Global Stewardship Report

For the reporting period 1st January to 31st December 2024

For Professional Investors – Marketing Communication

Nikko Asset Management

Foreword

2024 was a challenging year for sustainability. It broke yet another in a string of all-too-familiar records as it became the warmest year ever. In an even more sobering development, according to the EU's Copernicus Climate Change Service, 2024 was the first to average more than 1.5 degrees Celsius above pre-industrial levels, the limit set by the Paris agreement on climate in 2015.

The challenge came not just from the weather. As the globe has warmed, the political climate has become more complex. In particular, we saw a less unified approach to fighting climate change, even though its devastating impact was felt across all countries, regardless of political stance.

In June, Beryl became the earliest-ever hurricane in the most severe category 5 to form in the hurricane season as it devastated America's Gulf Coast. The year ended with severe and damaging wildfires in California.

Across the Atlantic, wildfires in Portugal in September coincided with floods in central Europe and, in October, floods in Spain led to widespread damage and loss of life. A similar story of extreme heat and floods was repeated in Asia and Africa. And in Japan, one of the hottest summers on record kept snow off Mount Fuji until early November for the first time since records began 130 years ago.

Despite the more fragmented approaches, we remain resilient and steadfast in our support for good stewardship, whether applied to our clients, the planet, people or our investments. As our case studies show, our teams on the ground regularly engage with our portfolio companies and beyond on a wide range of stewardship activities, from poor governance and inefficient use of capital to biodiversity and climate change.

What is very gratifying is that our years of patient and persistent leadership, discussions and persuasions are increasingly bearing fruit. It is all the more encouraging that we are seeing great progress in Asia, a region that has historically been slower to adopt certain sustainability initiatives. This shift marks a promising step forward in our collective sustainability efforts.

We do not believe that stewardship stops with our investment activities. We have not been shy about speaking up for stewardship to wider audiences. For instance, in October, I addressed a roundtable discussion of industry participants on the need for co-operation between industry, government, finance and academia in making a genuine commitment to sustainability. I also continue to champion the cause of women in the asset management business and diversity more generally.

Meanwhile, my colleagues around the world have been active in promoting the cause of groups which are traditionally under-represented in our industry. In the UK, we are providing opportunities for work experience for young people from inner city schools and mentoring girls interested in joining the corporate world. In Singapore, we are offering teenage children the chance to see what our work involves, while in New Zealand we have launched an internship programme that consciously considers applicants that might normally be excluded by traditional employment processes.

Now, more than ever, I believe we need to stand up for stewardship. While there were some setbacks in 2024, there was also plenty of evidence that sustainability and shareholder power are making headway. I hope that this report demonstrates that, at Nikko Asset Management, we will continue to champion the cause, both in what we say and in what we do. Despite increasingly more complex headwinds, we remain resilient and innovative, continuously adapting our strategies to drive meaningful progress and create lasting positive change.

Stefanie Drews

Stefanie Drews, Group President

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Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Statement of purpose

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

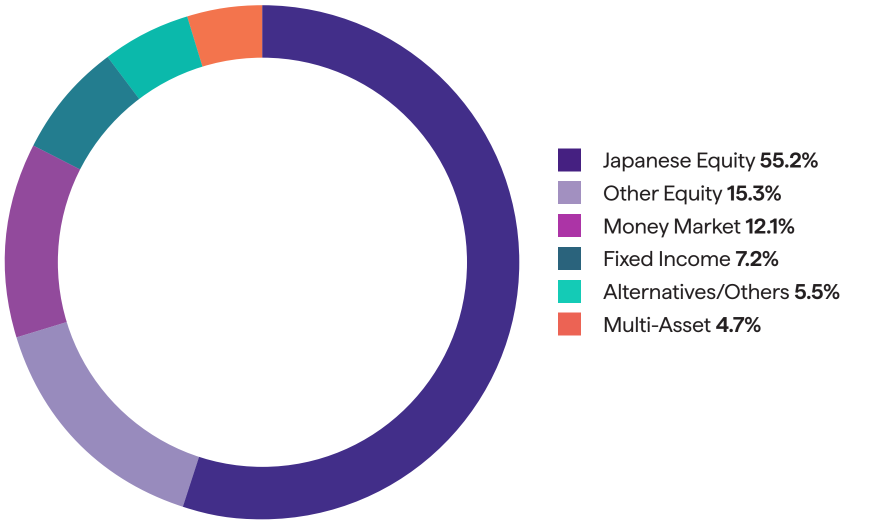
Context

With its origins in Japan, the Nikko Asset Management Group ("Nikko AM Group") is today one of Asia's largest independent asset managers, with USD 234.8 billion[1] assets under management ("AUM", as at 31 December 2024). Headquartered in Japan, which is home to a large proportion of both our clients and our AUM, we also manage assets from a number of offices around the world, including the UK. We combine a global perspective with our Asian roots to create sophisticated and diverse investment solutions to meet our clients' needs. These needs differ, depending on whether the client is retail or institutional. But for all types, our guiding strategy is to ascertain the purpose for which their assets are being managed and then to steer them towards the outcomes that best meet that purpose. In doing so, we put stewardship at the heart of our activities and the distinctive values that our Japanese heritage brings.

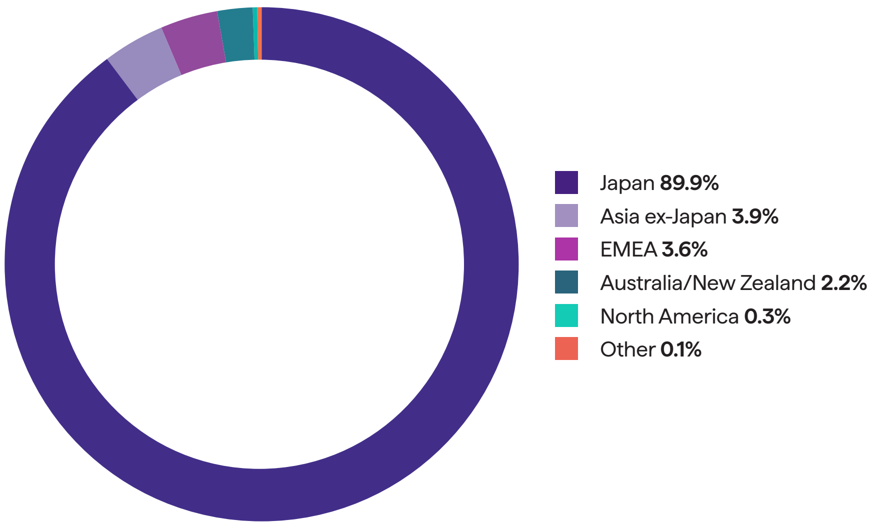
Japanese culture values harmony, both with nature and with other people, putting less emphasis on the individual and more on society than in Western traditions. We have therefore grown up over the past 65 years infused with the belief that we must be good corporate citizens. Our approach to stewardship and engagement has evolved against that background and it informs the way we have addressed our response to the UK Stewardship Code.

A breakdown of our AUM by asset class and client domicile is shown in the following charts.[2]

Assets under management by asset class*



Assets under management by client domicile*

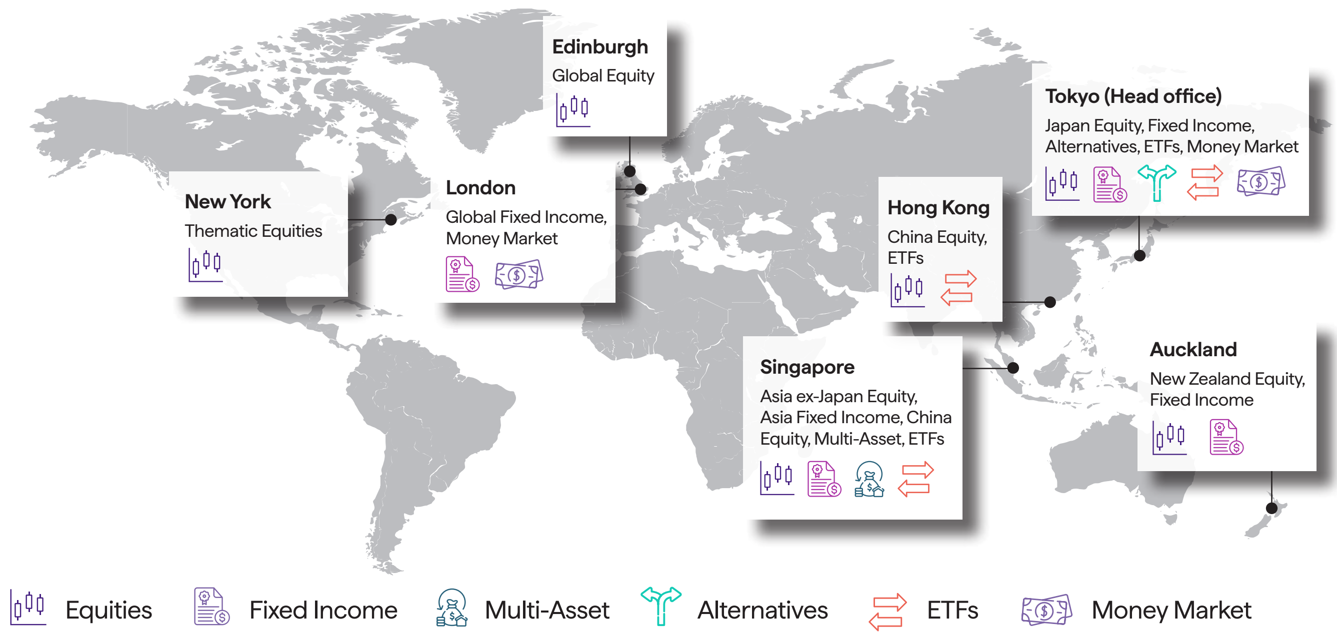


*As of 31 December 2024

1 As of 31 December 2024. Consolidated assets under management and sub-advisory of Nikko AM Group, including subsidiaries but excluding affiliates and other minority interests.

2 Totals may not sum due to rounding of data at source. "Multi-asset" funds are made up of equity and fixed income assets. The stewardship of each of these assets is addressed individually in this report. "Alternatives" constitutes REITs, equity long/short and infrastructure funds. Infrastructure represents 0.9% of group AUM and is managed by external managers. These managers are subject to Nikko AM Group's external manager due diligence process, which includes a review of ESG policies.

Locations of our investment teams

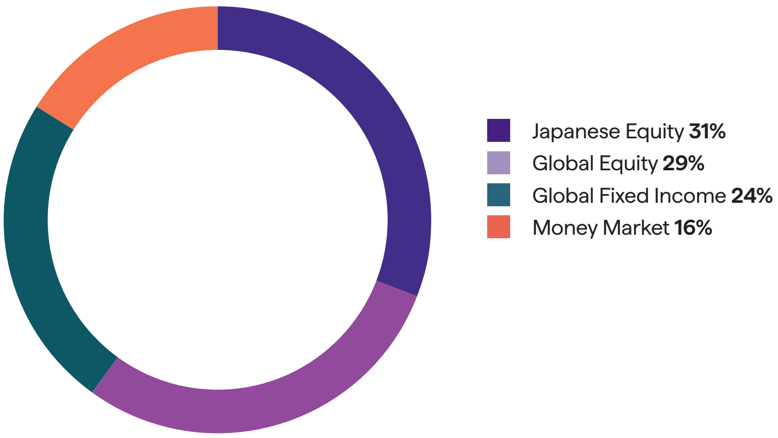


The Nikko AM Group has a presence in 11 countries, with our in-house investment teams located in seven of our offices in four continents. Together we provide high-conviction asset management from across our global network, as well as across a range of active equity, fixed income and multi-asset strategies, with a complementary range of passive strategies, including some of Asia's largest exchange-traded funds ("ETFs").

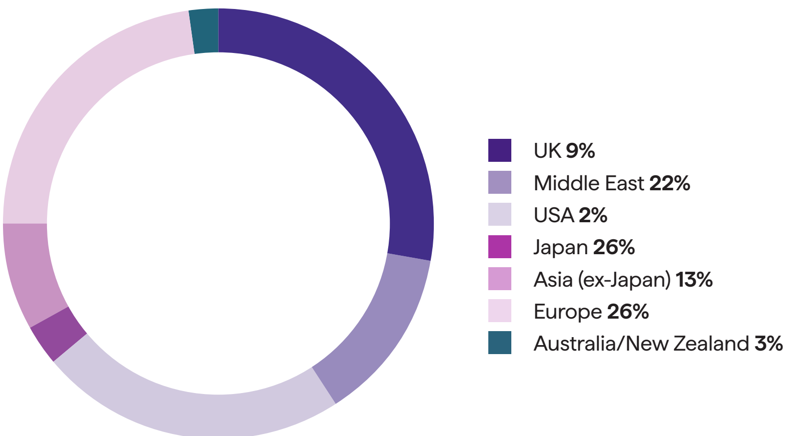
While most of our AUM and clients are based in Asia, our long-term business goal is to offer best-in-class investment solutions for clients worldwide.

We implement cross-border delegation arrangements whereby the locally contracted Nikko AM Group office manages business development, supported by local client servicing teams, with portfolio management delegated to the respective regional Nikko AM Group entity where the relevant investment expertise is based. For example, the AUM of our UK entity, accounting for approximately 8% of the Group total (as at 31 December 2024), represents assets managed on behalf of a range of clients who are accessing the investment capabilities of both our local and global investment teams. A breakdown of the AUM of our UK entity as at 31 December 2024 is provided in the charts opposite.

UK breakdown by asset class*



UK breakdown by client domicile*



*As of 31 December 2024. Totals may not sum due to rounding of data at source.

Code of ethics

We believe in a sense of responsibility, stressing stability and harmony. We believe in promoting respect for our environment, for our community and for other people. As active owners we recognise the value of building long-term relationships built on trust and respect for the companies in which we invest to promote better outcomes for our clients, the economy, the environment and society. In doing so, we strive to be better global citizens.

Below we outline our values in the context of our investment beliefs, culture and engagement and, in the activity section, explain how these enable effective stewardship. These values are encapsulated in our Group Code of Ethics, which commits us to upholding:

- our fiduciary duty to our clients,
- the integrity of capital markets,
- our responsibilities to environmental conservation, and
- our social responsibility.

The Code is reviewed by the Nikko AM Group Board of Directors (more details of the review process are described in our response to Principle 5) and attested to annually by all employees globally. It acknowledges that, as a fiduciary, we owe our clients a duty of loyalty and care. When acting in a fiduciary capacity, all employees must act for the benefit of our clients, placing their interests before the interests of the Group, a third party's or their own. Employees must also act with reasonable care and diligence and exercise prudent judgement in the performance of their duties. The Code provides guidance and sets standards in a number of specific areas, including our duties to regulators and the public, to upholding the integrity of financial markets, to ethical business practices, fair competition, and our environmental and social responsibilities, and it also governs our personal trading.

At the heart of our culture is the belief that, as stewards of our clients' money, we have a duty to provide the right investment solutions to meet their goals. To do this requires us to understand their investment objectives, risk appetite, sustainability ambitions, regulatory and accounting frameworks, as well as the wider social and environmental climate in which we all live.

Environmental, social and governance and wider global growth strategy

We strongly believe that environmental, social and governance ("ESG") considerations are inherent to long-term corporate value creation and contribute to the realisation of sustainable economic growth. In light of this, we view ESG issues as an integral part of our fiduciary duty to clients and endeavour to incorporate ESG principles in all our investment processes.

ESG has been a historical area of focus for Nikko AM Group. We launched Japan's first socially-responsible investment fund in 1999 and the Global Green Bond Fund in conjunction with the World Bank in 2010. This fund was relaunched in 2023 and now invests in corporate issuance alongside holdings in Sovereign, Supranational and Agency bonds, particularly seeking out investments that are supportive of the transition to a net zero economy, such as renewable energy, sustainable transportation, and green building materials. The growing call to action on climate change, the environment and important social issues has also shaped the direction of travel for our firm's wider global growth plans - our Global Sustainable Investment team is embedded in our investment structure and is fully connected across our global offices, enabling us to deliver ESG outcomes for our clients and meet high international standards (further details on the resourcing and governance of this department can be found under Principle 2). Contributing to our wider global growth plans, we completed in January 2024 the acquisition of a minority stake in Osmosis (Holdings), a UK research-based quantitative investment manager focused on delivering better risk-adjusted investment returns with better environmental outcomes. In addition, in June 2024 we entered a strategic partnership in Asia with Tikehau Capital, an alternatives asset manager with considerable expertise in sustainable investments and specifically decarbonisation strategies.

Our approach to ESG integration is outlined in more detail under Principle 7. As part of our commitment to meeting international standards, we are continually improving many of our existing frameworks, policies and disclosures, as outlined under Principle 5. Our policies on ESG, responsible investing and stewardship are available on our website under the following headings: Fiduciary and ESG Principles, Commitment to Responsible Investment, Position Statement on Climate Change, Stewardship Activities Report and Self-assessment, Sustainability Report, Engagement and Stewardship Strategy, and Task Force on Climate-Related Financial Disclosures[3] (including respective local publications).

3 Please note that the Task Force on Climate-related Financial Disclosures (TCFD) has officially disbanded as of late 2023 and the responsibility for climate-related financial reporting has now been passed to the International Sustainability Standards Board (ISSB). For this reason, our TCFD report will be renamed in 2025.

Culture

Our diverse, inclusive and collaborative culture is a key competitive advantage and supports our ability to generate differentiated insights, as detailed in our Code of Ethics. Our staff members come from a rich diversity of backgrounds, with language capabilities covering all the main Asian and European languages. Our workforce includes 30 nationalities working together with the common purpose of protecting and growing the assets of our customers in a way that best meets their long-term investment goals.

Our team meetings encourage widespread participation, drawing on the collective intellect, experience as well as cultural and gender diversity of our teams to question the market consensus. Combined with common values based on mutual respect, our teams are well-constructed to meet the challenge of investing in diverse and fast-moving global and regional markets. As a global business committed to the values of diversity, equity and inclusion, it is appropriate that our approach to governance reflects not only the Western paradigm but also the standards of other parts of the world.

An example of how we embrace these other traditions from the top of the firm downwards comes from our New Zealand office. In 2023, during a visit to our New Zealand office, our Executive Chairman, Yutaka Nishida, received training on Māori perspectives. The New Zealand office continued to build its awareness and understanding of Te Ao Māori, the Māori worldview, in 2024 through a series of training workshops led by Mather Solutions, a Māori development consultancy. All staff have received training in some core concepts of Tikanga Māori, societal lore in Māori culture, while institutional customer-facing staff have now had sufficient training to perform a Karakia, a form of blessing at the opening and closing of a meeting. We shall be looking to incorporate these at an increasing number of events. As well as being a good opportunity to bring all staff together, it enables us to better understand the needs of our increasing number of Māori clients and cement our relationship with them. Further information about how we take account of client and beneficiary needs can be found under Principle 6. It is evident that the Māori outlook has similarities with the Japanese world view in terms of its focus on the collective rather than the individual and the emphasis on the long-term. We believe these principles infuse our respect for diversity and the rights of our fellow workers as set out in our Code of Ethics.

Our investment teams have autonomy to implement their own investment philosophies and processes in the markets and asset classes in which they specialise. To support them, we are making investments in both our sustainable investment and stewardship teams and, as mentioned above, developing and building the resources we devote to ESG. This is discussed in more detail under Principle 2.

Investment beliefs

Nikko AM Group has both a fiduciary role towards its clients and a responsibility towards society. Our corporate culture, ESG strategy and Code of Ethics help foster the long-term value and sustainable growth characteristics required to fulfil these commitments. Engagement is a key factor in the stewardship of our clients' assets. We find that constructive dialogue with our investee companies helps foster their long-term value and sustainable growth characteristics, improving both returns for clients and managements' accountability to society and the environment. This requires in-depth knowledge of the companies and the environment in which they operate, as well as wider considerations of sustainability consistent with our investment management strategies. Further information on the role of engagement in maintaining and enhancing the value of assets can be found under Principle 9.

Activity

Strengthening stewardship

In line with our commitment to continuous improvement, we constantly review and adjust our investment approaches, strategy and culture to foster effective stewardship. This includes the further enhancement of people and integration capabilities to ensure that we continue to be able to provide the right solutions for our clients.

As an integral part of the development of our climate strategy, we have strengthened our climate-related disclosures, enhancing our climate scenario analysis capabilities and supporting our progress towards our net-zero carbon commitments. The disclosures provide a deeper explanation of how Nikko AM Group identifies, manages and governs climate risks and opportunities. It also includes a more thorough top-down analysis of various climate scenarios.

Staff diversity and inclusion

We set up our first Diversity and Inclusion ("D&I") Working Group in 2015. Supported by the Corporate Sustainability department, we now have four D&I working groups operating internationally—Women's, LGBTQ, Abilities, and Racial Equality— where employees plan initiatives and events to promote diversity. For instance, our working group for people with disabilities helps to provide a better working environment for such employees. It also works to enhance employees' understanding of each other's needs and encourages cross-departmental co-operation.

We have a Diversity and Inclusion Policy, underlining the firm's commitment to embracing diversity and creating a work environment free from discrimination and harassment. In it we state that Nikko AM Group embraces and encourages individual differences amongst staff and has a zero-tolerance policy towards discrimination of any kind. These principles apply, amongst other things, to our practices and policies on recruitment and selection, compensation and benefits, professional development and training, promotions, transfers, social and recreational programmes, redundancies and terminations.

It aims to ensure that:

- all staff treat each other with respect,
- teamwork and participation are inclusive, allowing all groups and perspectives to be represented,
- a healthy work/life balance is promoted and encouraged through flexible work schedules,
- both we and our employees contribute to our communities and develop programmes that support them.

Support for our diversity and inclusion initiatives comes from the highest levels of the organisation, with particular focus from Stefanie Drews, Nikko AM Group Director, President and Chief Executive Officer. Ms Drews has been a champion of diversity and sustainability issues within the company since joining in 2014 as Head of Institutional Marketing and Proposition. She has been an internal campaigner on matters of equality as she has moved through the ranks of the organisation, working to foster a culture based on talent and merit. She continues to be a vocal champion of sustainability and diversity issues, both within the organisation and publicly. In May 2024, Ms Drews reflected on her personal experience and career in a video message that formed part of the first of a series of events on "Women in Work: Japan" run by The Japan Society, a group dedicated to the enhancement of relations between the UK and Japan.

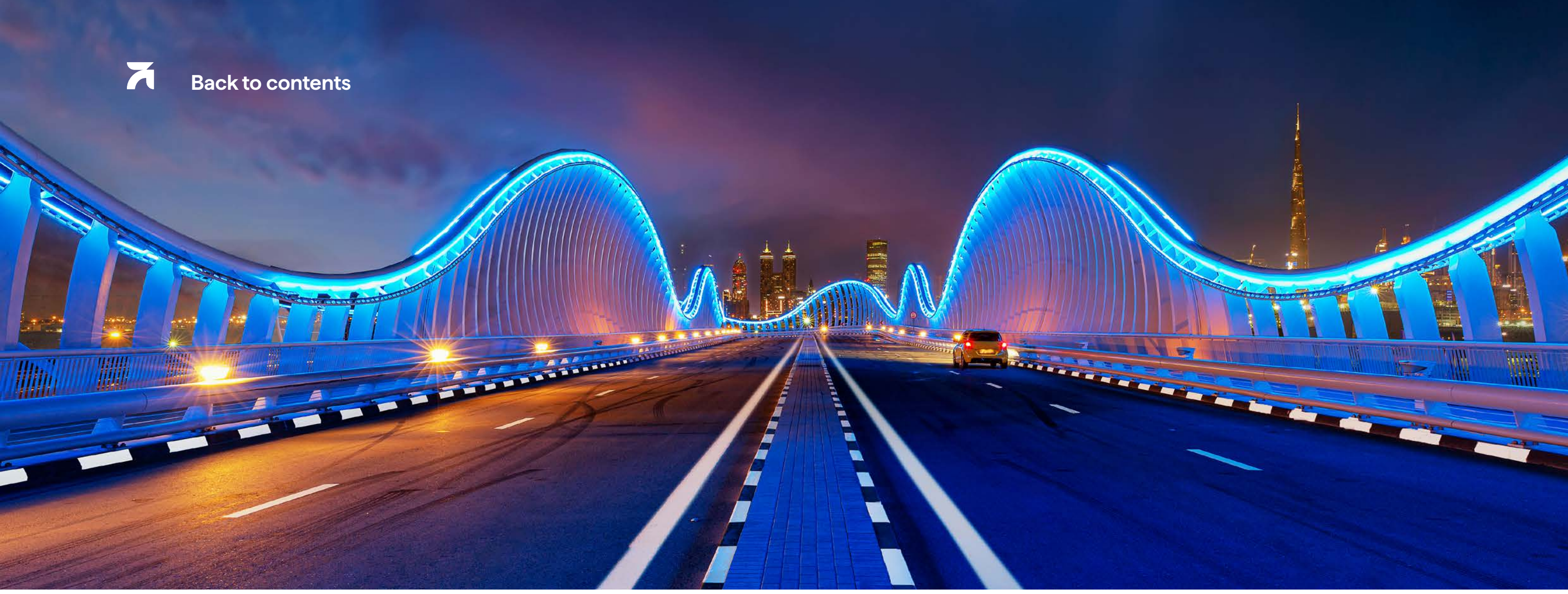
Ms Drews is particularly keen to boost the number of women in senior roles. We are actively trying to raise the numbers, backed by our 2021 commitment to ensuring that at least 30% of all our managerial positions are occupied by women by 2030. We are a member of the 30% Club Japan Investor Group, which aims to have 30% of all board seats of TOPIX 100 companies occupied by women by 2030. Currently, female representation on our Group Board stands at 27%, which is lower than previous years because we have increased the total number of board members, while women make up 40% of our total staff and occupy 24% of our management positions globally.

