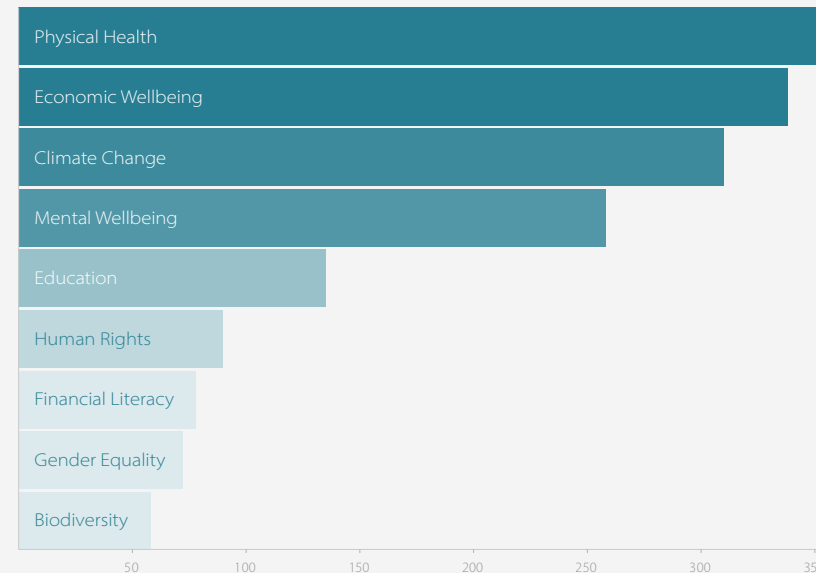
Benjamin McCarron, Founder and Managing Director of Asia Research & Engagement, gave the keynote address, titled "Protein transition: Responsible investment for a sustainable food system". Often when we talk about sustainability, it can feel distant and irrelevant, but the presentation was relatable to the attendees and showed them

how they could do more to bring sustainability into their lives.

The programme also included presentations from our global investment teams covering key updates to our Green Bond Strategy, sustainable investment strategies, and our ESG methodology. The Human Resources Department provided a DEI update on our progress to reach our #30by2030 goal and talked about some upcoming HR initiatives.

In another session, Nikko AM Chairman, Yutaka Nishida, joined representatives from our sustainability groups for a fireside chat. They discussed how the groups champion sustainability in their

Sustainability Causes Poll Results (Global)



Top 4 Causes (Global)

1. Physical Health
2. Economic Wellbeing
3. Climate Change
4. Mental Wellbeing

Top 4 Causes (Regional)

Japan

1. Physical Health
2. Economic Wellbeing
3. Climate Change
4. Mental Wellbeing

Asia (ex. Japan)

1. Physical Health
2. Mental Wellbeing
3. Economic Wellbeing
4. Climate Change

EMEA

1. Climate Change
2. Physical Health
3. Economic Wellbeing
4. Mental Wellbeing

Americas

1. Education
2. Physical Health
3. Mental Wellbeing
4. Economic Wellbeing

NZ

1. Mental Wellbeing
2. Economic Wellbeing
3. Climate Change
4. Education

regions — for employees and the community. Yutaka reaffirmed the commitment of senior leadership to supporting employees and providing an open environment where they feel they can speak freely.

He also shared that we should be proud of our firm's culture, where employees look outwards to support the community, with the many initiatives locally and globally, offering something for everyone. Yutaka added that by volunteering together, the bond between individual employees will deepen and, as a firm, we will move forward together. Managers were also encouraged to get

their team members to use their volunteer leave so we can do more good together.

Our Global Corporate Sustainability team conducted a survey asking colleagues to choose the sustainability causes they are most passionate about. The top four were: physical health, economic wellbeing, climate change, and mental wellbeing. We agreed to donate USD 50 to our global charity pool for each response, up to a target of 500. The total of 600 responses easily surpassed the target and was the highest number of responses a Sustainability Town Hall campaign had ever received. As a result, USD 25,000

in donations were split among five regions to be donated to charities decided by each regional sustainability group, based on the survey results. This leaves tangible proof that we #DoGoodTogether.

The charities that received the donations include: Sankakusha and WELgee in Japan, Limitless and Daughters of Tomorrow in Asia, Maggie's and Smart Works in EMEA, South Bronx United in the Americas, and Kindness Collective and Women's Refuge in New Zealand. ●

Global Racial Equality Group

Encouraging harmony

Our sustainability groups provide forums for employees from various departments to have open discussions on the sustainability issues that interest them.

These groups are bottom-up initiatives that provide educational opportunities for employees and can effect real change at the company through the proposals they make. Each group has an executive sponsor from our Global Executive Committee that provides advice and support. The executive sponsor participates in group meetings and activities, and they help to raise the group's visibility and encourage more employees to join. Participation in our sustainability groups, which employees join voluntarily, is steadily increasing; we currently have 11 groups with more than 130 members globally.

Global Racial Equality Group

The mandate of the Global Racial Equality Group (GREG) is to help employees more deeply understand — then change — inequality in the workplace and our communities. In fiscal 2023, GREG organised three speaking engagements on racial and inequality issues that different regions face.

The first in the series was a fireside chat with Sharon Joseph, CEO of the Boys & Girls Club of Harlem in the US, which was held in July 2023. The focus of her talk was on understanding



Sharon Joseph, CEO & Executive Director, Boys & Girls Club of Harlem

“The focus of her talk was on understanding the racial wealth gap and highlighting its impact on urban communities”

the racial wealth gap and highlighting its impact on urban communities, specifically New York's Harlem neighbourhood.