We do not believe that diversity should stop at the global board. Further down the scale, we have action plans throughout all regions to achieve our goal of raising the percentage of female managers.

In 2024, the Japan Women's Working Group started a series of lunch and learn sessions called "Career Chat Lunch", which employees can join to learn about the careers of fellow workers. The working group is also working with the Japan Human Resource Department to focus on three areas in 2025:

- Women's leadership training for non-managerial female employees. Last year's training provided an opportunity for participants to broaden their career perspectives by conducting open interviews with two group managers.
- Career support training for managers involved in career development. This training is mandatory for all managers based in our headquarters to provide ongoing career support. We also provide optional training on career building.
- Training in balancing work and childcare for those who are coming back to work after maternity or paternity leave.

As part of our efforts to promote and implement best practice in the investment management industry, our Tokyo headquarters actively participates in an industry-wide network called Asset Management Women's Forum, an initiative to empower women and enhance



female leadership in our industry. We are also actively seeking to create more welcoming working conditions for LGBTQ+ employees. For example, in 2024, we held an online event across the whole group to raise awareness about the issues faced by members of the trans community, individually and as part of wider society. We are an official member of LGBT Finance, an organisation set up by financial institutions in Japan to support LGBTQ+ individuals. This initiative enjoys very visible grassroots support from our employees and very engaged sponsorship from our senior management. For the sixth consecutive year, Nikko AM Group was awarded the Gold Award in the PRIDE Index 2024. –The PRIDE Index was created by "work with Pride", an association that helps companies and other organisations adopt and promote LGBTQ-related diversity management initiatives. Nikko AM Group received the Gold rating in recognition of its endeavours to create a workplace that is inclusive of LGBTQ and other individuals belonging to sexual minorities. The PRIDE index also awarded us with our first Rainbow certification for our efforts over the medium- to long-term to foster a work environment and a wider society where LGBTQ+ individuals can be free to be themselves. Nikko AM Group was also the first Japanese fund manager to become part of the LGBT Great initiative, a group of organisations in the financial services industry with a shared vision of making it a trusted place for LGBTQ+ talent, clients and investors, 2024 continued our work with LGBT Great.

Also in 2024, our Global Racial Equality Working Group organised a series of events tailored for each region, where expert speakers addressed racial and equality issues facing their region. This included, for example, the discrimination suffered by buraku people in Japan and the history and contemporary context of Māori issues in New Zealand.

Investing in Future Talent

We realise how important it is to nurture future talent in this industry, so we aim to participate in initiatives to make the fund management industry relevant and interesting for young people.

Several members of our Global Equities team are mentors and judges in the annual Growing Future Assets Competition, run by Future Asset, a group dedicated to improving the education of girls in Scotland about investment management. The competition involves teams of girls making an investment pitch to win prizes for themselves and their school. There were more than 130 teams entered in 2024 through 25 different competitions. Each had to prepare an investment report on a company by answering questions about the industry, the company and how to value it, all presented via a short video which was pitched to a live panel of judges. We hope our involvement with Future Asset will help girls in Scotland to leave school understanding that investment management is relevant to everyone, can have a positive impact, and offers fulfilling career opportunities.

In addition, we are signatories to the UK-based Progress Together. This is the first body of its kind to promote socio-economic diversity and progression in the UK financial services sector, particularly at a senior level. As a member firm, Nikko AM Group has committed itself to collecting anonymised employee data and sharing them with Progress Together to help it strengthen its benchmarking capability. This data collection is one of the biggest social economic diversity data surveys in financial services, to which we have contributed for the third year running. As part of our commitment to increasing socio-economic diversity in asset management, we in 2024 formalised a partnership with a secondary school in the London Borough of Tower Hamlets. We welcomed two students to participate in a week's work experience in the summer of 2024 and are hoping to host a further four students in 2025. Additionally, we represented the financial services industry at the school's career fair in Autumn 2024, with our participation very much focused on sharing industry insights and outlining careers options to a broad cohort of students. More generally in 2024, a number of staff from our UK offices participated in speaker events at local schools and universities, explaining asset management to a group which is often unfamiliar with what we do.

Also in the UK, one of our female leaders mentored for the Girls Are Investors ("GAIN") charity for three months, offering advice and guidance on the corporate world, work and interviews. GAIN offers a platform for learning, career development and networking to inspire and empower the next generation of women and non-binary investment professionals. In the summer of 2025, the Global Fixed Income team will host a GAIN intern for six weeks duration, something we hope will be the start of a continuing partnership.

In Singapore, our team held its Teens@Work Programme in 2024 for children of employees. Teens@Work is a programme that engages employees' children at our offices during the school holidays in June and December. Teenagers between 14 and 17 years of age get to experience what it is like to be employed at our Singapore office through attachments with different departments. This allows young people to learn both hard and soft skills that will serve them well into their adult years.

In New Zealand we have launched an internship programme that consciously considers applicants that might normally be excluded by traditional employment processes. For example, in July 2023, with the help of Host International, a local non-governmental organisation, we hosted an intern from Afghanistan, who had struggled to find a job in his field, despite his previous experience in supranational organisations and banks. Our Chief Operating Officer and Head of Legal in New Zealand played key roles in facilitating this opportunity. We mentored and introduced him to the Financial Markets Authority (FMA), which helped him obtain a position there in 2024. We plan to continue our intern programme with its focus on applicants that may not fairly be considered by traditional recruitment processes.

Investments

Our main instrument for translating our investment beliefs, strategy and culture into effective stewardship is our investment teams. They have different approaches and different opportunities to exercise stewardship, which are described below and in the rest of this report, specifically under Principle 7.

Equity

The rights of an equity shareholder, particularly in terms of voting and access to companies, allow us to implement our investment beliefs and carry out our stewardship responsibilities in many ways other than making an investment decision. These are discussed further throughout the report, with our engagement and voting activity covered in particular under Principles 9, 10, 11 and 12. One way stewardship influences our actions is the discussions our investment teams have with clients and prospects about their priorities and obligations. The looming spectre of climate change is a concern for many and is one of the topics we have in the front of our minds, not only during internal deliberations in respect of our own net zero ambitions and targets, but also in our engagements with investee companies and, increasingly, in our voting deliberations.

Fixed income

It can be more difficult to have a direct influence on the direction of investee companies in fixed income. A bondholder lacks the voting rights that accompany equity ownership, however bond holders may choose not to participate in new issues or to divest holdings of a company as a way of expressing their displeasure at corporate behaviour. It is also important to engage with management to encourage positive changes where we as stewards see areas of improvement for a company. Our teams have been active in stewardship activities in a number of fixed income areas during the year, which are discussed further throughout the report. In certain cases, we have also been able to combine forces with our equity management colleagues to increase our leverage over companies (for more on this, see Principle 9).

Outcome

We believe this year's report reflects progress in our efforts to cultivate a culture of stewardship. Having put in place a robust infrastructure to embed sustainability, diversity and sound governance in all that we do, 2024 was a year of consolidation and growth. The best evidence of our progress will be found in our case studies illustrating each Principle, which we believe show a growing determination to do the right thing, whether it is us, our clients or the companies in which we invest.

Where we have identified failings at investee companies, we believe we have been effective in our interventions but acknowledge that in some cases these are long-term engagements that may take some time to show effect. At the same time, we realise that we are often a relatively small investor in some very large companies and so our influence is limited. However, we are active in our participation in industry initiatives and conferences on major issues in order to influence change. Further information on these will be found in our responses to Principles 4, 7 and 10.

Given our Japanese heritage and large Japanese and Asian asset base, we approach our business from a different standpoint to asset managers that have a European or North American background. Stewardship is built into Japanese culture, but often approaches it from a different perspective to Western societies. We have brought these eastern traditions of stewardship with us as we have expanded, first from Japan itself to the wider Asian investment market and then to the rest of the world. We believe there is room for both approaches, but reconciling them can prove both challenging and exhilarating. It means we can never stand still in our efforts to widen and improve our approach to stewardship.

Our clients' feedback is one of the key indicators of the success of our stewardship activities. We take the comments of both our retail and institutional clients very seriously. As we describe in detail under Principle 6 and other sections of this report, they help guide how we manage their assets and the type of assets we use. We know that many clients are keen to ensure that their investment returns are generated in a principled and sustainable way. This, we believe, is a key part of stewardship, while also helping to improve the long-term returns for clients and bringing sustainable benefits to the economy, the environment and society. We recognise that we can always do more, but the feedback we receive and our client retention suggest that we are being effective in serving the best interests of our clients and beneficiaries.

We believe the policies and activities described in this report reflect our continuing commitment to fiduciary duty and our effectiveness in embedding stewardship across the organisation. We believe our Japanese heritage of stewardship and long-term horizons make us particularly well fitted to succeed.

Principle 2

Signatories' governance, resources and incentives support stewardship.

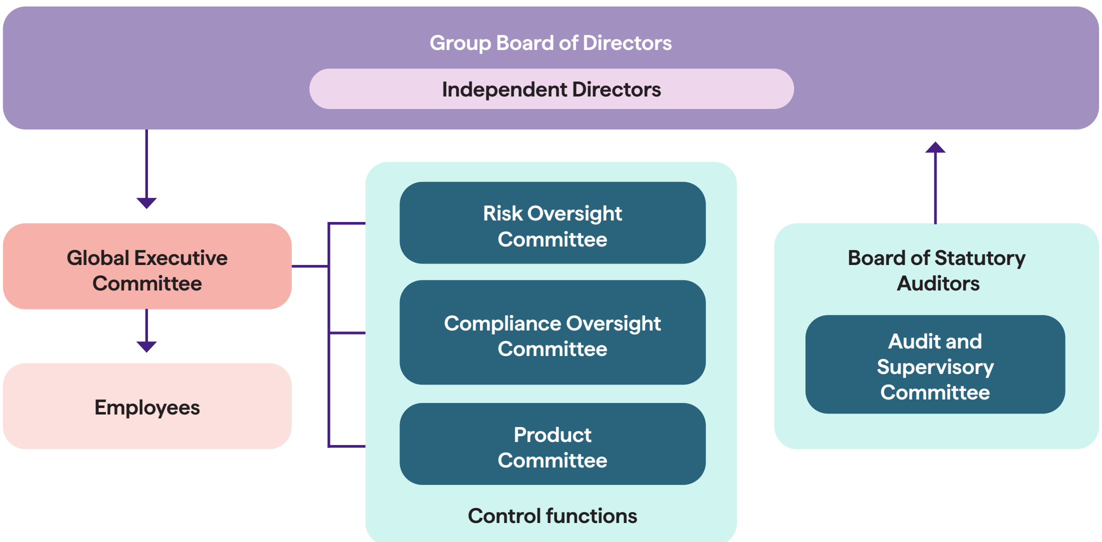
Activity

We regard fiduciary and ESG principles as paramount guides in fulfilling our duties as stewards of our clients' assets. In implementing these principles, corporate governance is critical. Our fiduciary and stewardship responsibilities are overseen by the Nikko AM Group Board of Directors, including Non-Executive Director and Chairman Yoichiro Iwama, Director and Executive Chairman Kuniyuki Shudo succeeding Yutaka Nishida as of 1 April 2025, and Director, Group President and Chief Executive Officer Stefanie Drews. Our commitment to gender diversity is reflected in the composition of our Group Board, where three out of eleven members are female, while our commitment to independence is ensured by having over 80% of the Group Board made up of outside directors.

The Nikko AM Group Board delegates responsibility for day-to-day decision-making to our Global Executive Committee ("GEC"), comprising members of the senior management team, whose details can be found under the leadership section of our website. The GEC has been striving in recent years to increase the representation of Nikko AM Group's regional offices, increase diversity and welcome the next generation of leaders.

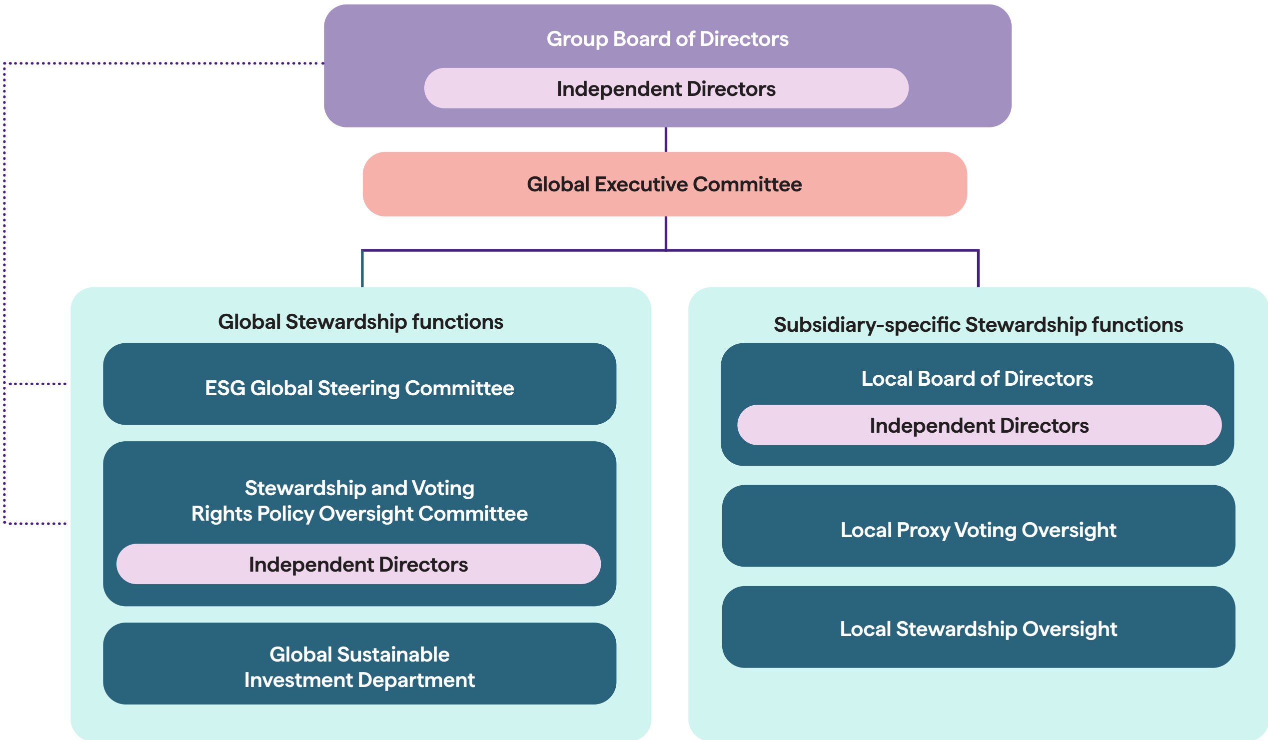
The chart below is a simplified representation of our group governance structure.

Nikko AM Group governance



Nikko AM Group's supervisory and governance structure includes an audit and supervisory committee. The role of the committee is to strengthen oversight and enhance our corporate governance framework.

Stewardship governance structure



Governance of stewardship activities operates at both the global and local subsidiary level. The overall oversight of our ESG activities is the responsibility of the ESG Global Steering Committee. It oversees the integration of ESG within investment teams, sets policy and develops strategy, makes external disclosures and recommends ESG-related initiatives and participation in external bodies. The ESG Global Steering Committee is governed by the GEC but, in addition, reports directly to the Group Board. It is chaired by the Chief Investment Officer and other members are the heads of our investment teams worldwide who are in charge of stewardship implementation in their individual investment processes, including ESG integration, company engagement and proxy voting, where applicable. It is further supported by the dedicated expertise of the Global Sustainable Investment team, which is described in more detail under "ESG resources" below. As well as its monitoring and guidance activities, the Steering Committee drives our implementation of the United Nations-supported Principles for Responsible Investment ("PRI").

Our Global Head of Sustainable Investment, Natalia Rajewska, is based in Singapore and reports directly to the Group President and Chief Investment Officer to ensure that ESG matters have appropriate senior leadership oversight. The five underlying functions of the Global Sustainable Investment team report directly to the Global Head of Sustainable Investment.

Ms Rajewska's core priorities centre around shaping our sustainable investment strategy, building Nikko AM Group's Global Sustainable Investment team and working closely with investment teams and other business functions in all the regions to strengthen the firm's ESG capabilities and provide insight on broader ESG topics. For example, in 2024, she presented ESG topics to the Nikko AM Group Board of Directors on three occasions, addressing a variety of sustainable investment topics. Further in 2024, the mission of strengthening the firm's ESG capabilities was supported by senior leadership, with both Ms Drews and Mr Nishida having specific key performance indicators to continuously improve the group's ESG implementation, demonstrating a top-down readiness to put principle into practice. Further details about our subsidiary-level governance and ESG resources are described in the sections below.

Subsidiary-level governance

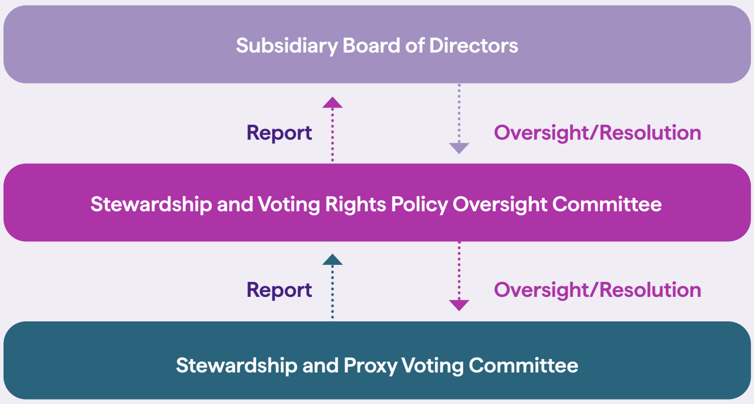
Each Nikko AM Group subsidiary has an independent executive team led by a regional head who reports to the Group President and is responsible for formulating and executing targets and plans decided by the Group Board and GEC in line with local regulations and customs. The global and local stewardship oversight framework is illustrated in the chart above. There are differences of detail as to how these processes operate at subsidiary level, which depend on the make-up of particular local oversight frameworks.

For example, some regions have dedicated committees, such as the Japan Stewardship and Voting Rights Policy Oversight Committee or the UK ESG and Stewardship Oversight Committee, which feed into both the Global ESG Steering Committee as well as the respective local boards, whereas other regions report directly to the Global ESG Steering Committee via their regional members. The differences between local stewardship oversight frameworks are often attributable to different regulatory requirements in some regions. As examples, we outline the Japanese and UK approaches below.

Stewardship oversight of Japanese investment functions

As Japan represents such a substantial part of the business, we devote a great deal of resources to its governance and stewardship. The Stewardship and Voting Rights Policy Oversight Committee monitors and supervises our engagement with Japanese investee companies and proxy voting. Four of the committee's seven members are from outside the Nikko AM Group, making it highly independent. It reports directly to the Group Board on matters such as the governance of our stewardship activities and conflicts of interest. Directly answering to the Oversight Committee is the Stewardship and Proxy Voting Committee, which is responsible for formulating specific policy, providing guidance on stewardship activities and is also responsible for updating our Group Proxy Voting Policy.

Oversight of proxy voting at our Japanese entity



Our Japan Sustainable Investment department's aim is to enhance our ability to, firstly, make judgements on how to exercise voting rights and implement stewardship activities in our Japanese portfolios, and secondly, conduct engagements with Japanese companies, including those not already covered by sector analysts in actively-managed portfolios. As a result, even stocks that are held only in passive portfolios are subject to engagement. The department is fully incorporated into the Global Sustainable Investment team and acts as a central sustainable investment hub for our Japan office.

Stewardship oversight of UK investment functions

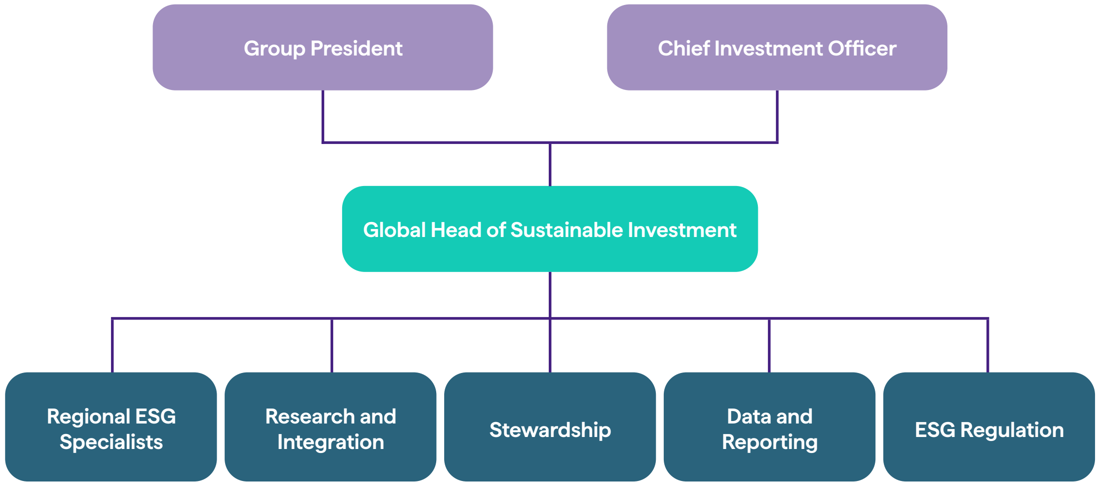
Another example is the UK entity which is responsible for stewardship activities in the UK in collaboration with the Global Sustainable Investment team. Our review and adoption process for ESG regulations and standards now works in three layers. The initial stage involves a dedicated team scanning the horizon for ESG requirements that might affect the group. Any that are highlighted are then reviewed and assessed by a dedicated working group comprising key business functions. Lastly, requirements, impact assessments and recommendations are presented to a board committee dedicated to ESG and stewardship.

ESG resources

Our Global Sustainable Investment team is split into five functions:

- **Regional ESG specialists:** these are our ESG "all-rounders" who work closely with the regional investment teams supporting their ESG integration and stewardship efforts. They also work closely with our other functions, such as client services and product development, to ensure that we deliver the best outcomes for our clients across the entire value chain.
- **Research and integration:** this function is responsible for supporting our investment teams and ESG specialists with subject matter expertise, while ensuring we continuously improve our integration efforts. It is a dynamic function that is constantly evolving to meet the changing needs of firm and industry.
- **Stewardship:** our central stewardship function will further support our stewardship efforts.
- **Data and reporting:** this function is 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.

Global Sustainable Investment Department governance structure



Seniority, experience, qualifications, training and diversity

It is our global network of more than 220 investment professionals, with their wide breadth of experience, which is at the forefront of our stewardship activities, aided by our Global Sustainable Investment team. As an organisation, we are committed to sustainable and responsible investing and our portfolio managers, analysts and governance specialists all share in this commitment. They apply our global philosophy at local level in their day-to-day activities and by practising active ownership.

They are compensated using a methodology that is intended to align their interests and motivation with the outcomes of client portfolios. Annual evaluations are based on quantitative measures such as the long-term returns of client portfolios (for example, weighted portfolio returns for investment staff, or performance of recommended securities for analysts), but also the qualitative aspects of individual as well as group performance (for example, quality of analysis and contribution to the team).

We have a strong emphasis on internal training as stewardship is the responsibility of our entire workforce. All employees have an annual training plan that includes topics such as conflicts of interest, personal trading and our code of ethics. Investment employees across the firm's global network are encouraged to undertake responsible investment training via an online course offered by the PRI Academy as part of our continuing focus on implementing the PRI's six Principles for Responsible Investment. The training concentrates on how ESG issues affect business and investment decision-making through the use of financial modelling and in-depth case studies. Given the time and commitment constraints, we do not ask investment employees to conduct this extensive training every year, but instead encourage them to take it at least once. In 2024, a further three employees of Nikko AM Group investment staff enrolled.

Our long commitment to ESG is reflected in the fact that we launched Japan's first socially-responsible investment fund as long ago as 1999. We now practise deep and direct ESG integration across the firm, where every investment team and department integrates ESG directly into its work. We have a number of systems, platforms and forums that allow our global investment teams to share research analysis on events and issues, especially those that may not always be covered in the media. We invest in people and integration capabilities to ensure that we are able to provide the level of service required to meet the needs of our clients. This continuous investment ranges from ESG-specific resources, training in stewardship themes and client communications, through to the means to engage and monitor company engagements on a larger scale.

Systems, analysis and service providers

Institutional Shareholder Services ("ISS") is used to execute our proxy voting, which we consider a key activity in fulfilling our stewardship responsibilities. ISS also provides research and customised voting recommendations based on our voting and responsible investment policies, although the ultimate decision on how we vote is taken in-house. Our interaction with ISS is discussed in more detail under our responses to Principles 8 and 12.

Our Data and Reporting team helps provide consistency, accuracy and improves the coverage of our ESG data, as well as expanding our analytics capabilities. The team works with a variety of stakeholders across the firm, focusing on analysing and integrating data we acquire from our primary ESG data provider for use by investment and client reporting teams, as well as climate-related disclosures. This work has included enhancing our ability to identify and assess climate-related risks and opportunities. The team also works on a variety of regulatory reports, plays a key function in providing data to prove our compliance with the EU's Sustainable Finance Disclosure Regulation and has been charged with developing leading ESG data capabilities to meet our evolving needs.

Data from external service providers are used as one input in our investment decision-making process to supplement our proprietary analyses. We use a wide range of data from a combination of public disclosures (issuers' annual and sustainability reports etc.) for the purpose of research, as well as through direct engagement and communication with companies and external ESG analysts and data providers, such as MSCI, ISS, Bloomberg and Good Bankers.

Having access to multiple sources of data can be useful in allowing us to cross-check our assumptions. However, we recognise that third-party data providers have shortcomings, including a lack of consistency arising from differences in methodology, and we therefore treat this data as supplementary to our proprietary research in our active strategies, as outlined in Principle 8.

The members of our wider Global Sustainable Investment team collaborate closely and co-ordinate activity with investment teams and other key business stakeholders, such as sales and sales support staff. Amongst other things, the team's duties include conducting ESG research and integrating it into our investment processes. This means ESG analysts are embedded in investment teams to ensure that we take a proactive approach to capturing and integrating regulatory and market standards in relation to ESG.

Outcome

As a group we are committed to active stewardship. Our governance structures and stewardship processes address several areas, including the management of conflicts of interest, engagement in active and passive investment management, our sustainability efforts and information disclosure.

As stewardship needs and expectations are continuously evolving, we continue to adapt and fine-tune our responsibilities and activities as stewards of our clients' capital. This means ensuring that we have the right resources, governance and incentives in place to support our responsibilities to the economy, the environment and society. We understand that effective stewardship requires continuous improvement, and we aim to critically evaluate our approach and implement meaningful changes wherever and whenever required.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Context

We always seek to put the interest of our clients first in all our activities. We aim to identify all actual or potential conflicts of interest and maintain and operate arrangements to minimise the possibility of conflicts giving rise to a material risk of damage to the interests of our clients. We have established a Group Conflict of Interest Control Policy (addendums to which can be applied at the subsidiary level in line with local requirements), which has been designed to prevent us from prejudicing the interests of clients in the conduct of our business and is reviewed at least annually. Potential new conflicts are considered as part of any new business development and/or business process changes.

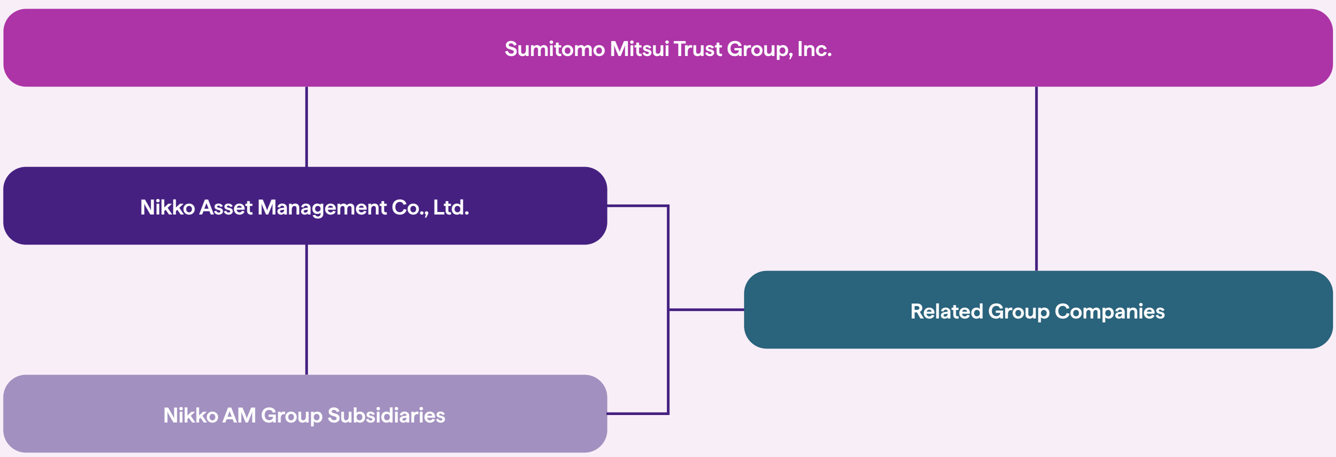
In addition, group subsidiaries maintain their own conflicts of interest registers which record potential conflicts that have come to light during their activities and the measures taken to resolve them. Each register is regularly reviewed and approved by the relevant subsidiary board of directors.

More details about how our conflicts of interest policies operate can be found in the Activity section below. However, in general, when identifying the types of conflict of interest that may arise, we take into account, as a minimum, whether we or any of our directors, managers or employees or a person directly or indirectly linked to the firm:

- is likely to make a financial gain, or avoid a financial loss, at the expense of a client,
- has an interest in the outcome of a service provided to a client or of a transaction carried out on behalf of a client which is distinct from the client's interest in that outcome,
- has a financial or other incentive to favour the interest of one client or group of clients over the interests of another,
- carries on the same business as the client, and/or
- receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monetary or non-monetary benefits, other than the standard commission or fee for that service.

Responsibility for controlling transactions and other conduct likely to give rise to conflicts of interest is managed by our compliance departments. More details about how conflicts are handled can be found in the Activity section below. Together, the group compliance heads are charged with maintaining the conflicts of interest control framework and periodically verifying its effectiveness, as well as continuously striving to improve it. They are also responsible for communicating all aspects of conflict control to employees through education and training programmes. They are immediately answerable either to the board of directors of the relevant subsidiary or, if the incident occurs in Japan, to the Compliance Oversight Committee, part of the Global Executive Committee.

Our corporate structure



One area where conflicts can arise is our ownership, which could result in a related group company being treated more favourably than an unconnected company. Nikko AM Group is ultimately owned by Sumitomo Mitsui Trust Group ("SMTG"), which changed its name from Sumitomo Mitsui Trust Holdings in October 2024. SMTG is a large Japanese conglomerate with interests in, amongst other things, banking, pension administration, real estate, stock transfer, custody services, and asset management.

In 2024, Nikko AM Group had subsidiaries in the UK, Luxembourg, the US, Hong Kong, Singapore, New Zealand, branch offices in Germany and the Netherlands, as well as associates in China, Malaysia and Australia. An up-to-date list of related group companies is maintained in the appendix of the Group Conflict of Interest Control Regulations. In addition, the names of related group companies, as well as that of our publicly-listed parent, are kept on a restricted list at local subsidiaries to help prevent any potential conflicts. Other possible conflicts are listed in the table below.

Activity

Examples of potential conflicts of interest related to stewardship that may arise and how we manage them are summarised in the table below.

Conflict	Example	Management
Related group companies	In undertaking business with related group companies, we may treat them more favourably than we would with unrelated companies.	Both we and our related group companies have standards embedded in policies and procedures to avoid and manage conflicts of interest.
Fair allocation	When acting on behalf of more than one client, investments may be executed in a way that favours one or more clients to the disadvantage of others.	We have fair allocation policies and a robust compliance monitoring framework in place to oversee their implementation.
Proxy voting	We may have a business or other interest which may be seen to influence or bias how we exercise our voting rights.	Our Proxy Voting Policy is designed to ensure that all votes are cast in the best economic interest of clients. We assess our voting conduct every quarter at a regional level and publish an annual summary of our firm-wide voting activity on our website.
Outside directorships	Employees who have access to portfolio management or proxy voting activities and are directors of an outside firm or firms, or our directors who hold similar positions with another firm or firms, may be able to use their position and information obtained from either firm for financial gain or the avoidance of loss.	All employees are required to seek compliance and senior management approval for any outside directorships which they may hold. Employees who have oversight of other companies are excluded from agenda items where Nikko AM Group's stewardship activities involving such companies are discussed.

An example of our quarterly monitoring is the work of our Japan Stewardship and Voting Rights Policy Oversight Committee, which meets every three months to review votes on individual proposals from investee companies that might trigger a conflict of interest. A regular item on the committee's agenda is reviewing votes involving related group companies and confirming that there is no bias in favour of the related group company. In addition, the committee also judges the exercise of voting rights involving our parent company, publicly-listed customers, business partners, and financial institutions that sell our products. In doing so, the committee is aided by recommendations from our proxy voting agency, ISS.

In 2024, the Japan Stewardship and Voting Rights Policy Oversight Committee reviewed proxy voting decisions related to 113 companies for conflicts of interest (114 votes in total including both annual general meetings and extraordinary general meetings). There were no instances where the committee deemed that there was bias in the way that votes had been cast.

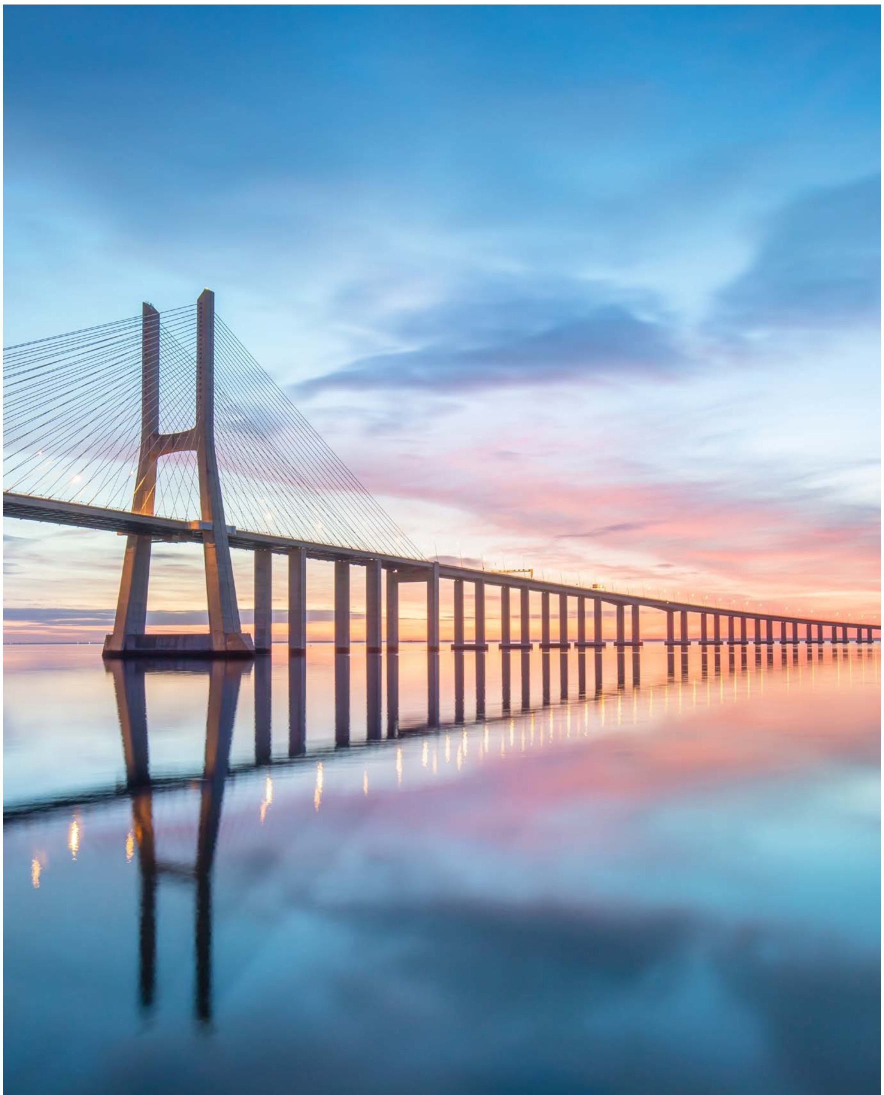
We firmly believe that such reviews of individual votes help us to increase the transparency of our stewardship activities and minimise conflicts of interest when we exercise our voting rights. We believe that having the reasons for our voting decisions reviewed by the independent oversight frameworks helps us manage potential conflicts of interest and facilitates constructive engagement with investee companies. For more on our voting activities, see Principle 12.

Our UK entity identifies "greenwashing" as a highly relevant area for possible conflicts of interest. This is where a business makes false or misleading claims about its adherence to ESG principles and/or the ESG performance of its products and services. To manage potential greenwashing risks in our disclosures and other communications, any materials due for external consumption are subject to a robust compliance review process before publication and/or distribution. We also update marketing procedures and provide training for staff on a regular basis. This review framework ensures that any materials are clear, fair and not misleading.

Outcome

No actual conflicts of interest arose during the year that prevented us from performing our stewardship activities in line with the best interests of our clients. In 2024, there was one addition to the list of related group companies which is maintained in the appendix of the Group Conflict of Interest Control Regulations, as well as the recording of the name change in our parent company.

Our policy and practice for managing conflicts of interest are governed by the management framework and supervision functions described above and form part of our everyday stewardship activities. We believe that this thorough management of conflicts of interest helps to maintain the trust of both clients and investee companies and allows us to conduct our stewardship activities in the most effective way possible.



Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Activity

As an asset manager, we are reliant on our ability to invest in liquid, transparent and functional markets. Market-wide and systemic risks directly affect the value of the assets that we invest in, therefore, as a fiduciary, one of our key responsibilities is to manage these risks in order to improve outcomes for our clients. As long-term investors, it is in our interest to support and advance initiatives that aim to reduce market-wide and systemic risks and, as responsible stewards, we recognise both the responsibility – and the opportunity – we have in promoting well-functioning, stable markets in the interest of the wider economy, environment and society.

A core part of our philosophy is that our investment professionals are best positioned to identify market-wide and systemic risks through their research and engagements. The natural corollary of this is that they then have the freedom to follow their own high-conviction approaches in dealing with these risks, supported by the infrastructure and resources of the wider organisation.

Our fundamental research is supplemented by external sources which enhance our overall understanding of the investment landscape. External sources include contacts with market-makers and related participants, dialogue with companies, sell-side research, independent research vendors, roadshows, presentations, conferences and rating agencies. In some countries a useful new source of information could become mandatory reporting by companies on how they are adapting to climate change. New Zealand is leading the way here, as we discuss in our case study "Learning the lessons of new climate reporting regulations in New Zealand" on page 28.

Research is shared globally through informal information-sharing platforms, as well as through more formal regular meetings to discuss views, build synergies, debate and refine ideas. Research notes are recorded and distributed across geographies and asset classes. Our teams also share unique and timely analysis on important macroeconomic and political issues, especially those that may not always be covered in the media. Ad-hoc meetings may also be organised between offices to discuss urgent market news and/or important developments.

Our Global Investment Committee ("GIC"), which consists of senior investment representatives from the group's investment teams and meets remotely on a quarterly basis, sets out the group's house view on the economy and markets for the coming year. Prior to each quarterly meeting, the GIC chair and global strategist requests subjective quantitative estimates of macroeconomic variables and asset class expectations (the latter contributed by area of speciality) ahead of each committee meeting. Each voting member is asked to contribute their own subjective estimate of central tendency (median and interquartile range) for their assigned variables. To guide their decision-making, voters are offered both consensus estimates (mostly sell-side brokerage forecasts) as well as the Global Strategist's stylized view based on relevant data points. At the Global Investment Committee, voters' views are aggregated and the Committee engages in a qualitative discussion of the motivation behind each voter's contribution. Variables include economic growth, central bank policy rates, inflation and financial market conditions for each of the world's major regions over the coming year. GIC members therefore contribute both quantitative and qualitative input reflecting their investment theses into the GIC Outlook, which then becomes the house view. Given central tendencies do not adequately reflect the full distribution of risks, GIC members are also asked to elaborate tail risks (risk scenarios of less than 25% probability, though higher-probability risks are also accepted for discussion), and to assign subjective probabilities and impact factors of these risks. Another element of the GIC therefore is a discussion of these tail risks elaborated by GIC members, which are also included into the quarterly Outlook. In addition to the regular committee meetings, the GIC chair can call ad-hoc meetings, as happened in August 2024 following a large draw-down in the Japanese Equity market and recessionary concerns in the US. Discussions included amongst others, the US economic policy, the unwinding of carry trades, Japan's anomalous investment income, the Bank of Japan policy, and corporate earnings. The GIC reaffirmed its positive outlook for global growth, while acknowledging the increased downside risks. Ultimately, it is up to the individual investment teams to decide which inputs to use in their investment decisions, but the GIC framework provides a platform for even bottom-up security selectors to consider how to incorporate macroeconomic developments and share their investment theses across asset classes, which makes the GIC a valuable resource across asset classes.

Managing portfolio risks

In addition to the GIC, one of the key defences we have against systemic risks is our Group Investment Risk Management department. It operates independently of the investment management division, with a separate reporting line to the Global Executive Committee via the Chief Risk Officer. The department oversees our risk management framework, keeping track of our exposure to a number of risks, including market risk, counterparty risk and liquidity risk, in order to ensure our portfolios are aligned to meet the best interests of our clients.

A number of measures, such as scenario analysis and stress testing, are used to monitor exposure and the resilience of our portfolios to market shocks. In addition to these routine measures, ad-hoc stress tests are run in response to developing market risks. These stress tests may cover short- or long-term time horizons and use various macroeconomic and firm-specific assumptions. For example, for our Asia ex-Japan equity and fixed income portfolios, we apply an investment risk management process to the monitoring of greenhouse gas emissions in, primarily, discretionary accounts. This process is performed by the Investment Risk department, which monitors the carbon emissions of each portfolio against its applicable benchmark every month based on agreed measurements and thresholds. Should a portfolio exceed its threshold, the Investment Risk department alerts the portfolio manager who subsequently evaluates the holdings. We do not exclude any company purely based on high carbon emissions but rather we test the company's plans for the transition to net zero.

Additionally, as further detailed in our climate-related disclosures, we assess our portfolios for both transition and physical risks under multiple climate scenarios, drawing on MSCI's climate value at risk model. We acknowledge that the understanding of and, hence, the process of assessing climate-related risks and its impact is constantly evolving and we will update our approach accordingly as time progresses.

The Group's Risk Oversight Committee reviews the firm-wide stress test and scenario analyses and their impact on the firm's business at its quarterly meetings. Once risks are identified, we have a responsibility as an active manager to mitigate them in order to achieve the best outcomes for our clients. Actions taken will depend on the nature of the risk, the asset class of the strategy and also the style of the individual investment team, but may range from a review of portfolio holdings to ensure their suitability for the given market environment, to a rotation into other instruments. During periods of market upheaval, we may also increase liquidity in our portfolios, either by increasing cash balances or by switching into more liquid instruments. This could be to provide a buffer against market volatility or to give us the ability to deploy cash when buying opportunities emerge, or both. We must also remain alert to the need to ensure that liquidity is sufficient to meet client redemptions.

Nikko AM Group risk management framework

Managing emerging and systemic risks

Emerging systemic risks and their impact on companies and industries are discussed at regular investment meetings. Financial markets faced a number of challenges in 2024 – for example, geopolitical tensions and elections exceptional market fluctuations – as well as the ever-present hazards of climate change, to name just a few. The impact of each challenge varies depending on the nature of the asset class and the make-up of each individual portfolio. This means that the way that each investment team responds to these challenges varies as they try and position portfolios to ensure the best outcomes.

In our passive portfolios, for example, our operations team rebalances portfolios frequently to ensure they maintain a low tracking error versus their respective benchmarks and to keep transaction costs to a minimum. For active fixed income portfolios, we hold monthly meetings to review the foreign exchange and interest rate outlook, and quarterly "horizon-scanning" meetings which consider long-term market issues without the distraction of having to consider products or issuers. These meetings are led by our Global Fixed Income team specifically to address fundamental challenges to the smooth functioning of global fixed income markets and what we can do to mitigate them. A major question for the team in 2024 was how the markets would react to the results of a possibly unprecedented exercise in democracy, when more than half the world's population in over 70 countries cast their ballots, as we discuss in our case study:

Case study:

Getting into pole position for last year's pivotal elections (fixed income)

Issue: In 2024, more than 70 countries—representing over half of the world's population—held elections, making it a pivotal year for democracy. As anticipated, the results reflected a pronounced shift toward populism, with potentially significant ramifications for central banks, financial markets and economic growth. The resurgence of populist leaders and policies has introduced both immediate and long-term uncertainties, impacting fiscal policies, regulatory frameworks and geopolitical stability. These dynamics are critical considerations for investors, as they shape global monetary policy expectations, capital flows and risk sentiment. In this evolving landscape, maintaining a disciplined and forward-looking investment approach is essential to navigating the macroeconomic implications of these political shifts.

Activity: To assess and manage the risks associated with last year's elections, our Global Fixed Income team turned to our proprietary fixed income risk scorecard (see below) to evaluate developments in both bond and currency markets. This tool was instrumental in tracking interest rate movements, exchange rate fluctuations and broader market sentiment in response to election outcomes across the major economies.

Throughout the year, the team used insights from the risk scorecard to inform our regular investment process meetings, ensuring that political developments were accounted for in our strategic decision-making. A notable moment came in the lead-up to the US presidential election in November. Acknowledging the increasing momentum of the Trump campaign and its implications for fiscal and trade policy, our team formulated a base case scenario where Trump would win the presidency, Republicans would gain control of the Senate and Democrats would reclaim the House of Representatives.

Given the potential for policy shifts under this scenario, the team adopted a neutral stance on both duration and currency exposure in the run-up to the election. This approach was taken to mitigate the risk of heightened volatility and unpredictable market reactions in the immediate aftermath of the vote.

Following the election outcome, the team strategically adjusted its positions: duration exposure was broadly reduced, including in the US, to account for potential inflationary pressures and shifts in monetary policy expectations. Additionally, given the post-election strengthening of the US dollar—driven by yield differentials and renewed confidence in US assets—the team shifted its currency positioning back to taking a more positive stance on the US dollar relative to other G10 currencies.

Fixed income risk scorecard

	Qualitative								Quantitative					
	Duration (1 Min to 5 Max)				FX (1 Min to 5 Max)				FX (over) Under			Duration		
	Median Team View	Quant	T-1	Δ	Average Team View	Quant	T-1M	Δ	FX (over) Under	RSI(30)	FX Rank	10yr Bond over (Under)	RSI(30)	Factor Rank
USD	3.5	2.5	3.0	0.50	4.0	3.5	4.00	0.00	2.8%	46.7	7	0.69%	51.6	10
AUD	4.5	2.0	4.0	0.50	3.0	4.5	3.50	-0.50	5.6%	45.0	3	1.68%	50.0	13
NZD	4.0	2.5	4.0	0.00	2.5	4.0	2.50	0.00	3.2%	36.8	5	1.01%	53.4	11
GBP	4.0	3.0	4.0	0.00	3.0	1.5	3.00	0.00	-1.8%	55.2	14	0.28%	45.8	8
CAD	3.0	5.0	3.0	0.00	2.5	3.0	2.50	0.00	2.3%	48.9	9	-0.64%	46.7	1
SEK	4.0	1.5	4.0	0.00	2.5	2.5	3.00	-0.50	2.2%	45.3	10	2.09%	45.9	14
CHF	3.0	4.0	3.0	0.00	3.0	4.5	2.50	0.50	5.8%	46.7	2	0.00%	0.0	6
NOK	3.0	3.5	3.0	0.00	2.0	5.0	2.00	0.00	6.1%	44.8	1	0.16%	49.7	7
EUR – core	4.0	4.5	4.0	0.00	2.5	4.0	3.00	-0.50	3.3%	45.3	4	-0.46%	46.4	2
EUR – periphery	4.0		4.0	0.00										
JPY	3.0	4.5	3.0	0.00	2.5	4.0	2.50	0.00	3.0%	46.56	6	-0.42%	47.3	3
EM	**3.3**		**3.2**	**0.09**	**2.9**		**2.92**	**0.0**						
MYR	3.0	3.0	3.0	0.00	3.0	2.0	3.00	0.00	1.8%	45.86	12	0.45%	54.2	9
MXN	4.0	4.0	4.0	0.00	3.5	3.0	3.50	0.00	2.5%	50.63	8	-0.24%	72.1	4
PLN	3.5	4.0	3.5	0.00	3.5	2.0	3.50	0.00	1.2%	43.87	13	-0.01%	54.9	5
SGD	3.0	2.0	3.0	0.00	3.0	2.5	3.00	0.00	2.0%	47.93	11	1.61%	44.3	12
CNY	3.0		2.5	0.50	2.5		2.50	0.00						
ILS	3.0		3.0	0.00	2.0		2.00	0.00						

Outcome: Populist rhetoric often introduces significant uncertainty, particularly in areas such as regulatory change, taxation and foreign policy. Policies emphasising fiscal expansion can generate short-term economic growth, but may present risks to long-term stability by exacerbating fiscal deficits and inflationary pressures. Our structured assessment framework gave us the conviction to maintain a neutral exposure leading up to the key election events, ensuring we were well-positioned to react dynamically to evolving political and economic conditions.

Looking ahead to 2025, the aftershocks of these electoral shifts will continue to shape global markets, requiring ongoing vigilance. The Global Fixed Income team remains committed to monitoring developments with both a short- and long-term perspective, adjusting positioning as necessary to navigate the complexities of an increasingly uncertain geopolitical and economic environment.

Climate change

We recognise climate change as one of the greatest challenges the global community faces. It is a prime example of a market-wide, systemic risk and one which we consider it is our fiduciary duty to address in managing our clients' assets.

At a corporate level, with the help of a UK-based consultant, Carbon Footprint Limited, we measure greenhouse gas emissions from the Nikko AM Group's operations based on firm-wide energy consumption and transportation data. We offset greenhouse gas emissions from our operations through an equivalent amount of carbon credits from projects that are certified to reduce carbon emissions.

We see climate as both a key ESG risk and a potential opportunity for the companies in which we invest. Climate change is therefore factored into the investment processes of our teams across asset classes to ensure our investments are aligned to properly address both the risks and the opportunities. For examples of how we identify climate-related risks across holdings, please see below.