Drawing from her experience growing up in Harlem, Sharon spoke to the 180 employees in attendance about how the wealth gap affects education, medical care, and food security, as well as the long-term challenges of generating family wealth and leaving a legacy. She described the impact of historical discriminatory practices — such as redlining, segregation, and over-policing — on Black populations in urban areas. Employees left the talk better equipped to support and advocate for the underrepresented in their communities.

In November, GREG organised a talk featuring Dr Mathew Mathews, the Head of IPS Social Lab — a centre for social indicator research — and a Principal Research Fellow at the Institute of Policy Studies in Singapore. His talk focused on how to make workplaces more inclusive.

Representing OnePeople.sg, an organisation that champions racial harmony initiatives, Mathew shared his research findings on race relations in Singapore, giving colleagues from other parts of the world a chance to learn about the diverse local landscape. He also described his own experience of microaggressions at work and gave advice on ways to create an environment that encourages workplace harmony, including how employees can better recognise and challenge their own biases, develop skills to understand cultural differences, and exercise empathy. As more people recognise the value of diversity, he

Global Racial Equality Group



Dr Mathew Mathews, with OnePeople.sg, sharing about workplace harmony from the Singapore office

“As more people recognise the value of diversity, he concluded, they will foster a more inclusive and collaborative work environment”

concluded, they will foster a more inclusive and collaborative work environment. The presentation ended with an engaging Q&A session with the more than 100 colleagues that joined the event in person and online.

In March 2024*, the group held a third talk. Yasushi Kawaguchi, Executive Director of the Yamaguchi Human Rights Enlightenment Centre, spoke to more than 100 attendees

about the history of discrimination in Japan against the Burakumin. The term refers to people descended from former outcast communities. Their ancestors in feudal times may have had jobs such as butcher, undertaker, or executioner.

While sharing his personal experiences, Yasushi discussed how discrimination of the Burakumin persists today, in everything from mentions in casual conversation



Yasushi Kawaguchi recounting the history of discrimination of the Burakumin

to how it affects marital decisions. He stressed the importance of respecting individuals for who they are, a lesson he only truly learned after opening up about his own Buraku roots. He also explained that he believes discrimination begins

when people lack information. Many of the insights and lessons he shared can be applied in contexts anywhere in the world.

The feedback was very positive, with members of the audience saying the talk was relatable because of Yasushi's personal stories. ●

“he believes discrimination begins when people lack information. Many of the insights and lessons he shared can be applied in contexts anywhere in the world.”

*Footnote: Although the reporting period for this report is January to December 2023, we have chosen to include this third event in the series, which took place in March 2024, to highlight inequality and discrimination in a third region where Nikko AM operates.

International Women's Group

Safety, strength, and success

The International Women's Group (IWG) — which marked its first anniversary in late 2023 — is made up of four regional groups from each international office outside of Japan: Asia, EMEA, the Americas, and New Zealand.

With more than 35 members from different genders and backgrounds, the IWG meets to discuss initiatives they are passionate about. The group provides a platform for both women and men to voice their concerns and share ideas that help to empower female employees, and it plays a pivotal role in supporting diversity, equity, and inclusion in our workplace. Members also organise events for women at the company as well as local initiatives supporting community causes, with the aim of promoting career advancement and creating a supportive environment for both our colleagues and communities.

Global

International Women's Day (IWD) is an important annual event for the IWG, and each regional group chooses different ways to celebrate.

At the global level, for the second year in row, we launched a special International Women's Day website. It featured interviews with Nikko AM's President, Stefanie Drews, and Executive Chairman Yutaka Nishida, as well as comments from Nikko AM Asia President Eleanor Seet and a number of male and female members of the IWG and the Japan Women's Group. The website also had some wonderful photos of colleagues from around the world striking the 2023 IWD pose, #EmbraceEquity.



Floral bar fundraiser in Singapore

Asia

The IWG at our Asia office marked IWD on 21 March 2023 with a flower bar fundraiser, with proceeds from the sale of bouquets given to Daughters of Tomorrow in Singapore. Daughters of Tomorrow helps women from low-income families build confidence and skills through job readiness programmes and then supports them as they try to secure gainful employment and a better future.

Our generous employees raised approximately SGD 3,500 at the event, and this amount was doubled with dollar-matching by the Tote Board, the Singapore government's grant-making organisation.



Volunteers at LSA's thrift shop in New York

The Americas

The International Women's Group at the US office continues to flourish as it supports women in the field of finance as well as those in our community.

It held several initiatives throughout 2023. For one initiative, employees volunteered at LSA's thrift shop, the proceeds from which help to support disadvantaged women and children in the community. Additionally, the group held a clothing drive for gently worn women's business attire, which was donated to Bottomless Closet. This organisation also supports disadvantaged women in New York City by providing them with business clothes for job interviews and work in the professional world. As employees came together and dedicated their time to these causes, they not only

International Women's Group



A boxing session in Edinburgh

helped those in need but also strengthened a sense of unity and compassion within the team.

In addition to its community outreach efforts, the group focused on empowering the women at the US office through a variety of events and activities. For example, it organised a Krav Maga self-defence class where women learned skills to enhance their safety and confidence.