Enhancing our approach to monitor and address climate risks in the portfolio (equity)

Our approach to identifying climate risks and opportunities is constantly evolving. In our 2023 response to the Stewardship Code (see Nikko Asset Management Response to the UK Stewardship Code 2020, April 2023, p. 29), we discussed an initiative undertaken by our Global Equity team to write to all the companies held in our Global Equity strategy. The objective was to better understand the companies' climate strategy and encourage following best practices such as the adoption of science-based targets and/or linking management incentives to relevant climate reduction targets.

In the light of the responses, in 2023 we identified a number of companies that were engagement priorities as there were particular areas that required improvement (see Global Stewardship Report, April 2024, p.25). We wanted to ensure that our engagements added value to both the company and our investment thinking. In each case, our expectations were adjusted according to the importance of each company's carbon footprint.

In 2024, we built on this work, spending a significant amount of time understanding and developing a framework to monitor the degree to which companies in our portfolio were aligning their strategies to a future of net zero carbon. We used the alignment assessment methodology used in the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change. This complements the team's existing active investment process and philosophy: forward-looking, growth-focused, pragmatic in its expectations, while providing flexibility to align the methodology with the investment philosophy.

The resulting classification we have developed allows us to have a consistent and systematic approach to monitoring our portfolio companies' alignment to net zero for Global Equity, with a clear focus on climate disclosure, targets and strategy. In carrying out this work, we conducted top-down and bottom-up reviews of the portfolio using quantitative data and proprietary research. We are aiming for these reviews to become a regular driver of our engagement activity and are looking at the viability of scaling this methodology across other investment strategies.

We believe that our work last year represented a major step forward in our understanding of the climate ambitions of our portfolio companies. We have moved towards evaluating their long-term trajectory and ambitions on a systematic basis, which aligns and complement our long-term growth-focused investment philosophy.

Case study:

Eternal vigilance is required in monitoring the effects of climate change in New Zealand (fixed income)

Issue: As in other parts of the world, climate change is resulting in more extreme weather in New Zealand on a regular basis. Due to the likely cumulative impact of this extreme weather, the New Zealand Fixed Income team has prioritised climate change as its primary topic of engagement with debt issuers, alongside balance sheet stability.

As we reported last year (Global Stewardship Report, April 2024, p. 26), heavy rainfall led to catastrophic floods in Auckland, New Zealand's largest city, in January 2023, followed in February by a cyclone that caused significant flooding and landslides across the North Island. More recently, storms in Dunedin and Nelson in the South Island resulted in flooding and significant property damage. Such weather events are becoming more regular and more extreme, increasing the probability that bond holders will face risks due to losses on uninsured or under-insured property and shortfalls in income while damaged assets are unusable.

Activity: As we stated in last year's report, the New Zealand Fixed Income team reviewed and continued to monitor potential risk exposures across its holdings in 2023. We continued to actively monitor those risks in 2024, standing ready to take action where we felt it was needed.

The particular risks we focused on were those to any assets that could be significantly damaged by weather events or where insurance might not be sufficient to mitigate potential losses, such as securitised vehicle and equipment loans and the companies that provide such finance. To better understand and manage these risks, the team asked all issuers and primary financiers of these types of assets a set of questions seeking to ascertain whether:

- full insurance is a requirement for 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 notified party on such insurance policies, and
- there are risk management systems to ensure insurance is maintained as loans age.

Outcome: The initial review was extremely helpful in allowing us to better understand our exposure to extreme weather events, while providing reassurance that we did not face undue risk. We were, of course, aware that risks could increase in the future. During the last year, we believe we have continued to stay abreast of developments, although intervention has not yet been necessary. It is noteworthy that the authorities are also alive to the issue, with New Zealand's banking and Insurance regulator undertaking industry-wide climate-related stress tests during the year, while risk-based pricing continues to evolve.

Collaboration with other stakeholders:

On a wider front, we work with other stakeholders to help develop solutions and support global initiatives to address the issue, such as the UN Paris Agreement to limit carbon emissions and the UN Sustainable Development Goals. For example, in Asia, we join forces with other investors to use our combined influence to try and address the issue of climate change. More details can be found under Principle 10 and other collective initiatives in which we are involved are described in the next section.

Collaborating for the climate (equity and fixed income)

An example of where we think collaborative action can be valuable is our membership of CDP, an international non-profit organisation that aims to improve climate-related disclosures. We work through its Non-Disclosure Campaign ("NDC") initiative. We participate because we believe companies need to apply higher standards of transparency and disclosure if we are to tackle some of the most important areas that society faces, such as climate change, biodiversity and protection of the wider environment.

In 2024, we served as the lead investor in engaging five companies under the NDC. This included four companies under the CDP's forest programme that focuses on helping companies to measure and manage their forest-related impacts, dependencies, risks and opportunities. The other company we engaged with was under the CDP's water programme, which focuses on water-related impacts. The initial contact was made in the summer of 2024 to encourage the five companies to provide the relevant disclosures for 2024 and to continue them in future years. We will monitor these disclosures on the CDP database to see whether the companies have met our request and decide on our next steps with our partners.

Collaboration to promote well-functioning markets

An important way in which we promote well-functioning financial markets is through our participation in industry bodies and forums, which help us to identify and address market and systemic risks and ensure that our processes, policies and procedures remain relevant. Amongst other activities, we publish thought leadership articles and engage with a wide range of stakeholders, including clients, members of the investment management industry, policy makers and wider society. Each of our subsidiaries is a member of the applicable local regulatory and industry bodies and is often actively involved in local collaborations or consultations. These include:

- **UK Investment Association:** attendance at the TCFD Implementation Forum among others.
- **UK Financial Reporting Council:** participation at pre-consultation roundtable meetings in May and August 2024 and January 2025, as well as responding to the consultation in February 2025, with regards to the proposed changes to the UK Stewardship Code.
- **Monetary Authority of Singapore:** one-to-one discussion meeting in August 2024 with the regulator following our initial response to the consultation on the Transition Planning Guidelines in 2023.
- **Japan Financial Services Agency:** active participation at the consultation forum "Dialogue on Enhancing Sustainability Investment Products" in April 2024.
- **New Zealand Corporate Governance Forum:** active engagement with reviews of take-overs legislation and listing rules to support the strengthening of shareholder rights.
- **European Securities and Markets Authority:** written exchange related to the upcoming guidelines on funds' names using ESG or sustainability-related terms.

Our senior officers are also active participants in national and international bodies promoting better-functioning markets and wider issues. In 2024, these included:

Yoichiro Iwama, the Chairman of our Group Board and Non-Executive Director, continued to serve as a member of The Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code, which made recommendations about revising the two corporate codes. Under Mr Iwama's supervision as Outside Director and Chairman of the Group Board, we continue to strive for the highest standards of governance and stewardship.

Stefanie Drews, Nikko AM Group Director, President and Chief Executive Officer, participated in the consultative meeting of the Japan Chapter of the Glasgow Financial Alliance for Net Zero ("GFANZ") in October 2024. The Nikko AM Group is a member of the Japan Chapter established in June 2023. The intention is that the Network should support local financial institutions in sharing knowledge and best practice in developing net-zero transition plans as they work to decarbonise the economy and seize transition-related opportunities. The aim is to help catalyse and accelerate the change needed for Japan to meet its domestic net-zero goal. The Japan Chapter also aims to support financial institutions in their work with relevant public and private stakeholders on other policies and initiatives necessary to deliver a just transition.

Eleanor Seet, the President of our Singapore subsidiary, is deputy chair of the Executive Committee of the Investment Management Association of Singapore ("IMAS"), a representative body of investment managers spearheading the development of the industry in that country. IMAS partnered with the Singapore Green Finance Centre to introduce an inaugural course on climate change management, aligned with the Institute of Banking and Finance's Sustainable Finance Technical Skills and Competencies which form part of its Skills Framework for Financial Services.

Natalia Rajewska, Global Head of Sustainable Investment, is part of the IMAS ESG Working Group. This actively advances the ESG agenda through a series of masterclasses and through participation in various industry initiatives, such as the Green Finance Industry Taskforce of the Monetary Authority of Singapore and its Singapore Funds Industry Group. She is also a member of Bloomberg's Women in Climate, which is a cross-industry collaboration of female leaders on climate change, including from companies, financial institutions, multinational organisations, government and academia, with the aim of making climate change a central topic of discussion for their organisations. As of end of 2024, she is also member of the global advisory group of Net Zero Asset Managers initiative.

Simon Haines, Head of Legal, Risk and Compliance at our New Zealand subsidiary, chairs the Boutique Investment Group, a collection of New Zealand fund managers who share knowledge and critical thinking on regulatory, compliance and governance issues affecting our sector. Activities in 2024 included providing a platform for investors to support the introduction of a modern slavery regime that would bind our investee businesses, leading a workshop with our New Zealand regulator on reducing fraud in the sector, leading a workshop with industry supervisors and industry on improving responses to liquidity risks and leading engagement with regulators and Government on responding to difficulties with the new climate reporting regime.

The case study below shows how that engagement is informed by previous engagement with investee companies on how the new regime is working.

Case study:

Learning the lessons of new climate reporting regulations in New Zealand (fixed income and equity)

Issue: It is increasingly recognised that climate change is a global market risk that is not going to go away. This has led in New Zealand in 2024 to the introduction of a mandatory climate reporting regime that covers most of the entities that we invest in locally. There is now much more clarity as to where climate risks sit and how well prepared different businesses are for climate transition.

Activity: As more of our companies have been disclosing climate data, our investment teams have taken the opportunity to engage with them on how the new regime is working. They have discussed such things as the costs of climate reporting, companies' experience of the process, the lessons learned, keeping track of changes in trends on companies' carbon metrics, how well prepared they are for the transition to a low-carbon world, and the challenges meeting overambitious targets.

Outcomes: We have seen that many of our investee entities are taking the process of transition very seriously. There were some instances where they are unlikely to meet targets that they had hoped to achieve. On the other hand, emissions figures appear to be dropping across the market, although there is a lot of volatility as new methodologies require recalculations of old figures. We have also seen that the new regime has raised costs and complexity of compliance, especially for smaller listed issuers. We are now engaging with the government to see if the new obligations can be better adapted to suit a small market like New Zealand in a pragmatic manner.

Nikko AM Group staff participated in a number of conferences and panel discussions during the year, providing keynote speakers for several. For instance:

Japan Securities Summit: Ms Drews took part in a panel discussion at the Japan Securities Summit in London in March 2024. She shared her views about Japan's aim to become a leading asset management centre and our firm's initiatives in that respect. In response to questions from participants, she underscored the significance of personnel and cultural diversity within asset management firms and efforts to surmount language barriers. She stressed that foreign asset management firms seeking to enter the Japanese market should collaborate with entities that thoroughly understand these aspects of the local market.

Roundtable on Japan's Strategic Energy Plan: In collaboration with the Asia Investor Group on Climate Change ("AIGCC"), of which Nikko AM Group is a member, and the Climate Bonds Initiative, our Japan Sustainable Investment department hosted a roundtable in March 2024 with senior representation from others in the industry, the Japanese regulator and policy makers. During this discussion, Ms Drews emphasised the urgency of Japan's energy transition and the need for clear policies to drive investments aligned with the Paris Agreement. She supported consolidating climate-related regulations and the baseline standards overseen by the International Sustainability Standards Board ("ISSB") to unify disclosures. As someone committed to addressing climate risks, Ms Drews backed global efforts to limit warming to 1.5 degrees Celsius and called for strong policies to help investors join efforts to achieve a net zero economy.

British Embassy: In May 2024, Ms Drews spoke at the UK Asset Management Seminar 2024 hosted by the British Embassy in Tokyo, which focused on the UK's pension system and the role of asset management within it. Ms Drews served as a panellist in a discussion about the investment impact of pension reforms. Several topics were covered, including comparing and contrasting the Japanese and UK Stewardship Codes, the importance of ESG and other non-financial information in investment processes, and the need for beneficiary engagement.

OMFIF: In September 2024, OMFIF, an independent think tank for central banking, economic policy and public investment, hosted an event in Singapore in partnership with the European Commission about the role that EU bonds play in global markets, with a focus on Asia. Ms Rajewska sat on a panel that took a close look at the intricacies of green bonds, the EU's approach to sustainable finance and potential avenues for collaboration on energy transition with Asia, as well as the need for both a tailored approach and large-scale solutions.

GFANZ Japan Chapter Consultative Meeting: As discussed above, the Japan Chapter of the GFANZ Asia-Pacific Network held a round table discussion in October 2024 addressed by Ms Drews. She spoke, amongst other things, about the necessity of co-operation between industry, government, finance and academia, and the need for genuine commitment to ESG principles, especially amid current political challenges. She highlighted the importance of investing in energy transition, even if investors in sustainability tend to avoid high-emitting companies, and called for more co-operation with asset owners. In addition, she emphasised the role of stewardship in driving change, noting our support for shareholder resolutions on climate in Japan and the evolving nature of stewardship codes. Lastly, she called for government-led frameworks and policies operated through GFANZ Japan to promote green finance and phase out harmful activities, urging the industry to lead by example and drive sustainable change.

PRI in Person: Ms Rajewska spoke at an event organised by the AIGCC in collaboration with Capital Markets Malaysia in October 2024, which was held alongside the PRI in Person event in Toronto. The investor briefing on energy transition in South-east Asia provided institutional investors with insights on decarbonisation and transition plans. The session covered market nuances in emerging markets, focusing on nationally-determined contributions to phasing out carbon, energy development plans and regulations. It highlighted the AIGCC's Asian Utilities Engagement Program as a successful example of corporate and policy engagement (see our case study under Principle 10: "Encouraging change at Indonesia's dominant electricity supplier"). The session also discussed how industry stakeholders could support state-owned enterprises in their decarbonisation strategies and encourage peer-to-peer dialogue among Asian institutional investors to share best practices on climate engagement.

Nikkei's Gender Gap Conference: In December 2024, Ms Drews took part in a panel discussion entitled "Corporate DE&I measures: How to overcome the obstacles we face".

Other initiatives we support, participate in or are signatories to include:

- Climate Action 100+ ("CA100+", with further details to be found under Principle 10),
- Global Investor Statement to Governments on the Climate Crisis; International Corporate Governance Network,
- Nature Action 100 (with further details to be found under Principle 10),
- Net Zero Asset Managers initiative,
- PRI,
- The Investor Agenda,
- Women's Empowerment Principles,
- LGBT Great (further details can be found under Principle 1).

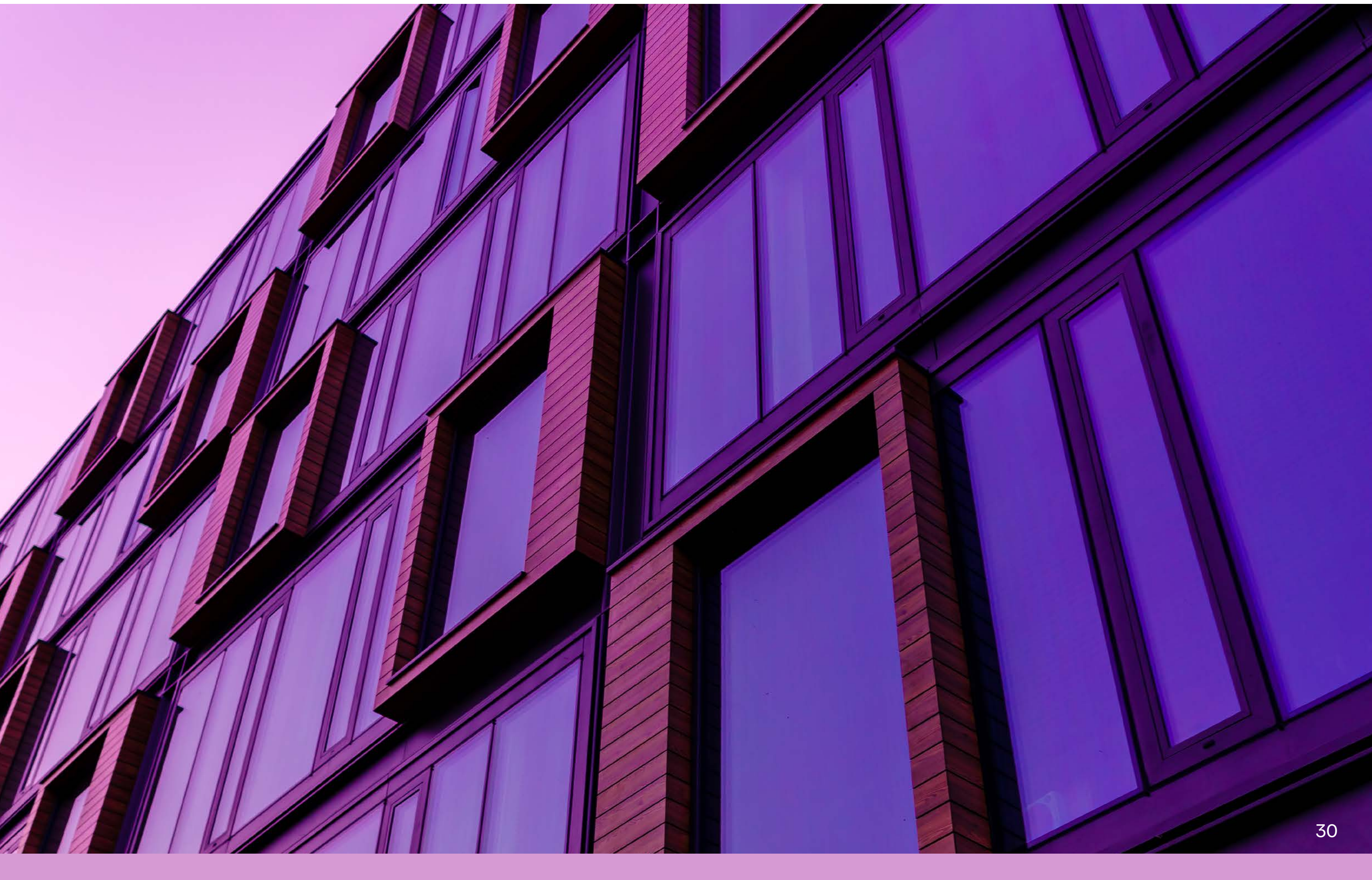
Outcome

Overall, we believe both our processes and our actions demonstrate that we have remained effective in identifying and addressing market-wide and systemic risks during the year. We believe our case studies show that our investment teams have been both responsive and creative in reacting to these risks, whether it is using sophisticated tools to monitor evolving threats to our portfolios, identifying and managing areas of our portfolios most vulnerable to climate change or working with policy-makers and regulators in their work of maintaining smooth-functioning and responsibly-run markets.

In addressing these risks, our guiding principle is always to put our clients first. This means positioning clients' portfolios to ensure the best outcomes for them. We are a small player in a large investment market but, by ensuring our clients' assets are directed responsibly, we can play our part in ensuring that their capital is directed intelligently and ethically in support of well-functioning markets and a greener future.

On a wider front, one of the more useful ways of identifying new systemic risks and dealing with existing ones is to debate them with other industry participants. We have thoroughly involved ourselves in a wide range of industry initiatives, addressing a multitude of new threats and opportunities, from cybersecurity and political uncertainty, to increasingly tighter reporting and regulatory requirements for sustainability and improving opportunities for women and minorities.

One area where it is less easy to judge progress in the short run is climate change. This is due to the long-term nature of the risks that this poses and uncertainty about future policy and technological innovations. We will continue to enhance our strategies and methods to monitor and calculate the climate effects of our investment strategies, while developing approaches that minimise global warming. In doing so, we will continue to engage with other stakeholders in our effort to promote well-functioning markets.



Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Activity

Risk governance and oversight

At a group level, responsibilities for our risk governance and oversight are split according to the "three lines of defence" model:

- **First line of defence:** Front office business units and individuals identify and manage risks in their business function that could threaten the achievement of their objectives. They accept risks within assigned limits of risk exposure and are responsible and accountable for identifying, assessing and controlling the risks of their operations.
- **Second line of defence:** The support functions, such as Risk Management and Compliance, assess and oversee risk at the firm level, developing and maintaining risk frameworks, including firmwide policies. Each of these support functions, in close relationship with the front office business units, ensures that the risks of the business have been appropriately identified and managed.
- **Third line of defence:** The Internal Audit function provides independent and objective confirmation of the design and effectiveness of internal controls, i.e. it independently assesses the effectiveness of the processes created in the first and second lines of defence and provides assurance for those processes.

Policy and procedure review

All of our policies and processes, including our stewardship policies, are subject of frequent reviews to ensure that they remain appropriate and effective. The review process varies depending on the substance of the policy, but in principle it is as follows: creation and drafting (for new policies), revision by the applicable department, and, if relevant, review by the appropriate committee, then review by either the subsidiary board, in the case of local policy, or the Global Executive Committee and Group Board, in the case of global policy.

To address the growing development of the global ESG regulatory landscape, frameworks and processes are continuously reviewed and improved. The key group policies that are applied to stewardship activities are listed below, with any changes made during 2024 detailed in the Outcome section. (We have not detailed policies less directly related to stewardship, but they follow the same review process described above.)

- Group Code of Ethics and Business Conduct
- Group Diversity and Inclusion Policy
- Group Commitment to Responsible Investing
- Group Conflict of Interest Control Regulations
- Group Engagement and Stewardship Strategy
- Group Proxy Voting Policy
- Group Best Execution Policy
- Group Trading Policy
- Group Environmental Policy
- Regulations on Engagement and Compliance Regarding Fiduciary/ ESG Principles

Internal and external assurance

In terms of audit and assurance, we have a number of internal checks and balances provided by, for instance, oversight committees that include independent non-executive directors, as well as our compliance department. With regard to internal audit, our policy is to audit each division every two years, except for some high-risk divisions, which are audited annually. Follow-ups are conducted to ensure the implementation of any corrective actions identified from the audits. There were no substantial internal audit issues raised during 2024.

Various stewardship activities are audited by outside bodies. At the most basic level, they include our external financial auditors, who audit our annual accounts, but we are also assessed by a number of other independent auditors. For instance, under the auditing standards SSAE18 (for the US) and ISAE3402 (for the rest of the world), independent auditors assess our control procedures and their effectiveness, service delivery, information security and controls over data privacy. No substantial matters were raised during the 2024 external and independent audits.

As signatories of the UN-backed PRI, we are externally rated through our annual assessment by the organisation. This covers a range of stewardship-related activities, including our responsible investment policy, coverage and objectives, conflicts of interest policy, governance and human resources, performance management and rewards, personal development and training, collaboration and promotion of responsible investment. Our submission follows extensive internal reviews and is ultimately approved by the Nikko AM Group Board, to whom the final rating is also reported. The PRI assessment is designed to provide us with feedback to support our understanding and development of responsible investment, which we subsequently process and integrate into our activities, where applicable.

Our collaboration with industry organisations ensures that we stay up to date on the range of issues that are important to investors and the wider market and keeps our policies and processes refreshed. As well as the PRI, these organisations include the regulatory and collaborative investment initiatives of which our subsidiaries are members, as set out in Principles 4 and 10, respectively.

Ensuring reporting is fair, balanced and understandable

All external material, including regular reports to clients, is produced locally and reviewed by the local compliance department. This includes stewardship reporting that may be relevant only at local levels to meet requirements of local codes. Whilst any external material follows a robust internal review and approval process, we deem the ultimate judges of whether our reporting is fair, balanced and understandable to be our clients, with whom we work closely. For instance, we have had relationships spanning decades with many of our institutional clients. Reporting has therefore evolved over time, not only in line with market norms – including an increased emphasis on ESG – but also as a result of our knowledge of clients' specific requirements. Further detail on how we communicate with clients and the process by which they assess our reporting is included under Principle 6.

Stewardship code(s)

To produce our Global Stewardship Report, we have brought together a number of teams from across the firm, including the Global Sustainable Investment team, Compliance, Operations, members of our Client Services and Investment teams. We have used both internal and external resources to make it as informative and accessible as possible. This global report addresses a number of stewardship reporting expectations around the globe, including, for example, the UK and New Zealand Stewardship Codes. It has been reviewed by our local UK ESG and Stewardship Oversight Committee, as well as being reviewed and approved by the UK and Group Boards, the Global ESG Steering Committee and signed off by our Group President.

Outcome

We believe the combination of internal checks and balances, external assurance and audits, and our widespread involvement in industry and regulatory bodies ensures that our policies, procedures and processes are subject to continuous and rigorous review. In 2024, such reviews did not result in any material changes to our global policies and procedures. However, there were some changes at local level. The UK subsidiary, for example, enhanced its local Proxy Voting Policy by expanding in more detail on the process of proxy voting and the focus points for board responsibility and environmental and social commitments. In Japan, we also made a number of changes to our Standards for Exercising Voting Rights on Japanese Stocks which became effective from April 2024. The detail and background to these changes is detailed on our website but ultimately strengthen our stance on the following:

1. **Appointment of directors:** expanding the scope of female director requirements.
2. **Appointment of outside directors:** an increase in our board meeting attendance rate requirement.
3. **Appointment of statutory auditors:** a newly-added condition where we will vote against appointments of statutory auditors if they are deemed to be involved in, or liable for, serious misconduct at the firm.
4. **Appointment of statutory auditors:** increasing the attendance rate requirements for board and supervisory board meetings.
5. **Clarifying our stance on climate change-related shareholder proposals.** We now take each proposal on its merits, looking at its effect on shareholder value over the medium and long term. In principle, we support better disclosure, unless the firm's efforts are already in line with the proposal, or if it would be disadvantageous for the firm or restrict its business activities.

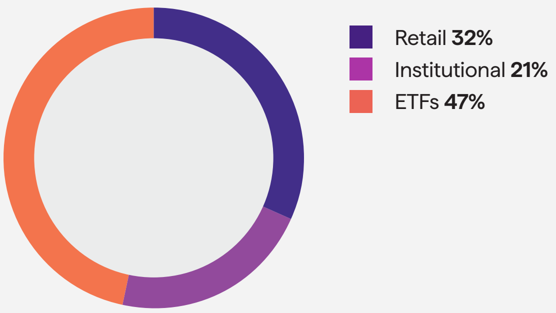
Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

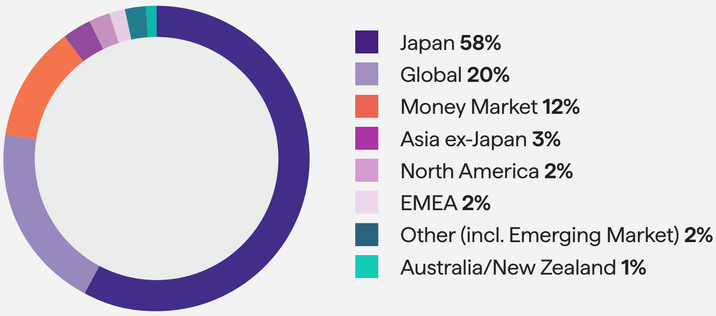
Context

A breakdown of our AUM (as at 31 December 2024) by asset class and client domicile is shown under Principle 1. Below we present AUM by client segment[4] and by geography of the managed holdings.

Assets under management by segment*



Assets under management by geography of assets*



*As of 31 December 2024

Keeping in touch with clients is a basic duty of any asset manager and is a vital part of good stewardship. However, different clients have different requirements. The largest segment of our client base is in Japan, mainly investing in equities. Where we have retail clients, access to our products is through collective investment schemes via third-party distributors and we have to adopt a different approach when talking to this segment compared with our institutional investors. The former requires easy-to-digest material that is clear, brief and well presented. The latter expect more direct, sometimes more technical and certainly more customised communication, with the amount and timing determined by our contractual relationships.

Investment time horizons

Whether they are retail or institutional, we believe most of our clients are best served taking a medium- to long-term view of their investments. We are not dogmatic about what this means in practice, but broadly view this as a holding period of three to five years for medium-term investing and ten years or more for long-term holders. For retail investors, we would argue this fits their need for long-term savings and best allows them to ride out the fluctuations in financial markets, thus maximising the value they can obtain from investing in securities. The same considerations apply to the majority of our institutional strategies, which are typically aimed at pension funds, insurance companies, banks and sovereign wealth funds, which have long-term horizons.

Of course, this overarching philosophy must be tempered by circumstances: political and economic events may require us to curtail our typical holding periods to reduce risks for clients. In contrast, as detailed in our climate-related disclosures, we also have to look to much longer time horizons when we consider climate-related risks and opportunities, in particular those relating to 2030 and 2050 net zero carbon commitments. Finally, it should be noted that more than 12% of our groupwide AUM at the end of December 2024 was held in cash equivalents or money market funds, which typically have a shorter holding period of less than a year.

These perspectives are reflected in our communications with clients, which tend to focus on trying to explain long-term economic and market trends, including demographic shifts and the fate of globalisation in a less open world. They are reflected too in our policy of integrating climate change and other ESG considerations into the investment process.

We believe that our combination of products and strategies aligns well with the needs of our clients.

4 The ETFs relate to a number of funds replicating equity benchmarks. Owing to the structure of these vehicles, it is not possible for us to know the underlying ownership of the funds and therefore we are unable to classify them as owned by either institutional or retail investors.

Activity

Accountability to our clients is at the heart of our fiduciary principles and communication is therefore crucial. For all clients, this means providing easy-to-understand materials that explain our investment approach, product risk characteristics and fees, as well as tools that help them understand their investments and the risks involved. For example, we have our own ESG AUM classification framework which helps us ensure we have a single method of classifying our AUM into different sustainable investment categories, ensuring reporting consistency and alignment. For any external communications, we have robust compliance review processes in place at each location to ensure any material is clear, fair and not misleading.

As is stated in the Context section above, a large segment of our AUM is managed for retail investors via intermediaries and, in terms of geographical location, the majority of our clients are based in Japan. We have therefore focused on our communication with Japanese investors in the retail investors section that follows below.

Retail investors

We run a large number of mutual funds which are sold through banks and other distributors to retail as well as institutional investors in Japan. We therefore put a great deal of effort into timely, understandable and accessible communications with Japanese retail investors. As we do not sell directly to them, our communications efforts are primarily directed at our distributors: banks, brokers and, increasingly, internet-based groups.

We provide a wide range of information to distributors and Japanese retail buyers of investment funds, not only concerning the specific funds in question but also related to broader themes, such as the economy and markets. Our aim with our communications aimed at retail investors is to ensure they understand what is happening with their own investments and the reasons, while fostering a deeper understanding of markets and investment trends.

Realising that there are wide differences in the level of financial sophistication and literacy amongst our retail investors, we tailor our communications to the differing audiences within the group. For example, we provide videos on our website aimed at both distributors and end investors. They might support a particular fund by aiming at investors at different stages of their involvement, including:

- videos aimed at first-time viewers to promote the fund,
- videos that explain the concept of the fund in more detail,
- regular videos and other materials that keep clients up to date with performance and underlying factors that affect the fund.

We also put a great deal of effort into webinars, online educational courses and training for distributors and end-investors. Under our Nikko AM Fund Academy brand, we provide what we deem to be essential fund-related knowledge and information for our retail investors and distributors, and also for non-customers.

Item	Frequency
Rakuyomi (easy 5-minute briefing)	2-3 times weekly
Koyomi (quick soundbites)	Monthly
Gokuyomi (deep dive)	Ad-hoc
Market 5 Minutes	Monthly
Weekly Market	Weekly
Data Watch	Weekly
Follow-up Memo	Ad-hoc
Global REIT Weekly	Weekly
Monthly Market	Monthly
JAPAN in Motion	Quarterly
Nikko AM Newsletter	Ad-hoc
CHINA INSIGHT	Ad-hoc
KAMIYAMA Report (market update by our Chief Strategist, Naoki Kamiyama)	Ad-hoc
KAMIYAMA Seconds (quick Update by Naoki Kamiyama)	Ad-hoc

Seeking retail client views

This is not just about us talking and our clients listening. We take the views of our distributors seriously, as they are in frequent contact with their clients and are therefore a key conduit in passing retail investors' views back to us. This feedback is an important guide for us, both in the material we provide for distributors and in the design of new products. There are several ways in which we seek the views of both distributors and, in some cases, retail investors directly.

Approximately 40 members of our Japanese staff who make up the Asset Management Promotion department and the Asset Management Advisory department conduct seminars for retail investors and study sessions as fund promotion activities. These seminars can be divided into:

- on-site seminars for retail investors, where a distributor invites its customers to one of its branches, and
- study sessions for sales representatives of distributors.

In both cases, speakers from Nikko AM Group visit the financial institution to give presentations which last typically for about 60 minutes. The content of these seminars and investor feedback is subsequently reported to relevant managers by the in-house customer relationship management system, enabling them to stay abreast of recent developments and changes in investors' and distributors' views.

We organise regular events under the umbrella of the Nikko AM Product Strategy Academy, targeting the product planning teams of our distributors. In addition to providing information on existing products, we also present ideas for new products that are expected to meet future investor needs. These are valuable opportunities for open communication with our distributors, enabling us to receive candid views directly from the teams responsible for fund marketing. This can be very useful in our product development activities so, for instance, we poll participants after presentations on new product ideas. Those that receive strong support in these votes are often then realised in new fund launches. In one such case, in June 2024, we conducted an event called "Next Step of OTC [Over-the-Counter] Sales", which aimed to introduce fund distributors to a range of existing products and new product ideas that will contribute to the long-term development of the investment trust business, including Nippon Individual Savings Accounts (NISAs), Japan's tax-privileged saving schemes for individual investors. The event attracted approximately 150 guests attending from all over Japan.

To gather all this feedback, our staff in Tokyo regularly contact distributors' headquarters and local branches. This information is then added to views gathered directly from retail investors who have contacted our call centre team and is shared with relevant Nikko AM Group staff via the customer relationship management system. In addition, there is an internal process so that particularly important comments and any strong views of our distributors are brought to the attention of senior sales managers without delay.

Institutional investors

It is our policy as a group to tailor the frequency and method of communication with institutional clients to meet their specific requirements. These are typically discussed and agreed as part of negotiations when the investment management agreement is set up, but the heart of our communications with institutional clients is our direct discussions. Our sales directors and client services teams work with clients to confirm the required content and timing of all regular client reports. Before these meetings, we typically submit information on a range of topics. Information may include our stewardship policy, proxy voting policy, implementation framework, company engagements and their effect, and third-party assessments of our ESG integration and stewardship activities, for example, the latest PRI assessment. This information is well received by our clients and, in the UK, we have had clients use the information we provided, such as company engagements and their effect, in their own stewardship reporting in 2024 as asset owners.

With most of our institutional clients, we schedule investment reviews at least annually, but can arrange ad-hoc meetings as required on subjects such as proxy voting, company engagement and other stewardship activities. As well as the normal discussions and reports on performance, we provide explanations of a wide range of investment-related topics in answer to client queries. We endeavour to meet our clients' requirements not only in terms of content, frequency and methods, but also culturally. For example, as explained in Principle 1, in our New Zealand office, we have provided training to staff-facing institutional clients to perform a Karakia, a form of blessing at the opening and closing of a meeting in the Māori culture.

Outside of a client's regular performance reviews, we take a proactive approach to ensuring clients are kept up to date with important information affecting their portfolios, including any changes to their mandates or significant market events which may affect performance. Further information on our engagement policy with investee companies is available under Principle 9.

To meet clients' ever-widening list of requirements, we are also able to provide reports on carbon intensity and other carbon-related disclosures, ESG scores and related information for the companies in which we invest. This is a two-way process, with clients often asking us to provide them with additional information or to present it in a certain format.

We typically explain our voting decisions in some detail, including how we dealt with specific proposals and, in particular, where we voted against management proposals. We also discuss occasions where views within the firm differed and how internal consensus was reached. Further information on our proxy voting policy and how we voted can be found under Principle 12. How we cast our proxy votes and the number of company engagements we undertook during the year are also disclosed on our website.

In addition, we hold regular corporate sustainability meetings with clients, typically on an annual basis, to report on our broader sustainability initiatives that encompass not only investments but also other activities at the corporate level. Such discussions often involve an exchange of ideas as to what asset managers and asset owners can and should do to fulfil their fiduciary responsibilities and contribute to the betterment of society.

We are always keen to understand the investment and stewardship principles our clients wish us to adopt when managing their assets and, in return, we explain the firm's policies and approach to implementation. Should there be any misalignment between the two views, we try to reconcile the differences with the aid of the Stewardship and Proxy Voting Committee's secretariat or other relevant specialists. Our aim is to be flexible when making any necessary amendments to the policy. For instance, when required by equity clients, we will adopt their policies on proxy voting or engagements. For segregated mandates, where possible, we are happy to implement client-supplied lists of investments to be restricted or excluded and will tailor our investment approach to meet their specific requirements.

These discussions help to confirm that we and our institutional clients understand each other and that their views are accurately shared with all the relevant people in the firm, particularly the investment teams. In order to maintain close communication with our institutional clients, we focus on face-to-face interaction via online and/or offline meetings, although we also use other methods of communication. Our client-facing personnel spare no effort in seeking detailed feedback, confirming whether explanations given at meetings are sufficient and generally ensuring that clients' expectations and requirements have been met.

Our respective compliance departments provide an independent check on whether investment portfolios are adhering to clients' investment policies and the relevant guidelines. Where necessary, it will discuss its review findings and any operational issues that need to be addressed with the investment teams, local management and head office.

Our non-Japanese investment teams maintain an active dialogue with our Japanese clients via our Tokyo-based Client Service team. We supply monthly investment positioning and performance reports, as well as market outlook updates. The Client Service team offers the first response to client requests about their portfolios and many of these are subsequently fed through to the teams on the ground for a further response.

Outcome

We use retail client feedback to shape and drive our communications, for example by addressing specific points of concern in the reports that we produce. Both our distributor network and our call centre team are essential in garnering, understanding and making use of this feedback. Given that our largest client base is in the intermediary segment, it is harder for us than some other asset managers to assess the effectiveness of our communications with the retail market. However, we take comfort from the favourable endorsements we regularly receive from third parties. In 2024, for instance, we received high rankings from the three most influential independent industry surveys in Japan:

For the sixth year in a row, we were placed first in the annual mutual fund company satisfaction survey conducted by Rating and Investment Information, Japan's largest rating agency.

We have been ranked second in the 2024 branding survey by Nikkin, the Japanese news agency.

We were placed first for the first time in the latest asset manager branding survey in "distributor, general" division by MaDo, a major financial publication in Japan.

We believe these third-party endorsements of our retail communications provide testimony to our success in getting our message across to retail clients. The results of these surveys represent a weighty vote of confidence from intermediaries and commentators in the quality of our customer support, as well as how and what we communicate to the market.

In terms of institutional clients, we make it a regular point at our client meetings to ask whether clients feel that they still understand the investment strategy we adopt for them and whether it continues to meet their needs. Beyond that, we are constantly seeking clients' comments on the scope and quality of the services we provide, as well as their degree of satisfaction with our investment results. This can be through separate feedback sessions or during the course of the regular portfolio and operational review meetings conducted by our Client Service teams. Some of our institutional clients also formally evaluate their third-party managers and assign scores. We always value such feedback from clients as it enables us to more objectively evaluate the effectiveness of the service we provide and highlight areas where we can improve.

We are very ready to make changes to the strategies we employ based on client views to better meet their needs, for instance, by strengthening our ESG integration, using additional investment techniques (e.g. derivatives) or enhancing our internal engagement platform to both consolidate and better manage our engagement activities. It goes without saying that we also constantly strive to enhance the regular reporting of our investment or stewardship activities to meet clients' demands.

There may have been instances during the year where breaches of clients' investment policies occurred, for instance, due to external factors outside of our control, such as market movements. In all such instances, we immediately addressed the situation by clarifying the cause, taking the necessary remedial steps and implementing preventative measures. We also provided a full explanation to our clients, in line with regulatory requirements and best practice and, if necessary, made additional efforts to eliminate any future ambiguity in the interpretation of clients' investment and proxy voting policies.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Context

As we stated under Principle 1, we strongly believe that stewardship, including fiduciary and ESG considerations, are inherent to long-term corporate value creation and contribute to the realisation of sustainable economic growth. We therefore see ESG issues as an integral part of our fiduciary duty to clients and incorporate ESG principles in all our investment processes.

We do not adopt a one-size-fits-all approach to integration. The main responsibility for implementing our fiduciary duties falls on our investment teams and they are given a remit to act in the best interests of our clients within the global and local governance frameworks provided by the Group. This means that our ESG integration and engagement processes are bespoke to each investment team, allowing each to choose the methods most appropriate and effective for them. Where appropriate to the asset class, investment strategy and client requirements, certain investment teams may maintain specific ESG policies and procedures pertaining to their investment philosophy and process.

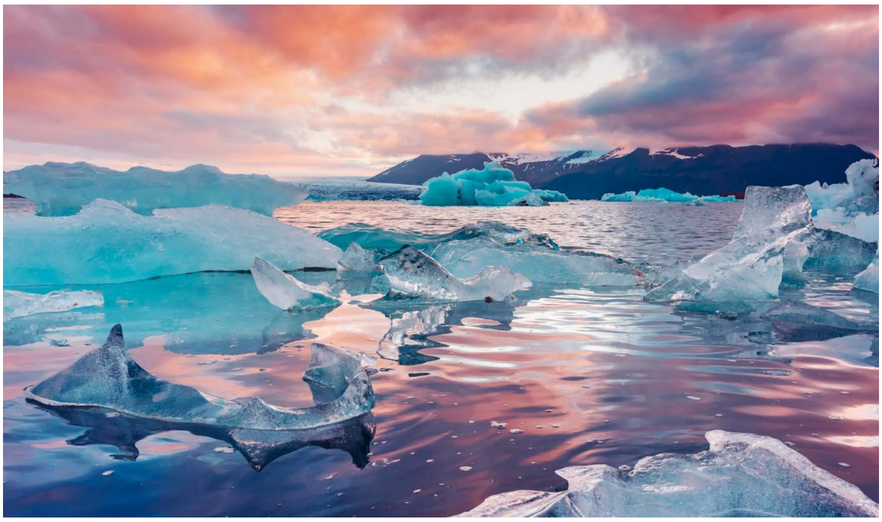
Allowing for asset class and regional differences, our Global ESG Steering Committee via the Global Sustainable Investment team is supporting the investment teams' implementation of stewardship principles. Whilst the local approaches may differ, our Group Engagement and Stewardship Strategy and the Global Sustainable Investment team ensure there is consistency across the firm. We believe that it results in a structure that enables us to serve the best interests of our clients. ESG issues are rarely the only consideration when making investment decisions, but an understanding of them informs the investment process and gives our investment teams a more rounded view of companies.

In applying ESG policies and procedures to their particular circumstances, our investment teams consider a number of factors, including the environment, climate change, human rights and labour standards, talent management, product safety, diversity, board structure and independence, alignment of remuneration, transparency of ownership and control, and accounting. As discussed, an acceptable ESG standard is not usually the sole determinant for investment, however, where materially negative ESG issues are identified and we do not believe that corrective measures will be taken, the relevant investment team will take appropriate action which may include excluding the company from investment consideration. For an example, see the case study "Saying no thanks to H&M*'s green bond" below.

For existing holdings, an indication of material deterioration in ESG factors may lead to a rating downgrade and subsequent sale from the portfolio. This is not a one-off exercise but rather a process of continuous assessment. ESG considerations are applied before investing, while holding an investment and before selling. In addition to our own policies and considerations, certain issues may be given priority because of feedback from our institutional clients, either at the inception of a mandate or as the mandate evolves over time.

Ensuring service providers have received clear and actionable criteria

We also maintain an active dialogue with our service providers, making clear to them our ESG priorities. For example, during our annual review with ISS, which provides us with analysis for proxy voting resolutions, we share any updates to our responsible investment and voting policies. The service level agreement with ISS defines the relationship at a group level, but each subsidiary works directly with ISS to tailor its local platform to accommodate any criteria required, including those relating to ESG. Further information on how we interact with and hold to account our service providers can be found in our responses to Principles 8 and 12.



* Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in any portfolio, nor constitute a recommendation to buy or sell.

Climate change

Amongst ESG issues, we recognise climate change as the greatest the global community faces. We therefore consider that addressing it is a fiduciary principle when managing our clients' assets.

Nikko AM Group has a Position Statement on Climate Change which outlines four approaches: enhancing the in-house analytical capabilities, collaborating with the investment community, active stewardship and reporting on our activities.

1. Enhance in-house analytical capabilities
2. Collaborate with the investment community
3. Conduct active stewardship
4. Report on our activities

While we define these four approaches, we do not seek to regulate how each investment team puts principle into practice in their own investment processes. However, in all cases we do believe that active dialogue and the exercise of voting rights on climate change, where appropriate, can lead to positive outcomes for investee companies, our clients and our firm. We participate in relevant collaborative corporate engagement activities, such as the investor-led CA100+, to communicate our expectations to investee companies (see Principle 10 for more on our collaborative engagement activities).

We generally do not apply blanket exclusions of investments based on climate change factors unless directed by our clients. We prefer active engagement and the exercise of voting rights, which we see as more effective in upholding ESG and stewardship standards, whether it be for our clients, for the broader economy or for the environment. We believe that exclusions based on formulaic filters to determine climate risks can be inflexible at times and in some cases may fail to capture the future potential of companies to respond to the transition to a low-carbon economy.

We believe that thorough research and vigorous debate within the teams, alongside direct engagement with companies to get a first-hand appreciation of the issues, are still the best ways to evaluate ESG factors and judge their impact on investment outcomes. We also recognise that climate-related impacts are complex and uncertain, so we need to keep abreast of scientific findings and information, and how regulators and stakeholders are responding to them.

While we take account of our own climate change principles in our portfolios, we also provide low-carbon investment solutions aligned with our prospects' and clients' specific investment beliefs. For example, our Global Green Bond Fund is a low-carbon collective investment that invests primarily in securities that finance climate change mitigation and adaptation projects. We are rigorous about which bonds meet our standards, as illustrated in our case study "Saying no thanks to H&M*'s green bond" in the Outcome section below.

We also have a Hydrogen Fund, managed by our Global Equity team, which enables our clients to participate in the financing of the hydrogen economy and the transition away from fossil fuels.

Aligned with our commitments, we encourage our investee companies to take the following steps:

- identify material climate change risks and opportunities in a range of scenarios (including where the global temperature rise is kept below 2°C) over appropriate time horizons,
- integrate material climate change risks and opportunities into their overall business strategy and risk management,
- disclose the management policies and processes they have designed to meet the goals – and resulting performance – that emerge from the above activities.

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Activity

The investment teams in our actively-managed strategies identify attractive stocks through in-depth bottom-up research, based on their own philosophy and approach. ESG factors and the risks and opportunities they present for the stock or bond are integrated into this process, providing additional considerations to be taken into account in investment selection.

ESG factors are thus rooted in our investment philosophies and processes and not treated as being part of a separate exercise. We strongly believe that attention to ESG factors is a part of good investment discipline – core to any business and inherent in its long-term creation of value, while contributing to the realisation of wider sustainable economic growth. Given this view, we endeavour to incorporate ESG considerations across all asset classes and geographies.

Having said that, different asset classes have different dynamics, with varied geographies and industry sectors adding to the complexity. Each of our investment teams is therefore allowed to view ESG implementation through its own lens, leading to diverse approaches across the organisation. Whatever the approach, we strive to apply all ESG policies to the highest standard, continually seeking improvement and innovation.

ESG risk analysis is integrated into the investment research function rather than outsourced to a separate team. Each investment team is responsible for the assessment of risks that may affect the success and long-term sustainability of holdings in the portfolio. Our detailed process – including stress-testing investment candidates, stock selection and portfolio construction – also helps to ensure that the whole investment team is engaged in managing ESG risks.

ESG specialists support the investment teams as part of our aim of having all investment professionals integrate ESG into their investment processes to the fullest extent. They also build relationships with various sustainability-focused organisations and regularly share information with investment teams and other key stakeholders (including through the Global ESG Global Steering Committee), such as ESG-related legal changes in countries around the world. The Global ESG Global Steering Committee reports to the Group Board and, in our UK subsidiary, the regional investment teams are required to present their ESG implementation activities to the local board.

The table below gives a brief overview of the approach taken to ESG integration across the various asset types and geographies that we manage.

<table>
<tr><th>Asset Class</th><th>How we integrate ESG and stewardship responsibilities into the investment process</th></tr>
<tr><td>Japanese Equities</td><td>ESG is integrated into research and investment considerations through the use of a selection process based on “creating shared value” (“CSV”) evaluations. The concept of CSV evaluations comes from the work of Harvard University professor Michael Porter, who found that the creation of social value leads to economic value.

We have used our own CSV evaluation as part of our investment considerations since 2013 and introduced CSV stock price analysis in 2021. This latest addition to the process allows us to calculate a fair price for the stock based on CSV evaluation, further enhancing the investment process. The CSV evaluation currently comprises 12 factors grouped into three categories — ESG, competitiveness and financial strength.

In terms of ESG engagement with company managements, we have six key themes:

Environment: Biodiversity and Action for a Decarbonised Society. Please see below more details on biodiversity in the example following this table.

Social: Diversity, Human Capital and Productivity, and Human Rights.

Governance: Effective Governance.

Our approach to engagement with companies is covered under Principle 9 and a key part is the exercise of voting rights. We can and do use these rights to reinforce our views on any of the issues outlined above. That could mean, for instance, voting against board appointments where a company faces serious risks related to climate change or sustainability, and/or where management initiatives to address them are deemed insufficient and the situation is not improving.

In terms of our wider stewardship responsibilities, we may also vote against management where we think a company is lagging in other areas, such as governance or financial performance.</td></tr>
<tr><td>Global Equities</td><td>ESG analysis is undertaken by each portfolio manager and fully integrated into the stock-picking process to ensure we can robustly evaluate the materiality of each factor and its potential impact in the future. Our four-pillar “Future Quality” analysis includes in-depth evaluations of ESG factors to determine their effect on the company’s risks and returns. Research includes an analysis of a company’s corporate governance, social practices, the environmental sustainability of its products or services and its capacity to fund its growth and ESG commitments.