EMEA

The EMEA IWG is passionate about expanding the pool of young female talent in asset management. In 2023, the Edinburgh office became a member of Future Asset, a charity that encourages high school girls in Scotland to consider careers in

the asset management industry through a competition called Growing Future Assets. A number of Global Equity team members mentored the students, and one acted as a judge in the competition. One of the finalists even worked at Nikko AM on an internship to gain some work experience — which shows the team's efforts are having a positive impact.

For IWD 2023, the group ran boxing sessions in London and Edinburgh to help build the strength, confidence, and self-defence skills of female employees. On 8 March, Manya Klempner, the founder of Bermondsey Boxing Club, was invited to speak at a Lunch and Learn session. In her motivational talk, "From Finance to Fighter", she

gave an overview of her journey from a career in investment banking to the decision to leave and start a boxing club and fitness brand.

New Zealand

For IWD, the New Zealand office hosted a morning tea for all employees. They had the opportunity to help women in the local community achieve economic stability and safety by making donations to two organisations: Women's Refuge and Dress for Success.

Women's Refuge is a charity that supports women and children experiencing family violence. One night of safety at Women's Refuge for a woman and child costs just NZD 20 and includes a clean

bed, secure transport, hot meals, supportive staff, access to a 24/7 crisis line, and advice. With the office's donation of NZD 740, the group is essentially giving women and children 37 safe nights away from an abusive environment.

The local charity Dress for Success exists to empower women to achieve economic independence by providing support, professional attire, and the tools to help them in work and life. In 2023, Dress for Success helped over 1,200 women through its services, including by giving capsule wardrobes that consists of five mix-and-match outfits. Employees collected and donated 10 bags of corporate clothing to support this cause. ●

Japan sustainability groups

Doing what we can for others

Japan Women's Group

The Japan Women's Group works to promote the advancement of women's careers. It supports the firm's goal of increasing the ratio of female managers at Nikko AM to 30% by 2030.

In March 2023, the group hosted a number of events to mark International Women's Day.

In collaboration with the International Women's Group, the Japan Women's Group held the last session of the year-long Power Pact series, which focuses on helping women acquire the skills necessary for career advancement. Christina Khoo, a leadership and life coach from Singapore, was invited back to speak about how to handle difficult conversations. She advised attendees not to wait to have these conversations, to be clear about their purpose, and to focus on the facts.

Another example is a seminar the group organised titled "Women's Career Progression in the Asset Management Industry", which featured a discussion between an external industry expert and President of Nikko AM, Stefanie Drews. They drew from their personal experiences to suggest what needs to be done to better support women's careers in the industry.

In July and August, some members of the Japan Women's Group attended the International Conference for Women in Business. They brought back many insights and ideas from the event and from networking with other participants.

In 2023, the Japan Women's Group marked five years since its formation. In the coming years, members will continue to look for opportunities to learn about advancing women's careers. In particular, they will further focus on

encouraging mid-career women to take the next step and promoting diversity and inclusion, both at the firm and in the communities where they work.

Japan Abilities Group

In 2023, the Japan Abilities Group planned events that would give employees a better understanding

"Three assistance dogs were brought in to demonstrate their abilities. When participants saw how gentle and capable the dogs were, they couldn't stop smiling — and some even shed a tear"



Nikko AM Japan employees at an event with the Guide Dog & Service Dog & Hearing Dog Association of Japan

of the challenges those with physical and mental disabilities face.

For example, in April, the group invited Chikako Kodama, founder of NPO Agenda Yamagata, to speak at a webinar. In her talk "Enrich Your Mind and Soul with Music", she told the 65 employees in attendance about her organisation, which provides music instruction to children with learning disabilities, and new research that had been done in the field. Many employees were moved by the videos showing how much the children enjoyed playing music and how some had developed skills to such a high level that they played in competitions.

The group held a few large events in conjunction with Disability Week in December. One of these was a seminar on assistance dogs with representatives from the Guide Dog & Service Dog & Hearing Dog Association of Japan, which Nikko AM supports through the Employee Charity Programme. In addition to guide dogs for the blind, there are service dogs for those with disabilities and hearing dogs for the deaf.

In the seminar, employees learned that demand for assistance dogs is much greater than the supply. They also heard about issues that people with assistance dogs have to deal with, such as how medical facilities

Japan sustainability groups

and restaurants often refuse to allow entry to hearing dogs and service dogs, which are not as well known in Japan as guide dogs for the blind. Three assistance dogs were brought in to demonstrate their abilities. When participants saw how gentle and capable the dogs were, they couldn't stop smiling — and some even shed a tear.

In December, the group held a seminar on living a long and healthy life while dealing with illness. A total of 110 employees from different regions attended.

Hidetoshi Matsuura, a mental health worker and certified psychologist at LIVA Inc., spoke about bipolar disorder (previously known as manic depression). He covered a range of topics, including the definition of mental illness, coping with stress, and how to support people with mental health issues. The event helped employees to deepen their understanding of bipolar disorder and learn the importance of supporting those with the disorder so they can be themselves at work.

Japan LGBTQ Group

The Japan LGBTQ Group focuses on issues facing the LGBTQ+ community in Japan and promotes support of the community both at the company and in the community. Members organised a number of activities throughout 2023 to show their support for those in the LGBTQ+ community. In April, for example, the group led the firm's participation in the spectacular Tokyo Rainbow Pride Parade, one of Japan's largest events to raise awareness of the LGBTQ+ community.



Representatives of Nikko AM at the Tokyo Rainbow Pride Parade

Employees representing Nikko AM walked in the parade — which took them through the popular Tokyo districts of Shibuya and Harajuku — smiling, waving, and shouting “happy pride” to spectators. It was a deeply satisfying event for all the participants.