Our investment team engages with investee companies to help promote better ESG practices if we believe there is room for standards to improve. This includes ESG controversies identified by the Global Equity team. Proxy voting is executed in the interests of our clients in line with our proxy voting guidelines.</td></tr>
</table>

Asset Class	How we integrate ESG and stewardship responsibilities into the investment process
Asia ex-Japan Equities and China Equities	ESG analysis is incorporated into company research, security selection and portfolio construction. Our ESG Materiality Matrix focuses on the material ESG issues and opportunities for each of the companies we cover. The materiality matrix is based on ESG factors defined by the ISSB (formerly known as the Sustainability Accounting Standards Board ("SASB")) and MSCI. As part of our in-house proprietary ESG-scoring methodology, individual companies are rated against a number of ESG pillars and the results aggregated with fundamental analysis to provide a company-level score. ESG-focused research is also used to identify areas for company engagement and improvement. For how this applies in practice, see our case study "Sustainability is still on the table at First Resources*".
New Zealand Equities	The team seeks to understand how industry and company ESG factors may affect investments and, ultimately, client portfolios. ESG factors are considered as one aspect of the overall analysis to build a picture of the risks and opportunities faced by a company. Portfolio companies with low ESG scores are targeted for engagement in an effort to improve their performance in weak areas or where it would be beneficial for stakeholders. An example of this is finding and addressing wider issues affecting New Zealand companies, such as regular and severe weather events (see our case study "Eternal vigilance is required in monitoring the effects of climate change in New Zealand" under Principle 4). More generally, we engage with companies where we think managements are not acting in the best interests of shareholders, who are ultimately our clients.
Japan Fixed Income	In the Japan Fixed Income team, we believe ESG considerations can be important in assessing qualitative risks that cannot be covered by financial analysis. 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. Our Japan Sustainable Investment department also provides support in areas such as ESG engagements.
Global Fixed Income	We use a proprietary platform to aggregate ESG data in order to enhance our evaluation of sovereign, supranational, agency and corporate issuers. This tool allows us to compute ESG rankings based on the variables we think are the most relevant for each fixed income field or sector and gives us full control over the data sources we use, allowing us to incorporate multiple data feeds and enhance our investment decisions. In the case of corporate credit, ESG factors are considered to the extent that they are deemed material to the investment case and in line with our clients' risk appetite and perspectives on ESG investing. Moreover, even in relation to sovereign entities and major banks, we maintain an active dialogue with issuers on ESG themes as a means of building our insight and market intelligence. For green and labelled bonds, we have also developed a proprietary assessment process to review the suitability of a bond and its issuer from a sustainability perspective. We assess the intended use of the proceeds for each bond as well as the consistency between the issuer's sustainability strategy and the projects financed. A more detailed illustration of this process can be found in the case study "Saying no thanks to H&M*'s green bond" in the outcome section below.
Asia Fixed Income	ESG analysis is incorporated into all company research as part of our bottom-up fundamental analysis and portfolio construction. This research is based on our ESG Materiality Map which analyses companies using ESG factors based on those defined by the ISSB (formerly known as SASB) and MSCI, but adapted to reflect conditions in Asia. ESG-focused research is also used to identify areas for issuer engagement and improvement. We have also developed a proprietary ESG sovereign-rating model that uses public data from sources such as the World Bank, the United Nations and the European Commission Emissions Database for Global Atmospheric Research. In this sovereign-rating model, we use 21 indicators that broadly cover all three areas of ESG. These include greenhouse gas emissions (per capita and proportional to GDP), an index of human development, and a measure of government effectiveness.

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Asset Class	How we integrate ESG and stewardship responsibilities into the investment process
New Zealand Fixed Income	The team seeks to understand how industry and company ESG factors may affect investments and, ultimately, client portfolios. ESG factors are incorporated into the due diligence process to provide an overall picture of the risks and opportunities faced by issuers. Following investment, the team engages with portfolio companies with low ESG scores in an effort to seek improvements that would be beneficial to stakeholders.
Multi Asset	ESG integration is conducted from both a top-down and bottom-up perspective. The bottom-up approach relies on our teams of ESG specialists and research analysts, whose processes form part of the fundamental research process. The top-down approach is tailored to clients-investment guidelines, which entails the use of norms-based screening methods to identify companies that breach ESG safeguards, such as the United Nations Global Compact principles, or OECD Guidelines. For existing holdings, where a company is involved in controversy, or is identified to have breached a social safeguard, further due diligence is conducted before deciding whether the position should be sold.
Passive and Quantitative	Our Japan-based Investment Technology Fund Management team consists of the Passive Fund Management team and the Quantitative Investment Management & Development team. The Passive Fund Management team provides passive management products for a wide range of asset classes, while The Quantitative Investment Management & Development team offers quantitative active strategies and smart beta strategies for domestic Japanese and international equities. The team believes that, since ESG factors can impact shareholder value over time and in a wide variety of ways, it is important to understand them both theoretically and empirically. They therefore conduct in-depth research on individual environmental, social and governance components of ESG investment using a quantitative approach, but also drawing on the expertise of our Global Sustainable Investment team. The findings of this research are used to integrate ESG considerations into existing products as well as to develop new products.
Money Markets	ESG and stewardship considerations are taken into account as part of the issuer selection process to the extent that they are deemed material to the investment case and in line with our clients' risk appetites.

Putting policy into practice: biodiversity (equity)

Issue: In May 2023, our Japan Sustainable Investment department expanded from three to six of key ESG themes with one of the new additions being biodiversity (see Global Stewardship Report, April 2024, p.58). As a result of this change, we made particular efforts during 2024 to actively engage with companies in our portfolios regarding the impact of their activities on plant and animal biodiversity, as part of our broader environmental discussions.

Activity: We have picked out five engagements during the year to illustrate how we have put our new policy to work:

Telecoms

We engaged with a major Japanese telecoms and data company in both November 2023 and October 2024. In our discussions, the company recognised that, while its business consumes relatively few natural resources compared to its scale, the opportunities to improve its treatment of natural capital (defined as the world's stock of natural resources) and biodiversity are significant. We discussed the relevance to its business of the growing demand for information and communications technology to monitor biodiversity and efficient use of resources. However, we noted that the internal company view on whether natural capital and biodiversity should be considered a material issue has not yet solidified.

Outcome: We conveyed to the company our view of the importance of this theme and that we would continue to engage with it on this subject, particularly with a view to improving its disclosures.

Engineering

We engaged with a large Japanese engineering group in October 2023 as part of our biodiversity initiative. We emphasised the importance of this subject and related disclosures, notably the need to comply with the Taskforce on Nature-related Financial Disclosures ("TNFD"). The company acknowledged that, while it does not yet recognise significant biodiversity risks in relation to its manufacturing operations, it is starting to consider the impact of the business on biodiversity, especially in agriculture and water-related sectors. It also stated its intention to proceed with TNFD disclosures.

Outcome: In February 2024, the company registered as a "TNFD Adopter". In June 2024, it reported its evaluation using the TNFD's LEAP[5] approach, which guides signatories through the evaluation and reporting of their impact on nature, as well as ENCORE, a base-level process for analysing a company's impact and dependency on natural capital. We view this as a positive step and will continue to monitor the company's progress in this area.

Food

One of our portfolio companies owns several well-known brand names in the Japanese food and drinks market, where we recognise there is a need to consider procurement risks from a biodiversity perspective. The company uses various plant-based raw materials, such as malt for beer and tea leaves for beverages. We were concerned that unsustainable procurement practices could harm biodiversity and affect the company's long-term supply and corporate image. Addressing biodiversity also aligns with climate change adaptation and enhances corporate resilience.

During our engagement, we discussed the company's TNFD disclosure and risk assessment using the LEAP approach. We praised its efforts compared to industry peers and encouraged further integration of risk assessments into overall corporate strategy. In this context, we emphasised the importance of understanding the overall impact of the company on biodiversity and not just that of individual sites.

Outcome: We believe that engaging with the company has been mutually beneficial, helping us to learn from its best practices while encouraging the company to further improve. We will use the company's regular disclosures to continue to engage, monitor progress and promote enhancements.

Trading

Given the wide range of activities undertaken by Japan's big general trading companies, especially in areas like oil and mining, we realised that they faced particular risks related to natural capital and biodiversity. We thought that a couple of such companies in our portfolio would be good candidates for collaborative engagement under Nature Action 100, an investor-led initiative specifically formed to combat nature and diversity loss.

We informed both companies of our participation in Nature Action 100 and their nomination as engagement targets. Both expressed a willingness to engage and improve disclosures. In one case the company said it was already analysing mining developments under the TNFD framework and planned to disclose LEAP analysis results in the future. The other said it was still learning about the initiative but appreciated our guidance.

Outcome: The companies have published their biodiversity initiatives in 2024, including their LEAP analyses for the metals and resources businesses. We appreciate these efforts to highlight high-risk areas and will continue to engage with them to monitor progress.

5 TNFD has developed an integrated approach for the identification and assessment of nature-related issues, called the LEAP approach (Locate, Evaluate, Assess and Prepare). Guidance on the approach can be downloaded here: https://tnfd.global/publication/additional-guidance-on-assessment-of-nature-related-issues-the-leap-approach/

Outcome

We believe that it is clear from this section that stewardship is embedded in every part of our group and forms an integral part of our investment processes, to the extent possible. ESG considerations are taken into account in our investment decisions, even if our influence over them is sometimes limited. Further demonstrations of the practical outcomes of this integration of stewardship – and particularly ESG considerations – into our investment activities is best seen through some examples in the case studies that follow and elsewhere in the report.

Case study:

Saying no thanks to H&M*'s green bond (fixed income)

The aim of our Global Green Bond strategy is to generate returns for investors by investing in fixed income securities that finance projects with a tangible positive impact on climate change, nature conservation, ecosystems and biodiversity. Before investing in a particular issue, we undertake a due diligence process that reviews, amongst other things:

- the issuer's sustainability strategy to ensure it aligns with our fund's goals,
- the "bond framework", which sets out the green aims of the particular issue, to ensure that it is sufficiently ambitious, and
- the proposed post-issuance allocation and impact report to ensure the reporting and impact of the proceeds meet our expectations.

Depending on their severity, any concerns that are identified can lead to a decision to engage with the issuer to carry out further due diligence to ensure alignment with our sustainability goals or not to invest at all.

Issue: An example of our green bond process in action related to a bond we originally reviewed in 2023 issued by H&M Group, a clothes retailer headquartered in Stockholm and known for its fast-fashion business model. Under the terms of its sustainable finance framework, eligible projects for the bond's proceeds would include: the development of "circular economy" products and supply chains, including those that allowed customers to take back used clothes; the ownership or leasing of "green" stores, offices and logistics centres; supporting renewable energy generation and energy efficiency in logistics and supply chains; and the reduction of fresh water consumption in its own activities and those involving its merchandise.

Activity: We ultimately chose not to subscribe to the bond issue for a number of reasons. We felt that there was a lack of clarity about the minimum levels needed to reach a sustainable standard in each project, combined with a lack of ambition to stem the negative environmental consequences of its suppliers' manufacturing methods and the end-of-life disposal of its products.

These feelings were reinforced by recent controversies relating to H&M's supply chain. They have included allegations that it failed to pay workers properly in garment factories in Bangladesh, Cambodia, Ethiopia, Myanmar and the Philippines. It has also been criticised for the alleged dumping of used clothing that has caused environmental damage in parts of Asia and Africa.

Our review led to us concluding that the projects to which the proceeds of the bond were linked were insufficiently ambitious and did not live up to our Green Bond fund's overriding expectation, "do no significant harm".

In May 2024, we joined one other institutional bond investor on a call with executives of the company and explained why we had not participated in the bond issue. We were encouraged to discover that our fellow would-be investor had reached similar conclusions with regard to this particular issue.

Outcome: Green bond frameworks tend to not be updated frequently by issuers, so we believe it could be some years before this particular framework is reviewed. Nonetheless, we hope that the feedback provided in our meeting has given the company some food for thought and will encourage greater ambition in its future sustainability goals.

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Case study:

Sustainability is still on the table at First Resources* (equity)

First Resources is one of the leading palm oil producers in Indonesia. Its core businesses include palm oil plantations, mills and refining.

Issue: First Resources has suffered bad publicity over its approach to biodiversity and deforestation. It has also received a poor ESG score from the rating agency MSCI. In the light of this, we have been engaging with the company to find out how it is seeking to improve (see Global Stewardship Report, April 2024, p. 48).

Equity ESG Materiality Matrix:

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 Products / 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 Risks: Issues which can put a company out of business.
- Secondary Risks: 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 Risks: Climate Change and ESG-Governance

Carbon Footprint	Company	Benchmark
Carbon/Market Cap (Ton/m USD)	553.5	160.0
Carbon/Total Sales (Ton/m USD)	926.1	241.9
Impact on per mil Investment (USD)	-12,303.1	

Activity: Following a meeting with our Asia Equity team in March 2023, we determined that the company's operations were on track in terms of its sustainability commitments and that it was addressing past criticisms, particularly concerning biodiversity. We noted that 34% of its operations had received certification from the Roundtable on Sustainable Palm Oil ("RSPO") lobby group in 2022, more than double the 15% achieved in 2020. This encouraged us to think it was on course in 2024 to reach the 77% coverage achieved by rivals Wilmar International*. We were also hopeful that the company's MSCI sustainability score would improve during the following two years. Overall, we thought First Resources was no worse than average and, in terms of its own processes, was on track to improve its sustainability performance.

This optimism was encouraged by our next engagement with the company in December 2023. Among plans for expanding the downstream businesses, it was considering a $300 million project to turn waste cooking oil into fuel. Aside from the strong investment case, the investment would help reduce the palm oil and cooking oil waste that the company generates, amounting to around 40,000 tonnes a year, while improving the company's sustainability credentials. At the time, a decision was to be made by the end of 2024.

As it happened, when we met the company again in September and December 2024, the picture was a bit more mixed. We had a generally positive discussion about the company's sustainability roadmap, which covers its short-, medium- and long-term plans, including the need to start reporting Scope 3 emissions (i.e. those that arise from use by third parties of the company's products or services). The company said it was intending to push further ahead with this in 2025. We also reviewed their ongoing work towards RSPO certification and the audits of their production facilities. The company shared that they are now aiming to move from 50% RSPO certification to 67% in 2025 and for full RSPO certification by 2026.

* Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in any portfolio, nor constitute a recommendation to buy or sell.

Outcome: While our engagement with First Resources in 2024 did not yield the same level of progress as the previous year, we are encouraged by the advancements the company has made. Looking ahead to 2025, First Resources plans to focus on Scope 3 emissions disclosures and setting specific targets to reduce its carbon footprint, building on its prior work with Scope 1 and Scope 2 emissions. Sustainability remains a central priority for the company, and we believe they are committed to a strategy that emphasises biodiversity and sustainable land use.

Furthermore, the company is actively exploring green investment opportunities in Indonesia to enhance its environmental performance. However, management decided to pause its original plan to invest in sustainable fuel oil or convert waste cooking oil into fuel due to unfavourable financial terms and concerns about feasibility and financial returns. Instead, the company is focusing on new green opportunities within industrial land use.

We will continue to closely monitor First Resources' progress and engage with them to ensure that these sustainability efforts, including the biofuel development project, move forward effectively.

Case study:

Encouraging climate-friendly policies at a keiretsu (equity)

This large Japanese trading group (or keiretsu) operates in a huge range of businesses, from electronics to finance, heavy engineering and energy.

Issue: The group announced plans to maintain or expand its assets in liquified natural gas and coking coal, both of which contribute to global warming and therefore carry environmental, reputational and "stranded asset" risks. We supported a shareholder proposal at the June 2023 shareholders' meeting which called for the company to align its business plans with the Paris Agreement on climate change, while disclosing how significant capital expenditures will accord with a net-zero carbon scenario by 2050.

Activity: In 2024, we discussed with the company the impact of the shareholder proposal and any changes in the company's response. The company acknowledged the need for improved disclosures and that discussions with the outside independent director on how to address climate issues were taking place. It emphasised that CO2 considerations were already part of its investment decision-making process.

Outcome: We believe that our support for the shareholder proposal and subsequent engagement with the company, including direct discussions with outside directors, have contributed to a more proactive stance. We will continue to engage with the company to promote further improvements in its disclosures on climate risk and in the measures it is taking to mitigate it.

Case study:

Improving the health of a well-known food group (equity)

This is a Japanese branded food to pharmaceuticals group.

Issue: Research by our equity investment department highlighted the need for the company to separate its low-profit pharmaceutical business, while putting to work the cash accumulated in the Chinese operations. Our Japan Sustainable Investment department also identified issues with the aging board of directors, outdated personnel systems and corporate culture, all of which hinder effective use of the company's human capital. Poor disclosure was also seen as a problem.

Activity: When we raised these issues with the company, we were particularly concerned with the slow pace of change, something that the company acknowledged had also been raised by its independent directors. It also admitted that promoting young employees had proved challenging, which we pointed out could lead to the underuse and demotivation of young talent.

The company acknowledged the issues identified by our equity research but still seemed to lack enthusiasm for promoting shareholders' interests. Following our engagement, the company did show some progress in the areas of concern. It issued an integrated report which covered a wider range of subjects than just the company's financial affairs to include sustainability and other areas, while it has sold part of the pharmaceutical business. However, there is still significant room for improvement in governance and corporate culture.

Outcome: The collaboration between the Japan Sustainable Investment and the equity investment department has been crucial in providing a comprehensive evaluation of this company. It has deepened our understanding and allowed for a more thorough assessment of the prospects. We will continue to monitor the company's efforts to improve governance and corporate culture.

Principle 8

Signatories monitor and hold to account service providers.

Activity

A number of outside service providers help us in the stewardship of the assets we manage. These include MSCI, Bloomberg, ISS, Good Bankers and IR Japan for ESG information and analysis. We have regular meetings with our data providers' ESG analysts to improve our understanding of how they engage with companies and to enhance the quality of the research we receive. The quality and depth of reports and insights are considered, as well as the effectiveness of the vendor in providing us with the necessary insights to fulfil our stewardship obligations on behalf of our clients. To further enhance our understanding, often of macro sustainable investment topics, we also engage with sell-side ESG researchers.

Although there is value in the data provided by our third-party providers, we mostly treat these data as supplemental to our own analyses, particularly for our active strategies, and believe any enhancement depends on how the information is incorporated into the investment process. A large portion of our AUM are in Japanese equities and other asset classes where coverage by third-party providers is still evolving. We find that there are data gaps and delays while, at times, we disagree with the analyses or ratings even when they are available. We therefore do not rely exclusively on these services. Additionally, we conduct all engagement with investee companies ourselves and the decisions on how we vote proxies are ultimately made internally.

When engaging with any external service provider, we undertake an initial due diligence analysis, after which the provider is subject to ongoing monitoring and due diligence, following a risk-based approach, with the level of scrutiny depending on the type of vendor. Each department that owns the relationship with the applicable external service provider undertakes an annual review of the cost, effectiveness and usage of the services received. Vendors are also subject to anti-money-laundering and adverse media screening checks. In our UK subsidiary, the template includes additional questions on ESG and modern slavery. Monitoring means maintaining appropriate levels of regular contact and may include regular performance assessment. The areas covered in the initial due diligence are illustrated in the diagram below.

How we monitor service providers

- Internal control system
- Information security system
- Management stability, industry standing, corporate culture, organisational structure
- Public accreditations, licences, certifications by private certification bodies
- Quality, technical capabilities, environmental friendliness and track record in consigned business or similar business and reputation thereof
- Outsourcing fees and payment conditions
- Emergency measures, Business Continuity Management (BCM), Business Continuity Plans (BCP)

Monitoring our main ESG data vendor

As we rely on one large data provider, MSCI, for a significant portion of our ESG data, we sense-check its data to ensure the data sets are accurate, timely and consistent across the investment universe. Further, we gain some comfort from the fact that MSCI is a signatory to the Code of Conduct for ESG Ratings and Data Products, which aims to foster a trusted, efficient and transparent market by introducing clear standards for ESG ratings and data products providers, while clarifying how such providers should interact with wider market participants. We also maintain a regular dialogue with MSCI, Code of Conduct for ESG Ratings and Data Products for example, members of our Global Sustainable Investment team participated in the MSCI ESG Ratings Consultation Roundtable in Singapore in early 2024, where we and other industry participants provided feedback on proposed rating methodology changes.

Monitoring our proxy voting service provider

An example of a service provider we use extensively for our stewardship activities is ISS, which we use to carry out proxy voting on our behalf. Proxy advisors offer research, advice and recommendation services. By voting responsibly on decisions related to the governance or strategy of the companies in which we invest, we recognise that we play an important role in robust stewardship. For the majority of resolutions, upon receipt of voting recommendations, the portfolio manager or analyst responsible for the security in question will look at the report and conduct further research where any issues have been flagged. Some examples of how we use the recommendations we receive from ISS can be found in the case study below and under Principle 12.

ISS has benchmark policy guidelines which are regularly updated. It is part of our annual review process to combine the review of these guidelines with that of our own proxy voting policy. We then liaise with ISS if its guidelines do not match our expectations. Members of our Global Sustainable Investment team respond to ISS's annual Global Benchmark Policy Survey to provide constructive feedback and the firm's view on a number of global environmental and social topics in the light of evolving regulations, guidelines, standards, and frameworks, particularly regarding climate change.

The survey helps ISS understand market expectations and informs their policy updates so as to better align them with its clients' policies.

The 2024 ISS survey covered governance and sustainability topics at various levels, including poison pills and executive compensation in the US. Representatives of our Global Sustainable Investment department shared our views on diversity, equity and inclusion policies, the tenure of outside directors and cross shareholdings. Examples of instances where we vote against ISS recommendations are described in case studies under Principle 9 and Principle 12.

ISS is a signatory to the UK Stewardship Code, after successful resubmission following the loss of the initial signatory status in 2022. ISS's current available report is still only from 2022, but we have engaged with ISS to be notified as soon as there is an updated version available. The proposed forthcoming revision of the UK Stewardship Code introduces, for the first time, a dedicated principle to be applied specifically to stewardship service providers, including proxy advisers, to reflect the importance of the services they provide. We hope that ISS will take this as an opportunity to revise its reporting, putting increased emphasis on its activity and its impact. This would very much help us in our oversight of ISS.

Outcome

The reporting expectations of both our regulators and our clients grow all the time, which in turn raises our expectations of the data we need from our service providers to meet these requirements. Although we have made progress in our ability to collate and process ESG data, we are far from content with the depth and quality of some of the information we are receiving. In some instances, we have found that the information published is dated or inaccurate. In others, coverage is so poor as to make reporting effectively meaningless and, in yet others, the methodologies and assumptions used to draw conclusions are not clearly defined.

In line with our commitment to transparency, we continue to point out these limitations in our external communications. Where data fail to meet our minimum standards as evaluated by our ESG data & reporting team (which is independent from our investment teams), we feed our concerns back to the relevant service provider as part of our day-to-day operations. Unfortunately, this does not always result in the information being updated. To cope with these deficiencies, we have developed internal processes to override data received from vendors where necessary. In the main though, we believe we can rely on our close knowledge of the companies in which we invest to correct erroneous data to ensure that our investment theses and reports are as up to date as possible.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

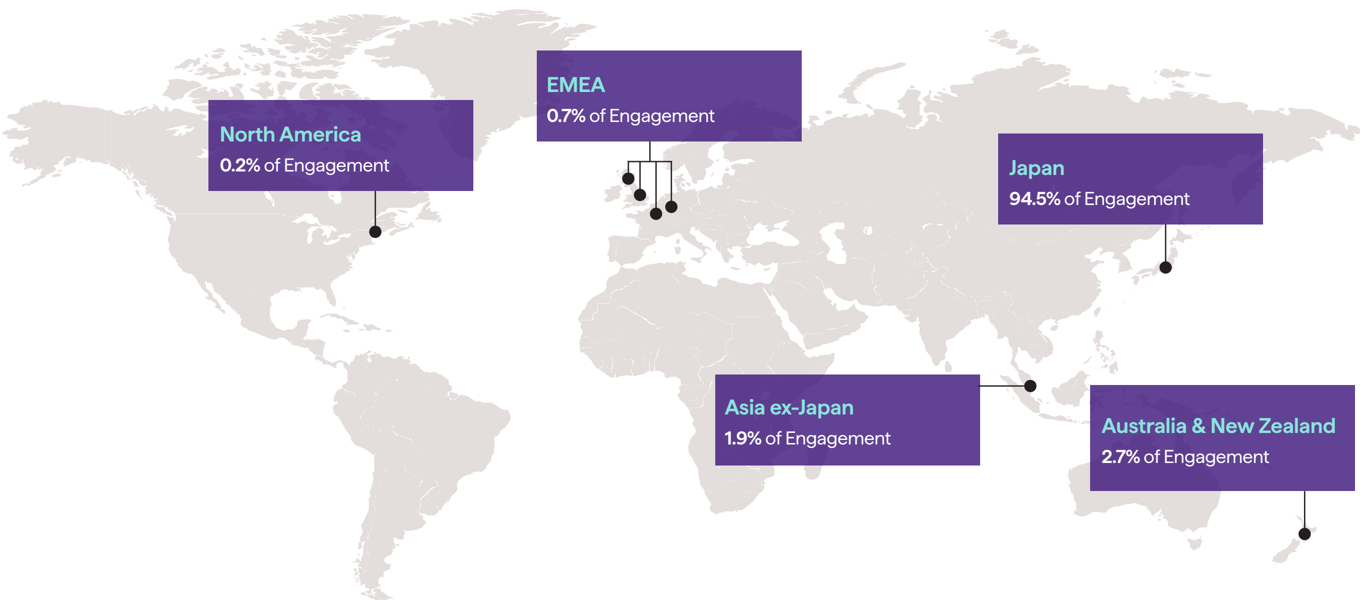
Activity

As an asset manager we recognise that engagement and stewardship are part and parcel of our fiduciary duty. Active engagement with our companies is built into our investment processes and plays an integral role in fulfilling our commitments as a good steward of the capital that our clients have entrusted us with. Our strategy as outlined here should be read in conjunction with our Commitment to Responsible Investing and the Nikko AM Group Proxy Voting Policy.

While the general approach outlined here applies to all discretionary accounts, it will be adapted to circumstances. For example, Japanese culture approaches engagement from a different perspective to many Western societies, since public engagement to influence change can be viewed as discordant and can disrupt relationships built up over many years. Furthermore, our influence is limited by the significant portion of our Japanese equity AUM held in passive portfolios (as shown in the pie charts under Principle 6) where we do not have the same ability to divest these assets. That said, our Japan Sustainable Investment department is working actively to influence positive change at target companies on core ESG themes, even where they are held only in passive portfolios[6]. This is a multi-year project, and we are encouraged that as a major investor in Japanese equities, we are one of a small number of companies that are often invited to buy-side only engagement sessions with the top management of Japanese large cap. We further welcome the recent corporate governance reforms by the Tokyo Stock Exchange which continue to enhance constructive engagements with domestic companies.

The map below gives the proportion of the firm's total ESG engagements undertaken in each region in 2024[7]. The charts that follow provide a further breakdown of ESG engagement by theme and investment team respectively.

ESG engagements by region*

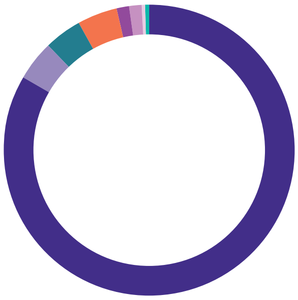


*Percentages are reflective of the calendar year 2024. Totals may not sum due to rounding.

6 Our passive portfolios are managed by the Passive Fund Management team, which is part of the Japan Investment Technology team, providing passive management products for a wide range of asset classes.
7 The total number of engagements is greater than the ESG engagements reflected here as many involve non-ESG related issues.

Firmwide ESG engagement by theme*

ESG engagement by investment team*



*Percentages are reflective of the calendar year 2024.

Engagement objectives

We engage with our investee companies on their strategy, operations and financial decisions, as well as their performance and management with respect to material environmental, social and governance issues. The purpose of our engagements is to help them attain and sustain high returns and create value, while becoming and remaining good corporate citizens. In carrying out our purpose, we seek to understand managements' stance and strategy on important issues, set milestones where appropriate and monitor subsequent performance. The aim of this monitoring and guiding process is to shape corporate behaviour and influence positive change by encouraging policies such as enhanced ESG disclosure and best ESG practice.

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.

Engagement methods and execution

Our engagement methods vary, based on the needs of the situation. They include:

- one-to-one company dialogues, including on-site visits,
- management calls and roadshows,
- written communications,
- collaborative engagements.

In some parts of Asia, one-to-one engagements are often the most constructive and culturally appropriate way to build trust, on the basis that confidentiality can bring better results than open confrontation. Mindful of these important regional nuances and our commitment to constructive, positive and pragmatic engagements, we carefully select our engagement methods, whilst being committed to supporting collaborative engagements where appropriate. For more on collaboration, see Principle 10.

Regardless of the method of engagement, we always seek to have a dialogue with the key decision makers, including founders, chairs, chief executives, chief financial officers and executive directors, as well as others whose duties include sustainability and investor relations. If these more consensual approaches fail to achieve our desired ends, or there are more serious failings by a company, we may escalate the matter. This could involve collaboration with other investors. These approaches are discussed in more detail under Principles 10 and 11.

As we have described elsewhere in this report, ESG is integrated into our investment processes, with investment teams (including our Global Sustainable Investment team) engaging with companies on relevant ESG issues both before and during the period of investment. Our regional ESG specialists, sometimes in collaboration with the respective investment analysts and portfolio managers, also perform engagements under the banner of collective action on a particular theme. One example is climate change in relation to our activities under the Net Zero Asset Managers initiative, Climate Action 100+ and the AIGCC's Asian Utilities Engagement Programme. However, ultimately, it is the analysts and portfolio managers in our investment teams who are responsible for assessing the ESG risks and opportunities that inform portfolio buy and sell decisions and engaging with the companies they cover.

Several key issues decide how we prioritise companies for engagement, which can differ by region and asset class. Some of the factors that may be considered for prioritisation are:

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

The results of our engagements supplement our investment analysis, risk management frameworks and, ultimately, our investment decisions. Our principal objective, however, is to seek commitments from company managements that they will address any material concerns raised by our investment team and Global Sustainable Investment team as a result of our engagement.

Measuring the effect of our Japanese engagements

In 2024, we conducted a project to measure the effectiveness of our engagement activities in Japan. We were pleased to discover that this demonstrated that engagement activities can have a statistically-significant positive impact on corporate value.

The project tracked the returns of 168 companies 18 months after we had identified an issue and engaged accordingly. Companies where engagements had been successfully concluded showed significantly higher performance compared to those where engagements were still in progress. Among the successful ones, ESG-themed engagement seemed to make a contribution to value improvement, although statistical significance was not confirmed.

For companies where engagement was still in progress on both ESG and non-ESG issues, low performance was marked, suggesting the failure to resolve issues was leading to a deterioration in corporate value. Admittedly, there were limitations to this analysis, given the fairly small sample and relatively short period over which performance was measured. Moreover, differing levels of ownership and size of company were not considered and could have had an influence on outcomes.

While we accept that there were limitations to this exercise, we believe that it does show that successful engagements can contribute to corporate value improvement. It also confirmed to us the importance of starting or continuing engagements where improvements are needed. It reaffirmed that, on the whole, our engagement approach works. We plan to continue accumulating data and researching and developing methods to measure the effectiveness of engagement more accurately in the future.

Engagement by asset class and geography

The type of engagement undertaken depends in part on the asset class in question, as well as its geographical location. Below we outline the approach adopted in some of the main asset classes we manage.

Japan Equity and Fixed Income

Our Japan-domiciled investment teams have a deep understanding of local markets and the intricacies of Japanese corporate culture, which helps us develop relationships with the companies in which we invest. We look beyond normal public sources of information, such as financial statements, sell-side research and local news flow, with managers placing an emphasis on direct contact with company management, including site visits. Our local presence in Tokyo, where we are one of Japan's largest asset managers and where the market generally tends to be under-researched by non-domestic peers, helps facilitate dialogue with companies. Over the years, we have been able to establish strong local relationships, providing us with unique insights, investment opportunities that might otherwise have been overlooked and the ability to undertake unusually far-reaching stewardship.

A key focus of the Japan Sustainable Investment department is to work with portfolio managers and analysts in our research teams to engage with large and mid-sized firms specifically on ESG issues. In line with our efforts to standardise and strengthen our ESG strategy and frameworks, the Japan Sustainable Investment department adopted an enhanced definition of engagement in 2024 to cover "Dialogue in which we expressed our views on issues that we consider important to promote medium- and long-term improvements in corporate value." Under this wide definition, our Japan-domiciled investment teams have four engagement categories that cover Environmental, Social, Governance and Other, which include a range of themes, including climate change, diversity, equity and inclusion, corporate governance, corporate earnings, asset efficiency and shareholder return.

Our key ESG themes for Japanese companies

The Japan Sustainable Investment department has established ESG priorities for engagement with our Japanese investments, which we believe will contribute to better investment returns in the medium- to long-term. They are listed below:

- **Environment – Action for a decarbonised society**
- **Environment – Biodiversity**
- **Social – Human capital and productivity**
- **Social – Diversity**
- **Social – Human rights**
- **Governance – Effective governance**

The Japan Sustainable Investment department uses an engagement platform for information sharing to enable the wider Equity Fund Management department to carry out engagement in a systematic and effective manner and encourage collaboration between fund managers and sector analysts. Combined with a systematic stage-by-stage monitoring process, this, we believe, will make the way we monitor and measure the effects of our engagements more effective. After each engagement, a report is created to track progress and is shared internally. Feedback is also provided to active investment portfolio managers.

Some illustrations of how we engage with our Japanese portfolio companies can be found in our case studies that follow and throughout this document.

Global Equity

When appropriate, our Global Equity team engages with investee companies to help us understand how their opportunities and risks, including those relating to ESG, are being managed. These meetings can occur at any point in the investment process – from initial research, through to portfolio inclusion and sometimes even after the holding has been sold. These discussions provide us with an opportunity to develop our knowledge of each business and industry, and to take a view on the quality of management teams and their strategies, especially on ESG issues. We engage to promote better ESG practices if we believe there is room for standards to improve, for example by encouraging enhanced ESG disclosure and performance in line with best ESG practice. Ultimately, we believe that engagement is a continuous process.

Global Fixed Income

Most of the AUM in our Global Fixed Income portfolios are in sovereign or other investment-grade bonds, and money market instruments. We also hold small shares of issuance by major banks and some leading corporates. We maintain an active dialogue with issuers and see this as a means of building our insight and market intelligence.

With respect to corporate credit, our Global Fixed Income portfolio managers and research analysts 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. Where we have identified company-specific or systemic risks, we may raise these concerns through meetings, site visits, conference calls or correspondence in order to gain assurance that risks are being managed.

We prioritise engagements based on our holding and the bond issue in question. The level of engagement depends on the asset class and the geographical region. 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 which would tie-up disproportionate resources and time.

Asia ex-Japan Equity

A core part of our Asia ex-Japan equity team's fundamental analysis is in understanding and scoring companies on material ESG risk and return factors. We have integrated ESG analysis into our whole investment process, with individual analysts responsible for their own proprietary ESG scoring. Our belief is that strong and/or improving ESG fundamentals are essential for achieving sustainably-higher returns.

The highly complex, fast-moving Asian markets demand an active approach. When monitoring investments, we start with the materiality assessment and will look at independent third-party ESG rating providers (e.g., MSCI) as a data source for post-analysis verification. However, lack of consistent and verifiable data is generally an issue in most of Asia and, as a result, we prioritise active company engagement and qualitative assessments by our investment analysts.

We believe our investment analysts are best placed to assess what is most material to investment returns in terms of risks and opportunities for their sectors, and it is they who conduct ESG research on the companies. The team uses engagement with the management teams of companies to carry out thorough ESG analysis, as well as to express the team's opinion in its capacity as investment manager acting on behalf of clients.

Asia ex-Japan Fixed Income

As part of the ESG-integration process, our credit analysts undertake active engagements with our companies on both the downside and upside risks of ESG factors and how they might affect their operations or help to drive sustainable returns over time.

When meeting management teams, our aim is to understand their position on ESG and any changes likely in the future. As well as gaining an understanding of management's view of ESG, we will try to encourage companies to adopt ESG best practice. For those lagging in terms of ESG (for example, on greenhouse gas emissions targets), the team will attempt to engage on a deeper level. Where possible, if a particular company is held (or is a prospective investment) in both equity and fixed income portfolios, representatives from both teams, as well as the ESG Specialist, will act jointly in order to increase the impact. As active stewards of our clients' capital, we may also occasionally throw the net beyond our portfolios to engage with companies whose securities we might buy in the future.

Outcome

The engagement process is a marathon, not a sprint. And, as discussed earlier, we tend to be a smaller institutional investor outside Japan, with correspondingly less influence over companies. However, in 2024 we continued to maintain the progress in our engagements, new and old, with companies, both within and beyond our portfolios. There may have been setbacks in some cases, but in others we have seen a much greater willingness to take action on sustainability, social issues and governance after our intervention with managements. In several cases, this has been where we have been patient and maintained the dialogue over several years. Not surprisingly, such dialogue has been all the more effective when internal teams, such as equity and fixed income, act together. Collaboration is not confined to within the company and several of our engagements have been enhanced by joining other investors in bringing pressure to bear on companies, please see Principle 10 for more details.

Overall, we think the year has demonstrated that our engagement has been effective, with words being turned into action at many of the companies in our portfolios. We are not complacent, but we continue to believe that our engagement activity in 2024 provides some of the best evidence of our commitment to stewardship.

Case study:

Slow but steady progress in cutting greenhouse gases at a major South Korean steel producer (fixed income and equity)

POSCO Holdings* is a South Korean holding company that owns several businesses involved in steel making, trading and electric vehicle battery materials. It is held in both equity and fixed income portfolios.

Issue: 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". However, before we engaged with the company in 2023, it had not committed itself to the disclosures recommended by the Taskforce on Nature-related Financial Disclosures (TNFD), a corporate initiative to promote more nature-friendly business. This despite the fact that the rest of the POSCO group had joined TNFD and that POSCO International's business has significant importance to biodiversity.

The POSCO group has laid out a carbon reduction roadmap to reach net zero in 2050. Even so, we did not believe that the group's short-term targets matched 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 goals.

The ESG themes highlighted in the image below are those that our investment team considered to be material to our analysis of the company.

Activity: Representatives of our Asia Fixed Income team met POSCO in September 2023 (see Global Stewardship Report, April 2024, p. 62). We wanted to register our concerns over its carbon-reduction strategy and to push it to sign up to international sustainability targets. Specific ESG issues included whether its subsidiary POSCO International would be joining the TNFD, its intentions in respect of SBTi, the opportunities in "green steel", and its efforts to mitigate physical risks and adapt to climate change.

The company said it would push POSCO International to sign up to TNFD. However, they also highlighted the difficulty for them to be SBTi-aligned given the lack of government subsidies to enable decarbonisation.

We noted that, as part of its plans to reduce carbon intensity, POSCO was looking at hydrogen reduction steelmaking, which uses 100% hydrogen to make "direct reduced iron" in a process that results in lower carbon emissions.

We met the parent company again in early 2024, at which time we noted that POSCO Korea's operations had improved their greenhouse gas intensity by around 1.5% points between 2022 and 2023, which represented an improvement of around 3.3% from the 2017-2019 baseline. However, the company's carbon reduction pathway, including a 10% reduction in carbon emissions by 2030, is still a long way from that required by the SBTi. Moreover, its target usage of scrap steel – which makes "greener" steel as it is less energy intensive than using virgin ore – still appears relatively low compared to other steelmakers operating in the developed market. This is in spite of the company's investments in greener production using electric arc as opposed to blast furnaces, which generate more greenhouse gases. At the moment, most Asian rivals are still mainly producing steel using coal-fired blast furnaces, making it tough for POSCO to compete if it moves ahead to make greener steel.

We noted that some positive steps were taken by the company during 2024. In June, POSCO International was approved for membership of the TNFD Forum, a consultative part of the grouping. The company confirmed that it would in future make biodiversity disclosures in line with TNFD guidelines.

Outcome: There remain plenty of areas where POSCO has substantial room for improvement, notably in carbon reduction and biodiversity. We will continue to monitor and engage with the company to encourage it to accelerate its rate of change. Nonetheless, we are encouraged that progress has been made, albeit slowly, and continue to believe that having both equity and fixed income representatives involved in engagement has made the company more receptive to our pressure.

ESG themes material to the investment case

Environment: HIGH	Carbon emissions, opportunities in Clean Tech
Social: MODERATE	Health & Safety, Product Safety and Quality
Governance: HIGH	Ownership, Corruption & Instability, Board

* Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in any portfolio, nor constitute a recommendation to buy or sell.

Case study:

Cutting coal to make greener milk (equity)

a2 Milk* is a New Zealand branded dairy nutritional company.

Issue: The company's business involves the sale and distribution of branded milk products naturally containing the A2 protein. These are said to be more digestible than those made from normal milk, which contains a mixture of A1 and A2 proteins. It has expanded beyond its home market in New Zealand to Australia, China and North America. Processing and manufacturing have in the past been contracted out to third parties, meaning the company has traditionally been light on both assets and capital requirements.

In 2021, in a departure from this strategy, a2 Milk bought a 75% stake in Mataura Valley Milk, which owns a purpose-built nutritional products operation in New Zealand. The company's rationale for the purchase was that it would increase supplier diversification. It also reduces market access risk for several reasons, one of which is because the remaining 25% of Mataura is controlled by the China National Agricultural Development Group, which is a Chinese state-owned Enterprise and parent of a2 Milk's Chinese logistics and distribution partner, China State Farm.

Activity: We had concerns about the acquisition, which involved changing the company's business approach from being a pure brand owner to a more vertically integrated capital-intensive model. A major element of our concern was environmental, given that Mataura used a coal-fired boiler for milk drying.

In our discussions with the company, we regularly engaged with them on their emissions profile, and ways this could be improved. This included the electrification of the manufacturing process. Mataura has switched to electricity for powering its drying process, replacing the coal-fired boiler with a high-pressure electrode boiler which was fully operational in financial year 2024.

As a result, this has helped decrease the company's Scope 1 and 2 carbon emissions (i.e. those directly and indirectly related to the company's own operations and purchases from elsewhere) by 45%. Meanwhile, a2 Milk has agreed a new energy deal that includes a market-based mechanism that certifies that 100% of the energy supplied is renewable.

Outcome: Being an active investor allows us to engage with companies, and being one of many engaging investors, we are pleased that they took note and responded. It is interesting to note that the retirement of the coal-fired boiler – which had many years of useful life remaining – and the premium paid for the certified renewable energy have had a negative impact on the company's financial returns. We, and obviously the company, believe that should add to value over the long term, but it also acts as a salutary reminder of the complex trade-offs involved, not least the short-term effects on the financials.

* Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in any portfolio, nor constitute a recommendation to buy or sell.

Case study:

Keeping their eye on the prize (equity)

This is a Japanese manufacturer of electronic production equipment with whom we have successfully engaged over a number of years, illustrating the need to be both patient and persistent when encouraging change.

Issue: Some 28% of the company's sales were to China in the 2022 financial year, making that country the company's largest market. We were concerned about the potential impact of US-China tensions on shipments of manufacturing equipment, both directly and indirectly. The company's five-year, mid-term plan announced in June 2022 did not explicitly account for these risks, raising concerns that the management was ignoring a major threat to its business.

Activity: We met the executive officers of the company and conveyed our concerns about the risks, noting that having only three outside directors was insufficient for a company of this size and international reach. We recommended appointing non-domestic outside directors to align with the company's global presence. The company acknowledged that it had lost a key outside director who was more experienced in geopolitical risks and expressed a desire to fill the gap.

Outcome: In June 2024, the company successfully appointed an economic analyst with extensive experience in capital markets and geopolitical risk-management as an outside director. We believe this appointment meets our expectations for a more globally-minded board. The process took about a year and a half from initial discussions to the actual appointment, reflecting the company's recognition of its need to find a high-quality outside candidate.

Case study:

Correcting a misalignment of motives on the board (equity)

This is a major Japanese provider of security services.

Issue: Despite the company's strong customer base and technological capabilities, we were concerned about the effectiveness of the board's nomination and compensation committees, given that the chairman of both was an internal director. Additionally, the low proportion of stock-based compensation for directors raised concerns about their alignment with shareholder interests.

Activity: We have engaged with the company regarding its governance structure and compensation policies, emphasising the need for a more shareholder-focused approach. The company acknowledged our concerns and indicated plans to review the compensation structure. At the 2023 annual general meeting, we also voted for a shareholder proposal (and against ISS recommendations) that requested a larger portion of executive remuneration be tied to long-term share ownership in order to ensure greater alignment with shareholder interests and correlation with medium- to long-term improvement of corporate value rather than short-term performance.

Outcome: The vote failed to pass with 23.7% of votes in support of the resolution, however in 2024, the company announced the appointment of an outside director as the chairman of the nomination and compensation committees. It also announced an increase in the proportion of stock-based compensation for directors from 5% to 20%. We believe that our engagement and support for shareholder proposals contributed to these positive changes. We will continue to monitor the company's governance and compensation practices.

Case study:

Driving climate science in German real estate (fixed income)

Vonovia* is a large German property group.

Issue: The Global Fixed Income team identified areas where there is room for improvement in this bond issuer's climate strategy. The company has set a number of targets in some important environmental categories, including reducing CO2 in its housing portfolio and making its construction and refurbishment activities more sustainable. However, unlike similar companies, such targets only cover 89% of its portfolio and have not received science-based certification.

Activity: We engaged with the company in 2023 in order to encourage it to extend its targets to 100% of its portfolio and have those targets reviewed by the Science Based Targets initiative (SBTi), an international corporate pressure group. The company explained that at the time it started to develop its "Climate Path" strategy, SBTi had yet to release standards for the industry. In the event, its climate strategy was developed with the Fraunhofer-Gesellschaft, a leading German applied research organisation, and was science-tested in 2022. Nonetheless, we encouraged the company to have its targets further validated in order to align it with best practice in the industry.

Outcome: The company stated its intention to submit its targets to SBTi, which we expected would stiffen the company's resolve to meet its targets. This did indeed prove to be the case as Vonovia has subsequently improved both its target coverage and its ambition. In April 2024, SBTi validated Vonovia's climate targets and confirmed they were aligned with the 1.5-degree rise in temperatures aimed for by the Paris Climate Agreement.

Case study:

Governance remains on the table at a Swedish technology group (equity)

Hexagon* is an industrial technology group based in Sweden.

Issue: A short-selling US investor, Viceroy Research, made a number of allegations about Hexagon in 2023, causing a drop in the share price.

Activity: Following the short-selling attack, we encouraged the company to appoint independent directors and improve its reporting of key performance indicators and incentive targets for management. At the April 2024 annual general meeting, two new independent directors were appointed, which put independent directors into a majority.

Nonetheless, and in accordance with recommendations from our proxy advisers, Institutional Shareholder Services (ISS), we felt that there was still room for improvement in the composition of the audit and remuneration committees. We therefore voted against audit committee members at the annual general meeting.

Against the recommendation of ISS, we also voted against the share incentive plan for key employees due to a lack of disclosure about performance targets. We also differed from ISS in voting against the re-election of the former chief executive, Ola Rollen, as chairman. We argued that, although it can be less than ideal for an ex-CEO to become chairman, the business can sometimes also be strengthened by having the knowledge and insight of former members of management who have been critical in developing its operations. We were also reassured by our discussions with management that the new CEO would be given sufficient autonomy by Rollen.

Outcome: At the meeting, all the management-supported resolutions were passed, and Mr Rollen was re-elected. We will continue to monitor Hexagon to ensure that the strengthened board holds management to its targets.

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Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Activity

In our view there are some instances where one-to-one company engagements deliver insufficient progress. In these cases, collaborative initiatives with like-minded investors can be helpful in shaping companies' corporate behaviour and ESG performance. Whilst we are seeing increasing investor collaboration efforts in many regions, this engagement method is still relatively uncharted territory in some parts of the world. For example, in Asia, one-to-one engagements can be viewed as more constructive and culturally appropriate to build trust.

In Japan (which accounts for the majority of our equity assets under management), we are mindful that collaborative engagements can be more difficult due to local regulations concerning joint and large shareholdings, whereby severe sanctions may be imposed if additional reporting requirements have not been met. We therefore participate in such engagements only after taking into careful consideration any potential ramifications. Under the aegis of the Japan Stewardship Forum, we have in the past shared our thoughts on the current state of stewardship regulation in Japan, its limitations and how alternative approaches would help to advance stewardship activities in the Japanese market. We hope that the changes being mooted in the regime will allow market participants like ourselves to be able to engage with companies more freely in the future.

Our involvement in collaborative engagements, often working with other stakeholders such as industry partners, shareholder pressure groups and academics, allows us to deepen our understanding of particular ESG topics, issuers' ESG performance and industry best practice. Historically, most of our engagements have been restricted to a single asset class as there has been limited cross-over of equity and fixed income holdings and our engagements are typically conducted by asset-specific portfolio managers and analysts. However, in some regions we have been starting to combine engagements to increase our leverage at companies where we have equity and fixed income holdings in the same company. As discussed under Principle 9, we believe this form of internal collaboration has borne fruit in a number of cases. See our case studies in the outcome section below.

In choosing whether to join common cause with other shareholders or outside organisations, our regional investment offices generally apply the following criteria:

- whether the initiative is consistent with the particular issues we want raised and our responsible investment strategy,
- whether the initiative is likely to be successful, taking account of, for instance, past results and other participants in the initiative,
- whether the cost, time and effort involved is commensurate with the anticipated effect, and
- whether the organisation sponsoring the initiative is one with which we want to be associated.

Outcome

We believe we have continued to make progress on a number of initiatives where we have joined forces with other shareholders to press for better stewardship. This has mainly been to encourage companies to rise to the challenge of sustainability and climate change. For instance, under the banners of Climate Action 100+, the Asian Utilities Engagement Programme, Nature Action 100 and CDP, we undertook collaborations ranging from combating emissions at a Japanese heavy engineering group and an Indonesian electricity supplier, to encouraging diversity at a couple of Japanese general trading companies. All these interactions are illustrated in the case studies below. These are examples where we have joined other shareholder-members of organisations to encourage for change. In other cases, we are active members of industry groups where our engagement with companies is striving to put in place common standards across the industry. Such organisations include the Taskforce on Nature-related Financial Disclosures and the Science Based Targets initiative, which are discussed in more detail under Principle 4.

Case study:

Continuing to monitor change at Indonesia's dominant electricity supplier (fixed income)

In 2022, Nikko AM Group joined the Asian Utilities Engagement Programme (AUEP) of the AIGCC, an industry body trying to raise awareness among investors about global warming. As we discussed last year (Global Stewardship Report, April 2024, p. 68), an example of our collaboration with the AIGCC concerned Perusahaan Listrik Negara (PLN)*, whose bonds we own in our Asia Fixed Income portfolios. The state-owned company is the dominant power generation, transmission and distribution provider in Indonesia. PLN is also the sole buyer for Indonesia's independent power producers.

Issue: Nearly 90% of PLN's production is powered by thermal sources, exposing the company to high risk in the transition to zero carbon. Not surprisingly, it scores poorly among Asia-Pacific utilities for both absolute and relative carbon emissions. In addition, PLN's governance continues to lag global peers. The Indonesian government appoints half the directors of the board, severely limiting its independence.