In June, the group held a hybrid event for Pride Month. In the first half, a representative from our sister company Sumitomo Mitsui Trust Bank gave an overview of their firm's Ally Network to 170 employees on Zoom. Then, in the second half, the group spoke about its partnership with LGBT Great, a global financial alliance, and announced that Yukitoshi Akao, Head of the Project Management Office

Department and co-lead of the Japan LGBTQ Group, had been named one of the organisation's Top 50 Executive Allies for 2023.

In November, for the fifth year in a row, Nikko AM was awarded Gold in the PRIDE Index 2023 by the Japan-based organisation work with Pride, which helps companies promote LGBTQ+-related diversity initiatives. PRIDE is an acronym for the elements scored under the index: Policy, Representation, Inspiration, Development, and Engagement/Empowerment. Gold is the highest rating, and this award recognises our endeavours to create an inclusive workplace for LGBTQ+ individuals and all our employees.



To mark Pink Friday, also in November, Nikko AM teamed up with Bloomberg and National Australia Bank to jointly host a panel discussion titled “Learning from the LGBTQ+ Community: 3 Keys to Inclusive Team Building”. Neill Peterson of Nikko AM joined the event as a panellist. The focus of the discussion was on how managers can communicate with employees to create an open environment. Companies are increasingly recognising that this topic is an important factor in boosting team productivity. Neill spoke about how to establish and respect boundaries, and the importance of intention, integrity, and the willingness to admit mistakes. At Nikko AM, Japan LGBTQ Sustainability Group members and other employees gathered in the boardroom to watch a live broadcast of the discussion. They all wore pink T-shirts to show their support.

The group then brainstormed ways to increase the number of allies at Nikko AM — those who understand and support the LGBTQ+ community. As a result of this session, the group decided it would launch the Nikko AM Ally Network globally in 2024 and invite employees to join. A logo has been created for the Ally Network, and the group plans to distribute merchandise so employees can show they are an ally and demonstrate their support for the LGBTQ+ community.

Japan sustainability groups



Nikko AM employees at a beach cleanup in Japan

Japan Environment Group

With the end of the Covid-19 pandemic, the Japan Environment Group began organising full-scale outdoor volunteer activities again in 2023.

The group, together with Bloomberg, invited Dr Kazuyuki Imamura of the NGO Arakawa Cleanaid Forum to give a lunchtime seminar in April about the problem of plastic waste

in the Arakawa River. He noted that marine waste has no national boundaries and decomposing plastic harms marine and human life. Then, the following month, Nikko AM and Bloomberg employees went to the Arakawa riverbed for a beach cleanup, which was led by Arakawa Cleanaid Forum. In December, Nikko AM volunteers went out again to participate in a cleanup of Enoshima Beach, organised by the

Kanagawa Bikazaidan foundation. They gathered many bags of plastic and other garbage over a two-hour period.

Group members also organised a solar panel workshop at Ecoru Togashi — Tokyo's first nearly net zero energy building — in September. Koji Takayama of the NPO Class for Everyone taught employees and their families how

“marine waste has no national boundaries and decomposing plastic harms marine and human life”

solar power generation works and showed them how to connect batteries and controllers to the panels so that they could light a lightbulb using solar energy. It made everyone reflect on the importance of electricity and how we take it for granted in our daily lives.

In addition to outdoor activities, the Japan Environment Group also held various seminars for employees to learn about a range of environmental issues. In March, it organised a seminar with Shuichi Takizawa, a member of the Japanese comedy duo Machine Guns. Based on his experience working as a garbage collector, he spoke about how to dispose of waste in a more environmentally friendly way, the importance of changing how we consume, and what we can do to contribute to the Sustainable Development Goals — with lots of humour thrown in.



Solar panel workshop at Ecoru Togashi

In May, the group hosted Akihiro Ushiyama, an interior design advisor at Shioda Furniture in Nagano Prefecture, who gave a seminar titled “Long-lasting Homes and Furniture”. The talk was broadcast live from an old private house that had recently been renovated then designed with furniture from Shioda Furniture. Akifumi Seto, an analyst from the Equity Fund Management Department, interviewed Akihiro. He pointed out that passionate craftsmen pay close attention to detail and create furniture that lasts longer than pieces that are

Japan sustainability groups



Seminar on long-lasting homes and furniture

“passionate craftsmen pay close attention to detail and create furniture that lasts longer than pieces that are mass-produced”

mass-produced. He also noted that products manufactured domestically are better for the environment when they are used domestically.

In October, the group invited Tori-kun, a professional birdwatcher and author, to talk about the importance of biodiversity. He told the nearly 100 employees in attendance how the habitats of different species of wild birds have been changing and that it is possible to identify problems in the urban environment when the number of wild birds increases or decreases.

Japan Philanthropy Group

The Japan Philanthropy Group works to reduce inequity, disparities, and poverty and is committed to helping address social issues through a variety of activities.

It operates the Nikko AM Employee Charity Programme, which allows employees to make payroll-deducted donations to pre-selected

organisations. Nikko AM matches the amount of each employee's donation. Sixty-two employees were participating in the programme as of the end of 2023. The Japan Philanthropy Group works with the organisations it supports to promote awareness of the donation system among employees by organising information sessions and volunteer activities.

The group conducted its latest review of the organisations it supports through this programme in 2023. Reviews are conducted every three years. Members interviewed representatives from 15 candidate organisations, each one working to address one of five different social issues. After a series of votes by group members and other Nikko AM employees, the group chose to partner with three new organisations and continue its partnership with two others. They are The Volunteers Group to Send Wheelchairs to Overseas



Employees and their families fix children's wheelchairs before they are sent to Ukraine

Children, Maggie's Tokyo, Guide Dog & Hearing Dog & Service Dog Association of Japan, Anata no Ibasho and Bridge for Smile.

The Japan Philanthropy Group organised several events in 2023 that provided employees with opportunities to learn about a wide range of social issues. For example, in April, a group of 14 employees and their families volunteered at The Volunteers Group to Send Wheelchairs to Overseas Children. They helped to fix and package 18 used wheelchairs to be shipped to Ukraine.

In June, members held a seminar with Mami Rudasingwa and her husband Gatera, who are representatives of the Mulindi One Love Project. The NPO, based in Rwanda, provides artificial limbs free of charge to those with disabilities.

In August, the group, together with the Japan Environment Group, invited Koji Takahama, founder of the NPO Class for Everyone, to give a lunchtime seminar called “Beyond Electric Self-Sufficiency”. Class for Everyone provides ICT education for children in emerging countries, and Koji spoke about his work teaching

people how to build their own solar power generating devices for home use. The talk was followed up with a DIY workshop in September where employees had the chance to learn how to do this.

In November, Toshinobu Daikohara, Director of the Japan Gatekeeper Association, gave two Active Listening Training sessions. Employees learned about the importance of listening attentively and showing empathy — and how this helps to build stronger relationships.

The group made several donations throughout the year. One was to the Japanese Red Cross Society for disaster relief following torrential rainstorms that caused extensive damage in western Japan in June and July.

It also partnered with Learning for All, an NPO that works to address child poverty, to conduct a Christmas gift drive in October and November. Members sent 25 presents to children from disadvantaged backgrounds. ●

Asia Sustainability Group

Learning, helping, making an impact

Fostering greater inclusion, reducing inequality, and striving to be more environmentally conscious — that sums up an enriching 2023 for the Asia Sustainability Group.

Sweating to support mental health

In 2023, the group continued to advocate for mental health. For the third consecutive year, it co-organised a virtual run with Limitless, an NPO that provides counselling for young people facing challenges as a result of poverty, mental illness, and social inequality.

More than 40 Nikko AM staff members ran a minimum of five kilometres each to raise funds for Limitless. The group contributed USD 4,000 towards this cause.

Education, fun, and community

During the school holidays — first in June and again in November 2023 — the Asia Sustainability Group partnered with the charity Cahaya Community to organise two enrichment programmes for the children it supports.

The first was a trip to the Sustainable Singapore Gallery, which gives visitors an overview of Singapore's sustainable development journey. After the gallery tour, employees had a picnic and kite-flying competition with the children and their family members.

For the second event, the group ran a Futsal tournament called Cahaya Fearless Fox Cup 2023. Combining education and recreation has been a hallmark of the partnership with Cahaya Community since it began in 2021.

A total of 15 Nikko AM employees in Singapore volunteered for the two events.

Better biodiversity

In 2023, Nikko AM Asia's partnership with the Singapore Zoological



Nikko AM employees and their children at the Singapore Zoo



Beach cleanup event, part of World Environment Day coinciding with the school holidays



Miata, Nikko AM's adopted pygmy hippo

Gardens, part of the Mandai Wildlife Group, went into its second year as its corporate sponsorship of the pygmy hippo, Miata, continued. Also, all interested employees were invited to take part in an animal enrichment workshop — an educational initiative where 20 participants learned how to make toys for the zoo animals.

Colleagues had the chance to learn about marine biodiversity and, specifically, the environmental significance of the tropics. In a webinar, held to mark World Environment Day in June, speakers from Green Nudge — a group that aims to build thriving green communities — told employees from different Nikko AM offices about Southeast Asia's marine biodiversity and what needs to be done to protect marine life.

To ensure the Asia Sustainability Group followed this up with action, 32 staff members volunteered for a beach clean-up at Tanah Merah in Singapore. They picked up a total of 341 kilograms of rubbish. ●

EMEA Sustainability Group

Committed to our communities

Nikko AM's EMEA employees participated in a variety of volunteering and fundraising activities during the year that had a positive impact on their local communities and helped those in need.

Getting out and doing good

In London, EMEA Sustainability Group members volunteered at the Children's Book Project, where they took part in a book sorting and bundling session, after which the books were sent to schools and nurseries. It is an initiative that helps to promote book ownership among children. This project is essential as it has been proven that literacy and book ownership can significantly impact a child's education and mental health.

Employees also volunteered at Holland Park where they helped to prepare around 40,000 young plants, which are grown in glasshouses, for distribution to schools, hospitals, and community gardens across the borough. This initiative helped to enhance biodiversity and improve breeding habitats for local wildlife. Volunteers gave their time to Peckham Rye Park, as well. They helped with maintenance of the formal gardens and removed nine bags of undergrowth, which created more wildlife habitats for the park. They also restored the rose bed.



Edinburgh staff preparing meals to be distributed

At Good Food Matters (GFM), a community garden and kitchen in South London, volunteers cleared some raised vegetable beds and got them ready for new planting, then they tackled an overgrown strip of land along the fence between the GFM site and the adjacent allotments.

In Edinburgh, employees volunteered at Empty Kitchens Full Hearts, where surplus food is turned into free, nourishing meals for

people in need. This service helps to reach some of the most marginalised people in Edinburgh.

Raising funds in fun (and hair-raising) ways

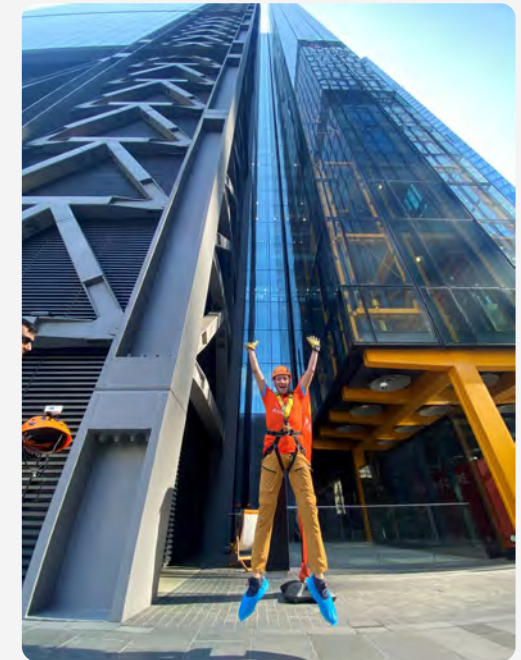
EMEA Sustainability Group members organised several fundraising initiatives to support their employee-nominated charity partner, Maggie's — an organisation that provides invaluable support to cancer patients and their families.

Two Nikko AM employees abseiled down London's Cheese Grater skyscraper, raising an impressive GBP 1,730. Not to be outdone by his colleagues in London, an employee at the Edinburgh office then abseiled off the Forth Bridge in Scotland, raising GBP 904. The group also held a raffle at the summer party, hosted by the London office. Thanks to some generous prize donations from the firm and senior employees, it raised GBP 2,200. A night hike brought in GBP 1,180.

These fundraising initiatives raised more than GBP 6,000, and the firm matched over GBP 4,000 of this, which allowed the group to donate over GBP 10,000 to Maggie's.

The company retained its Payroll Giving Gold Award in 2023 thanks to the generosity of staff and the firm's efforts to promote payroll giving.

In the weeks leading up to Christmas, both the UK and Edinburgh offices ran toy drives for underprivileged children. In London, the group collected gifts to be distributed by a charitable organisation. Colleagues in Edinburgh also raised money for a local charity, which was then used to purchase



Abseiling to raise funds for Maggie's at London's Leadenhall Building (The Cheese Grater)

gifts. Nikko AM donated a total of GBP 1,000 — GBP 500 to each charity — to support the group's fundraising efforts.

The EMEA Sustainability Group donated some spare office furniture to the Four Square charity in Edinburgh, which in turn will be given to those who are experiencing homelessness or are at risk of becoming homeless. The group also collected pre-loved coats from colleagues to be passed on to less fortunate people during the cold winter months.

These initiatives demonstrate the company's commitment to making a difference in our world. ●

New Zealand Sustainability Group

Hope for the future

Two key areas of focus for the New Zealand Sustainability Group in 2023 were encouraging young female leaders and deepening employees' understanding of Māori values.

YWCA Y25 Young Leaders Panel

The New Zealand Sustainability Group was proud to sponsor the annual YWCA Y25 Young Leaders Panel for Youth Week — called “Leaders of tomorrow? Leaders for today!” — featuring a group of young woman leaders who shared their inspiring stories. They spoke about the realities and challenges of leadership today, as well as remaining resilient, handling criticism, and staying true to your values.

Simon Haines, Co-lead of the New Zealand Sustainability Group, said after the event, “Getting the chance to see such capable young women in action and inspiring the generation coming up after them, fills me with a lot of hope for the future.”

Te Ao Māori cultural training

As a signatory to the New Zealand Stewardship Code, the sustainability group recognises that the firm can do more to move ahead in its journey towards understanding and embracing Te Ao Māori — the Māori worldview that emphasises the relationship between nature and people — and the principles of Te Tiriti o Waitangi, or The Treaty of Waitangi, New Zealand's founding document.

In 2023, Nikko AM NZ took the first step towards learning about how to incorporate these values into the investment process. It engaged Mathers Solutions, a Māori Development Consultancy, to hold two cultural training sessions for everyone at the New Zealand office. These courses helped employees to better understand the Māori worldview and values, as well as the principles of the treaty. ●



Te Ao Māori training session

Americas Sustainability Group

Education changes lives

The Americas Sustainability Group's activities are aligned with Nikko AM's three core areas of sustainability: diversity & inclusion, reducing inequalities, and environment & climate. In partnership with local nonprofits, employees led various initiatives — including helping at a thrift store, reading books to children, and acting as judges of students' final summer school presentations — which demonstrate their strong commitment to making a meaningful and lasting difference in the community.

In 2023, the group continued to support local nonprofits that promote diversity and inclusion. The Classical Theatre of Harlem (CTH), one of these organisations, provides a platform for diverse and thought-provoking performances, creates spaces for underrepresented voices, and helps celebrate culture within the community. Sustainability group members provide financial support for the organisation at some of its fundraising events. Also, one of CTH's major efforts is an outdoor theatre performance at Marcus Garvey Park. It is free to attend and takes place every night during the month of July. Nikko AM Americas employees have made it a tradition to show their support for CTH by attending this performance as a group every year.



Volunteers at South Bronx United's Literacy Day event

The team addressed inequality in a number of ways throughout 2023. Members sponsored 10 seniors for a local high school's senior dues



Volunteering at the Annual Spring Plant Sale for Grow NYC

fundraiser, donated backpacks and school supplies to the Boys & Girls Club of Harlem, and volunteered with South Bronx United. This illustrates their dedication to supporting educational opportunities and levelling the playing field for underserved youth in New York City. The Americas Sustainability Group believes that contributing towards education benefits the community because it helps to empower youth with knowledge and skills, driving long-term socioeconomic growth.

Additionally, the group volunteered with GrowNYC — an environmental NPO focused on food access, green spaces, reducing waste, and education — which highlights the company's contributions to supporting environmental sustainability. Employees

helped out at GrowNYC's annual spring plant sale. The event provides community groups with a variety of plants, herbs, and vegetables at wholesale prices. These plants are intended for use in neighbourhood open space projects, such as community gardens, schools, block associations, and churches. Nikko AM volunteers spent a day helping customers select the perfect plants for their needs and transporting them to their vehicles.

The Americas Sustainability Group is dedicated to fostering a thriving and inclusive community. ●

Insider Perspectives

Reflections from the Global Corporate Sustainability Team

Nikko AM's Corporate Sustainability Department was formed in 2018 to oversee corporate sustainability activities at our offices around the world. Daisuke Kono and Joyce Koh were appointed to lead the team as joint heads in 2020.

It has grown from a group of volunteers — with members working on corporate sustainability as a second or third role in their job description — into a fully developed function with four full-time employees. The department celebrated its fifth anniversary in 2023.

The team has increasingly engaged stakeholders and ignited their passion for sustainability. They focus on the three key pillars of diversity & inclusion, reducing inequality, and environment & climate.

As Nikko AM makes progress towards its corporate sustainability goals, the advocates on this team reflect on how their involvement has made a difference to their work, their life, and their aspirations.



Momoko Sekiguchi

"My three-year journey with the team has been eye opening, inspiring, and fruitful. As I work with the team and the sustainability groups, I feel a true passion for sustainability from the discussions held and the ideas generated. It is a privilege to have the opportunity to learn and grow with such wonderful colleagues, and I am excited to do what I can to help create a world where everyone can coexist and be our authentic selves in our diverse communities."

"I am excited to do what I can to help create a world where everyone can coexist and be our authentic selves in our diverse communities"



Michelle Chua

"Nikko AM does a great job of hosting many virtual webinars to keep our employees engaged across a range of topics — from learning about threats and conservation to the marine biodiversity in Southeast Asia to how we get better at inclusion by practising active listening and being a sympathetic and attentive listener.

Within the first four months of joining the company, I was asked to plan, organise, and host our annual sustainability town hall meeting together with a team that I had not met in person. It was very valuable to have this opportunity to connect with people, hear their experiences, and learn about what motivates them to give of their time beyond working hours.

Also, it is great to see such diversity in our employee pool because it encourages new ways of working and brings about more creative and inclusive initiatives."



Neill Peterson

"I am hopeful that we are standing on the brink of the golden age of sustainability. We are witnessing an unprecedented surge in innovative green solutions and technological breakthroughs in energy production. There is also a collective global consciousness that is increasingly embracing sustainable initiatives. Individuals and businesses alike are realising that sustainability is not just a slogan to use so they appear more environmentally conscientious, but it is a pathway leading to the long-term prosperity of humanity. Although I will step down from the team in February 2024 after five years as a sustainability advocate, I am truly honoured to have played even a small role in the advancement of its goals."



Rika Kosaka

"I am proud to be able to promote diversity and inclusion, and care for the environment and philanthropy in my work. I started my 'sustainability career' with the formation of the Japan Women's Group, and I really hope to do more to create an environment where our female employees can shine even brighter."

"I am proud to be able to promote diversity and inclusion, and care for the environment"

Insider Perspectives



Mashiro Matsuura

"Now that we can work remotely after the end of the pandemic, I get the sense each day of just how much it means for our employees — including myself to be engaged by the firm.

Our corporate sustainability efforts have played a big role in employee engagement. It is great to get feedback from employees about how rewarding our sustainability activities have been, be it the discussions we have in the sustainability groups, our women's progression efforts, or getting together on the weekends for volunteer activities.

Our sustainability groups are bottom-up efforts that have given employees a voice, and I hope each and every one of them realise how important their voices are to the firm."



Joyce Koh

"In 2023, we saw an uptick in the number of colleagues becoming aware of our 11 sustainability groups, which are all supported by senior management. This resulted in an increased interest to join these regional groups. Passionate members went on to recruit more like-minded friends. As of December 2023, participation was around 13% of all employees and continues to grow! To me, this is one of the most gratifying outcomes because it is not easy for our colleagues to give their personal time and resources to support sustainability."

"As of December 2023, participation was around 13% and growing! To me, this must be one of the most gratifying outcomes"



Jeanie Cheah

"As I reflect on the past five years, it has been amazing to watch the Global Corporate Sustainability team come together. We started from zero and, in a few years — most of which we were working from home because of Covid — we managed to engage colleagues across all Nikko AM offices, encouraging them to get involved and organise sustainability activities. We can say with confidence that there is heightened awareness of the need to be sustainable throughout the firm.

Before Covid, activation on the ground was one of the best ways to reach our audience, but that has changed as more people work remotely and we see our colleagues less often. For me, the challenge will continue to be how we can do more and do better as the landscape evolves."



Jade Rodeck

"An early challenge we faced in the department was to create a baseline understanding that corporate sustainability encompasses more than just how we should dispose of our waste.

Through engagement and education efforts, we have significantly increased awareness and influenced a positive shift in corporate norms. I have witnessed colleagues feeling more empowered to question themselves and others about how to pursue innovative ways of supporting our three pillars of diversity & inclusion, reducing inequality, and environment & climate.

Our present challenge is to further raise that bar to encourage new solutions and help advance sustainability as a firm.

I imagine a sustainable future as one where firms rely less on specific sustainability initiatives, where it is instead second nature for every individual employee to apply their unique skills in sustainable ways — both in their work and personal lives."



Daisuke Kono

"I like the dual meaning of the term corporate sustainability, which is often used but not so well defined. It typically refers to the ways a business impacts the sustainability of our society and our environment, but it also means the sustainability of the business itself. It was a real eye-opener for me when I understood that our company's sustainability is dependent on the sustainability of the society and environment we operate in. Simply put, doing good for all our stakeholders does good for our company in the long run. That said, corporate sustainability is not something that produces tangible results in a short period of time, which means it can be hard to measure success — so, we need to be diligent in doing good, year after year.

I am happy that I can contribute to society as well as to our company's growth through our work in corporate sustainability."

Looking ahead

 Nikko AM Asia employees with Cahaya Community at a visit to the Sustainable Singapore Gallery

Looking Ahead

Leveraging our strengths to shape the future

In the years since Joyce Koh and Daisuke Kono became Joint Global Heads of Sustainability from June 2020, they have seen the impact the team's work has had on the firm.

The function marked its fifth anniversary in October and is now supported by three full-time employees based in Japan and one in Singapore. While these dedicated people run the department, the 11 employee-led regional sustainability groups are self-managed by local teams on a volunteer basis. Participation in these groups continues to go up, and many employees are active in more than one.

In 2023, the world saw many challenges on both the environmental and social fronts, with natural disasters, political conflicts, or ongoing inequalities in our communities. After hearing about some of these events, sustainability group members were quick to suggest ideas and deliver help where we could make a difference, be it

through donations, volunteering or raising awareness.

"It is amazing to see how our colleagues — who are already giving 100% of themselves at work — are offering their time to manage these activities so they can have an impact in their communities. Nothing is driving them to do this except for the altruism that comes from within each one of them," says Joyce.

"At the start of 2020, only about 8% of the firm's employees were participating in these sustainability groups. But our team's mission is to embed sustainability in our corporate culture, so we set a goal of reaching 15% by 2025 as a metric to gauge our progress," says Daisuke. "By December 2023, we were thrilled to see that

participation had grown to 13%, and we are hopeful that we'll meet our goal before 2025. This strong desire of individual employees to get involved is what makes Nikko AM so special."

While there is plenty to celebrate from the past five years, there is even more for us to do in the years to come.

In 2024, the current Corporate Sustainability Advisory Council, which was set up in 2018, will become a formal committee, consisting of the senior management team, representatives from the Global Sustainable Investment team, sustainability group members, and other internal stakeholders. This new committee will formally discuss and approve recommendations from the Global Corporate Sustainability team, as well as set goals and monitor progress.

When it comes to the D&I pillar of corporate sustainability, we are committed to reaching our #30by2030 goal of having women occupy 30% of management positions by 2030. Senior management and global department heads across the company will continue in 2024 to work towards meeting goals set by the Global HR team that will lead to an increase in female managers at all levels.

Also, in partnership with Global HR, the Global Corporate Sustainability



The Global Corporate Sustainability Team

team is working on a plan to develop end-to-end employee lifecycle support for women as they build their career in the firm.


Since so many Nikko AM employees are compassionate and always ready to spring into action — whenever and wherever they are needed — the Global Corporate Sustainability team will be developing a global volunteering framework. It will help us to select and support causes that are in line with the firm's sustainability goals and focus areas.

On the environmental front, we continue to monitor the carbon footprint of our operations and

ensure we are on track to meet our goal of reducing emissions. At the same time, we will carry on hosting educational opportunities on environmental issues for our staff and keep rolling up our sleeves, volunteering to plant trees or clean up in our local communities.

Sustainability is a journey. We must keep evolving in our rapidly changing world so that we can effectively shape the future of our firm and our world. The team will continue to partner with internal stakeholders and external agencies to help us advance towards our destination: a better world for the next generation to enjoy. ●

Additional information

 Nikko AM head office in Tokyo

External commitments

Our participation in external initiatives

	Asia Investor Group on Climate Change (AIGCC)		Japan Association of Value Creating ERM (Nikko AM Co. Ltd.)
	CDP		Principles for Financial Action for the 21st Century (Nikko AM Co. Ltd.)
	Climate Action 100+		30% Club Investor Group (Nikko AM Co. Ltd.)
	International Corporate Governance Network (ICGN)		TCFD Consortium (Nikko AM Co. Ltd.)
	United Nations-supported Principles for Responsible Investment (PRI)		Stewardship Codes – UK Stewardship Code (Nikko Asset Management Co. Ltd.) – Japan Stewardship Code (Nikko AM Co. Ltd.) – Singapore Stewardship Principles (Nikko AM Asia)
	The Investor Agenda		Global Investor Statement to Governments on Climate Crisis
	Nature Action 100		Women's Empowerment Principles
	The Net Zero Asset Managers initiative		LGBT Great

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