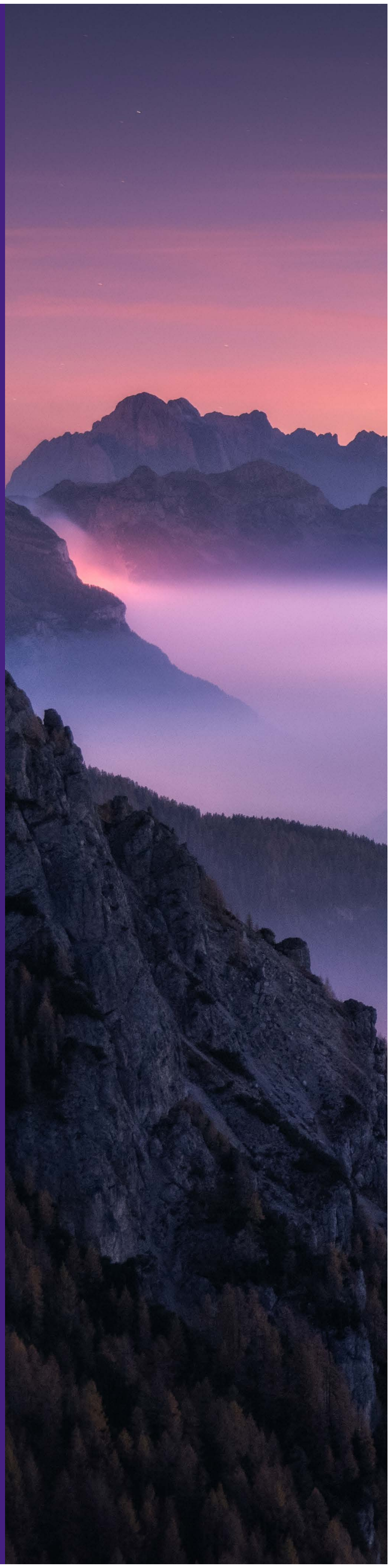
In the light of these environmental and governance issues, the AUEP has been engaging with the board and senior management to secure several commitments for several years (Nikko Asset Management Group Response to the UK Stewardship Code 2020, April 2023, p. 65). Broadly these cover greenhouse gas emissions, corporate disclosure, physical risks, engaging with policy makers and corporate governance.

Activity: The early phase-out of coal in its power generation capacity has been a heavily discussed topic with PLN during our engagements. As part of our participation in the AIGCC's AUEP engagements, we had two collaborative meetings with the company in 2023.

In May we received an update on the progress of PLN's transition planning for zero carbon which allowed us to explore whether it was felt to be ambitious enough and what limitations the company faces. We also learned that it was working with the Indonesian Ministry of Energy and Mineral Resources to finalise the early retirement of several of its thermal coal-fired power plants.

In June we had a roundtable discussion with the company on Indonesia's transition to net zero which also involved other AUEP investors and representatives from Indonesian government ministries, including the Ministry of Finance. During the meeting, Indonesia's net zero transition plan was explained, with discussions covering PLN's involvement as a state-owned utility, the financing required for early phase-out of PLN's thermal coal plants and investor expectations.

Currently, according to the intergovernmental International Energy Agency, Indonesia meets more than 80% of its energy needs with fossil fuels. Its aim to achieve net zero carbon emissions by 2060 is therefore an ambitious goal. The government is looking to boost the use of renewable energy to 65% of its primary energy mix by 2040 and to 85% by 2060, with the remaining 15% covered by nuclear power.



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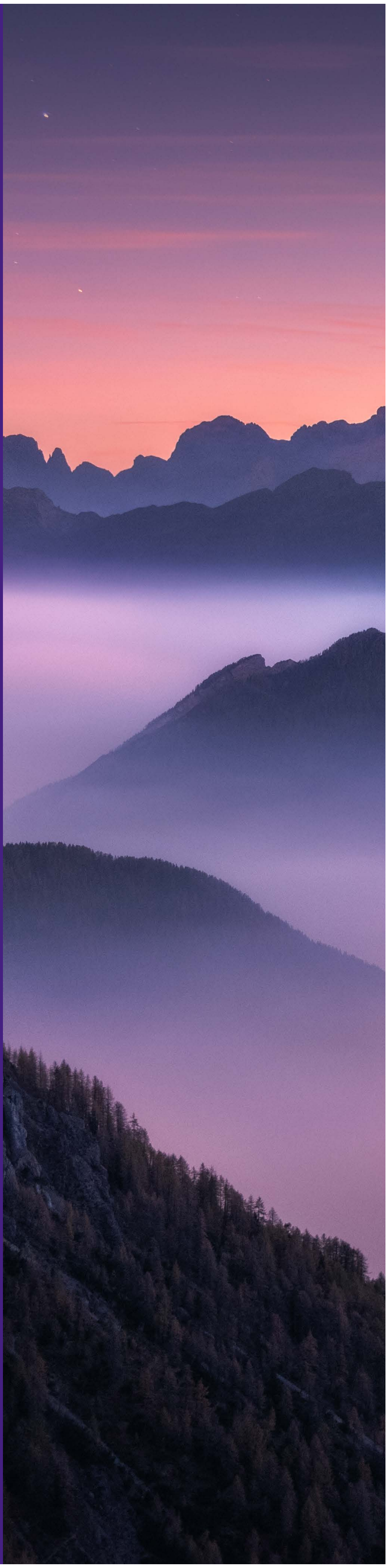
PLN* will clearly play a critical role in achieving this target and hence our active engagement with management to accelerate progress. Its response so far has generally been positive, although it has been honest about the challenges it faces in transition planning, particularly given the mandate to ensure Indonesia's energy security.

Since our June 2023 meeting, PLN has announced the early shut-down of two existing coal-fired plants. In the case of the first one, a conditional agreement signed in December 2023 at the COP28 climate conference between PLN, the independent owner of the plant, the Asian Development Bank and the Indonesia Investment Authority will end the power station's obligation to provide electricity in December 2035 instead of the original date of July 2042.

We have continued to engage with PLN under the banner of the AIGCC during 2024, focusing on the retirement of the two Indonesian power plants. Both projects must receive government approval before they can proceed further. The exact timing of each is not fixed at present, with one likely to receive approval earlier than the other due to differences in cost and the impact on the wider electricity supply system of decommissioning.

Outcome: PLN has made a good start in its efforts to decarbonise, cancelling substantial new coal-fired production capacity and power purchase agreements since the start of our collaborative engagements in 2022. The company has also agreed to halt new coal-fired developments and is now beginning the process of shutting down existing capacity.

Although it might seems as somewhat of a slow process, we believe the company's determination to close the two power stations is a reflection of its commitment to the transition to zero carbon in its electricity generation. The direction of travel is clear. It is testament to the effectiveness of collaborative pressure patiently applied by investors over a number of years. As debt holders, our ability to influence change is restricted, but the recent history of PLN shows what can be achieved when the limited influence of one bond holder is combined with many. We remain committed to our engagement efforts with fellow institutional investors and look forward to further accelerate PLN's decarbonisation progress.



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Case study:

Bolting down tighter emission controls at a heavy engineering group (equity)

This is a major Japanese conglomerate, spanning a wide range of heavy industries from aerospace to energy and industrial machinery.

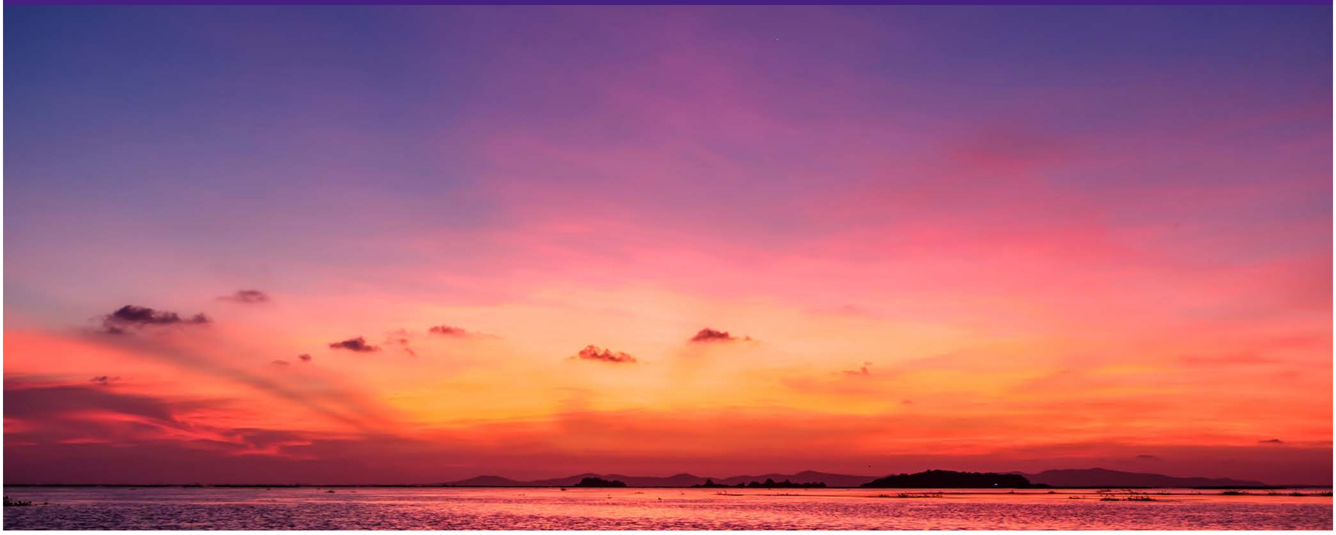
Issue: In 2023, the group was identified as a focus company by CA100+, a collaborative engagement initiative on climate change set up by institutional investors. As a co-lead investor, we head engagement with the company in collaboration with a like-minded investor.

Activity: We had an initial meeting with the chief financial officer (CFO) In November 2023 and met him again in July 2024. During this second meeting, we confirmed the company's progress in the development of decarbonisation technologies, including gas turbine combined- cycle power plants, hydrogen or ammonia co-firing in carbon-based power stations, and carbon capture, usage and storage. We also inquired about whether progress on greenhouse gas reduction could be incorporated into performance-linked key performance indicators for executive pay. The company responded that it would consider these issues carefully and positively. Asked about its lobbying activities, the company stated that it would strive to disclose what it does in an integrated report in future.

In January 2025 we discussed carbon emissions objectives with other contributing investors in the collaborative engagement. The company is aiming to achieve carbon neutrality across all its operations by 2040. Thus far, the company has made encouraging progress with a 98% reduction in the carbon emissions of its machinery works in Hiroshima, Japan, where it has cut nearly 10,000 tonnes of annual CO_2 emissions. Similar low-carbon technology will now be rolled out to other plants.

Outcome: Given the progress and following discussions amongst the contributing investors, we have evolved our emissions objectives for the company. Its target for Scope 3 emissions – i.e. those that arise from use by third parties of the company's products or services – will necessarily have to adjust to the extent that the world is able to meet reduction goals. We have decided that, in future discussions, we will now be watching more closely the company's Scope 1 and 2 emissions – i.e. those directly or indirectly under the company's control through its own operations or those of its purchases.

We will continue to engage with the company through the CA100+ framework, aiming for annual contacts. We will be monitoring how the company is helping to accelerate the transition to greener energy and use it as an opportunity to, for instance, sell highly-efficient gas turbine combined-cycle power plants. More directly, we will continue to use progress on carbon neutrality targets as one of the elements in deciding how we cast our votes at shareholder meetings.



Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Activity

Where we engage with companies to shape corporate behaviour and influence positive change, we may escalate the discussions if we are not satisfied with progress. The escalation methods vary, but broadly comprise:

- additional meetings and engagement, including meetings with more senior management, where appropriate,
- collaborative engagements, where like-minded shareholders jointly seek change at a company,
- voting at general meetings and/or supporting shareholder resolutions (in our equity holdings),
- reducing or divesting our holdings.

Our investment teams have the discretion to escalate in the most appropriate way, depending on the nature of the issue. Some might want to follow-up, others divest.

When an incident raises concerns about the ESG performance of a portfolio company, we take a dual approach. On the one hand, we may put the company through our evaluation frameworks to determine whether we should continue to hold it in the portfolio. On the other hand, we may engage with company management to urge change, as illustrated in our case studies. In some cases, we may join with other investors to escalate the issue.

Escalation timelines differ, depending on the region and the issue in question. While many engagements touch on topics that are inherently long term and require time for improvement, some issues need to be reviewed quickly. These considerations are taken into account when we select the method of escalation.

With our Japanese Equity holdings, the assessment can be made by analysts in the Japan Sustainable Investment department, who are responsible for proxy voting and engagement, or sector-specific equity analysts, with collaboration between the teams taking place opportunistically. An analyst will work to engage with the company according to priorities based on the gravity of the issue, the company's response and the weight of the holding in the portfolio. They will open a dialogue with management with the initial aim of trying to avoid any loss of shareholder value. When governance issues or controversies cannot be resolved by engagement, we may seek to escalate our concerns through our proxy voting activity. In serious cases where no improvement is observable and it is determined that there is a high likelihood of long-term damage to the company, we may make the choice to divest.

Another area where escalation may be relevant – and one on which we hardened our stance in 2024 – are shareholder resolutions in Japan on climate issues. Whilst climate resolutions are not new in Japan, we find that they are increasingly relevant. Alongside our commitment to decarbonising our portfolios – which has seen us join the Net Zero Asset Managers initiative and set a 2030 greenhouse gas emissions reduction target – our increased support for climate shareholder resolutions in Japan further underlines our commitment in this area.

Our votes are carefully considered. They generally come after discussion with the company in question and the proposer of the resolution, as well as healthy internal debate. Nonetheless, we have supported the majority of climate shareholder resolutions in Japan in 2024, which is a significant increase from previous years (for example, we supported around 50% of such resolutions in 2023). Based on public data, we are one of a handful of domestic investors to have supported climate shareholder resolutions in 2023 and 2024. Further detail and recent updates to our policy on voting on climate-related shareholder resolutions covering Japanese equities is published on our website. Examples are to be found in the case studies "Encouraging climate-friendly policies at a keiretsu" in Principle 7 and "Lending our support for climate change policies at a major Japanese bank" in Principle 12.

Outcome

As we have said, our general policy in our Asian businesses is to rely, where possible, on one-to-one engagements. Particularly in Japan, escalation involving a group of investors is rare, given the legal complications associated with large and joint shareholdings and the cultural aversion to public challenge or conflict. These constraints may prevent us teaming up with other investors to push for change at companies in Asia.

This does not mean we will shy away from collaborative action where necessary, particularly on issues like climate change, as we demonstrate under Principle 4 and 10. And where engagement with a company proves ineffective, we will not hesitate to escalate our pressure as far as voting against management-sponsored resolutions or – where it is possible – selling our holding. The most eloquent way to demonstrate our approach is through a few examples. In the following case studies we show that we may vote against management and, even where we are defeated at the time, this can have very beneficial effects over the longer term, particularly with respect to engendering better governance.

Case study:

Upping the ante after a drop in returns (equity)

This is a leading Japanese investment bank and broker with operations all over the developed world.

Issue: Despite a decline in return on equity at the company in March 2022, the chief executive's variable pay increased in March 2022. This raised concerns about whether his compensation was properly aligned with shareholder interests and led to wider questions about the reporting and governance of executive compensation more generally at the company.

Activity: We met the company in both May 2023 and May 2024, emphasising the need for detailed explanations and disclosures regarding executive compensation and the importance of reviewing the appropriateness of variable compensation levels. The company acknowledged the feedback and expressed an intention to improve disclosure.

Outcome: While the company's disclosures have increased, concerns about the transparency and appropriateness of executive compensation remain. We escalated our engagement by voting against the reappointment of two directors on the compensation committee. Both were re-elected, but the shareholder support of 79% and 83% was lower than for other directors, which ranged between 89% and 94%. We will continue to engage with the company to encourage improvements.

Case study:

Persistence and teamwork pay off at a big Japanese ceramics to solar group (equity)

This big Japanese group makes a range of products, from industrial ceramics and semiconductor devices to solar energy and medical equipment. It is held in some of our Japanese Equity and Global Equity portfolios.

Issue: The company's poor performance has been slowly turned round in recent years under the leadership of a new president. Despite these improvements, the return on equity has remained poor, mainly due to its large stake in a telecommunications group co-founded by the company that has grown over time. As of the end of March 2022, this shareholding accounted for 46% of net assets. The drag has been recognised by the market in a low price-to-book ratio of less than one.

Activity: As related in last year's report (Global Stewardship Report, April 2024, p. 47), between August 2022 and June 2023, we held eight meetings with the company, including three with the president. At them, we conveyed our concerns about the company's low capital efficiency and gave notice that the large telecoms stake contravened our new policy that cross-shareholdings should not amount to more than 20% of net assets.

In the event, the company's plan to cut the stake by the equivalent of 5% of book value proved disappointing. The Japanese Equity and Global Equity teams therefore joined forces and voted against both the president and chairman at the 2023 annual general meeting, in line with our voting guidelines. Although the two men were re-elected, their support was less than overwhelming, with votes in favour of 66% and 65%, respectively.

This clearly had a galvanising effect, for, at the second quarter earnings presentation in November 2023, the president stated that the company was reconsidering its reduction target for the shares, with a revised plan due by the autumn of 2024. He acknowledged that the lower-than-expected support for top management at the shareholders' meeting was a trigger for this reconsideration.

Then in November 2024 we again met the president of the company. The main purpose of the meeting was to exchange views on the additional reduction in the large holding announced by the company at its interim financial results, which was now to involve the sale of one-third of the shares over five years.

Outcome: Since then, the company has decided to go even further. In February 2025, at the announcement of its third quarter results, it announced that it would accelerate the reduction in the shareholding so that one third of the shares would now be sold in two years. It also announced that it would buy back its own shares worth 200 billion yen – equivalent to about 9% of total shares outstanding – in the next fiscal year and shares worth another 200 billion yen in the three-year period from the next fiscal year onward. In addition, it announced a cut in the term of office of directors from two years to one year.

We will meet the president again in the aftermath of these announcements to follow up on our recommendations. However, we believe that, thus far, they represent a vindication of our approach to what had been a seemingly intractable problem. Persistence, teamwork and a willingness to escalate have certainly paid off at this company.

Principle 12

Signatories actively exercise their rights and responsibilities.

Context

Proxy voting is one of the major elements of our stewardship activity in our equity portfolios and we take great care to ensure that our voting serves the interests of both companies and clients. Where we invest through passive strategies, we strive to incorporate stewardship through the voting of proxies and the engagement process, where appropriate.

In our fixed income investments, we do not have the voting rights that are available to shareholders, however we aim to be active owners of assets by using other stewardship tools, such as issuer engagement. We hold a small allocation (just under 0.9% of AUM) in infrastructure investments via sub-advised managers who are subject to an annual ESG evaluation. We do not currently manage either private equity or private debt.

Policy

The Nikko AM Group Proxy Voting Policy, plus our more detailed Guidelines on Exercising Voting Rights, establish our group-wide approach to proxy voting decisions. Implementation of the group-wide policy is undertaken by our local businesses, which have the freedom to interpret the rules to suit local conditions. (In Japan, however, we have separate Standards for Exercising Voting Rights on Japanese Stocks: see more below.) As a result, there are some variations in how stewardship activities, including voting, are implemented across the group. For example, our UK entity has a supplemental proxy voting policy on environmental and social principles that apply to our Global Equity strategy.

The group-wide policy underscores our focus on ESG in proxy voting decisions and also covers the following non-exhaustive list of considerations:

- 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, and
- company control and takeover defences.

We are generally opposed to resolutions aimed at preventing change of control. On the other hand, takeover defences may be assessed positively if the acquisition risks are clear and existing shareholder value would not be damaged.

We regularly vote and, when doing so, take account of group-wide policies and recommendations from proxy voting advisers, where applicable, as well as other considerations like past engagements and local policy. Our voting principles are applied after full consideration of a company's circumstances. For the majority of resolutions, upon receipt of advisory research and voting recommendations, the team responsible for the security in question will analyse the report and conduct further research where any issues have been flagged.

We aim to cast our votes on the same resolution consistently across all vehicles that we manage, unless specifically directed not to do so by clients in respect of their own accounts. We consider requests from clients to override a house policy on a case-by-case basis. In a small number of instances, segregated account clients have their own policies, which we apply and may supplement with ours where appropriate. We also have segregated account clients who make and execute their own voting decisions. It is not possible for clients in pooled funds to direct our voting.

Execution

For Japanese Equities (which accounted for over three-quarters of group equity AUM as at December 2024), our Standards for Exercising Voting Rights on Japanese Stocks establish detailed decision criteria. The Japan Sustainable Investment department is responsible for directing all voting proposals for holdings in both actively-managed and passive portfolios. It decides whether to vote for or against after taking into account past engagements with investee companies. Recommendations from ISS based on our proxy voting guidelines make up some of the inputs in the decision-making process.

The Investment Support and Planning ("ISP") team is responsible for exercising voting rights for non-Japanese stocks where the investments are held via Japan-domiciled feeder funds on behalf of Japanese investors. In some cases, when there are important resolutions, the ISP team takes account of the opinions of the overseas investment management subsidiaries who are closest to the market where the investee company is based. The overseas investment team may also engage with local companies whose securities are held in Tokyo in co-ordination with the ISP team. Execution is outsourced to ISS.

For equity strategies not managed in Japan, ISS may provide analysis of individual proposals and customised proxy voting recommendations based on our proxy voting guidelines. However, the local Nikko AM Group entity makes the ultimate decision on how to exercise these voting rights.

Voting decisions for all of our group entities are executed by ISS, with monitoring carried out via a web-based platform. This shows us the accounts for which ISS votes, sends us notification of forthcoming meetings, establishes voting decisions, tracks the status of votes and generates reports on voting activities. A record of all votes cast is also stored by ISS, allowing us to look back at past voting records to ensure all service standards are being met and all votes are being cast as directed.

Recalling lent stock

We lend stock in accordance with our internal controls on lending practices. In addition to setting a limit on the number of shares that can be lent in order to exercise voting rights in accordance with our voting policy, we may also recall stock from borrowers. These are cases where, from the perspective of responsible stewardship, exercising voting rights is preferable to earning an income from share lending. For example, in our Japanese Equity operations, if our voting guidelines signal a governance concern that would result in a vote against management or the re-election of directors, we would recall the stock in order to ensure that we are able to vote and therefore satisfy our stewardship responsibilities.

Activity

A summary of our firmwide voting records is listed in the table that follows (this information will also be published in our annual Sustainability Report). During 2024 we analysed 7,013 shareholder meetings and voted on 70,125 resolutions.

We cast votes for all shares where there are no legal, client or technical constraints. Examples of where we may not be able to vote include those where power of attorney has not been granted by a client, or in markets where share blocking is applied. These include bearer shares in the Swiss market, some stocks in the Irish, Cypriot and German markets. Such instances accounted for less than 2% of all resolutions in 2024. In rare cases (fewer than 0.03% of all resolutions), we did not cast votes due to operational reasons. These operational processes have since been addressed and corrected throughout the year.

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	2,400	17,374	15,057	86.7%	2,317	13.3%
EMEA	1,011	16,106	14,699	91.3%	1,407	8.7%
Japan	2,390	23,242	19,724	84.9%	3,518	15.1%
The Americas	1,212	13,403	12,227	91.2%	1,176	8.8%
Total	**7,013**	**70,125**	**61,707**	**88.0%**	**8,418**	**12.0%**

Overall, across all regions, we voted against management in 12% of resolutions. The most common reason for voting against management was in relation to the election of directors. A lack of independence amongst non-executive directors or dissatisfaction with the direction of the company often prompts us to oppose management's wishes in these votes.

Detailed voting records, including reasons for voting against specific proposals, are published on our website for the vast majority of our equity assets, notably Japanese Equities and Global Equities. For those voting records not publicly disclosed (US, New Zealand and Asia ex-Japan Equities), our policy is to release the information to clients on request and in line with local customs and regulations.

Fixed income

As previously stated, we are not able to exercise the same level of influence as holders of equities in our fixed income allocations since the instruments we hold do not confer voting rights. Nonetheless, we aim to exercise our stewardship responsibilities through other means, such as by engaging with market participants and ensuring that our product offering is in line with the needs of our clients.

When participating in the primary bond issuance markets, our investment teams review offering documents for every transaction as part of the due diligence process. Where possible, the investment team engages with issuers and structuring advisers on the terms and conditions of issues in which we are interested, including providing feedback and, where applicable, seeking amendments to terms and conditions in legal bond documentation. In our experience, issuers accessing the bond market for the first time tend to be more receptive to feedback about legal documentation and contracts. For private companies' bond issues, we also ask for access to the details provided in trust deeds, such as, for example, financial disclosures. It should be noted, however, that this approach is less easy to adopt in the Japanese market for publicly-traded corporate bonds.

Outcome

As a relatively small global investor, we may not always be able to influence the direction of companies in the way we would desire. It is also sometimes difficult to claim credit for what we believe are successes since we do not act in a vacuum. Nonetheless, we will continue to use the leverage that we have to act in what we believe is the best interest of our clients and wider stakeholders and to encourage best practice in investee companies, where possible.

As has been already noted, our fixed income holdings do not confer voting rights, while our relatively small presence in most fixed income markets and our investment in sovereign bonds limits our influence. Even so, we are steadily increasing our engagement activity with issuers and combining with our equity investment colleagues to effect change where possible.

The following case studies provide illustrations of the votes, and the underlying issues, we voted on during 2024, ranging from poor governance and low returns to climate change.

Case study:

Working together to improve capital allocation at a Japanese automation group (equity)

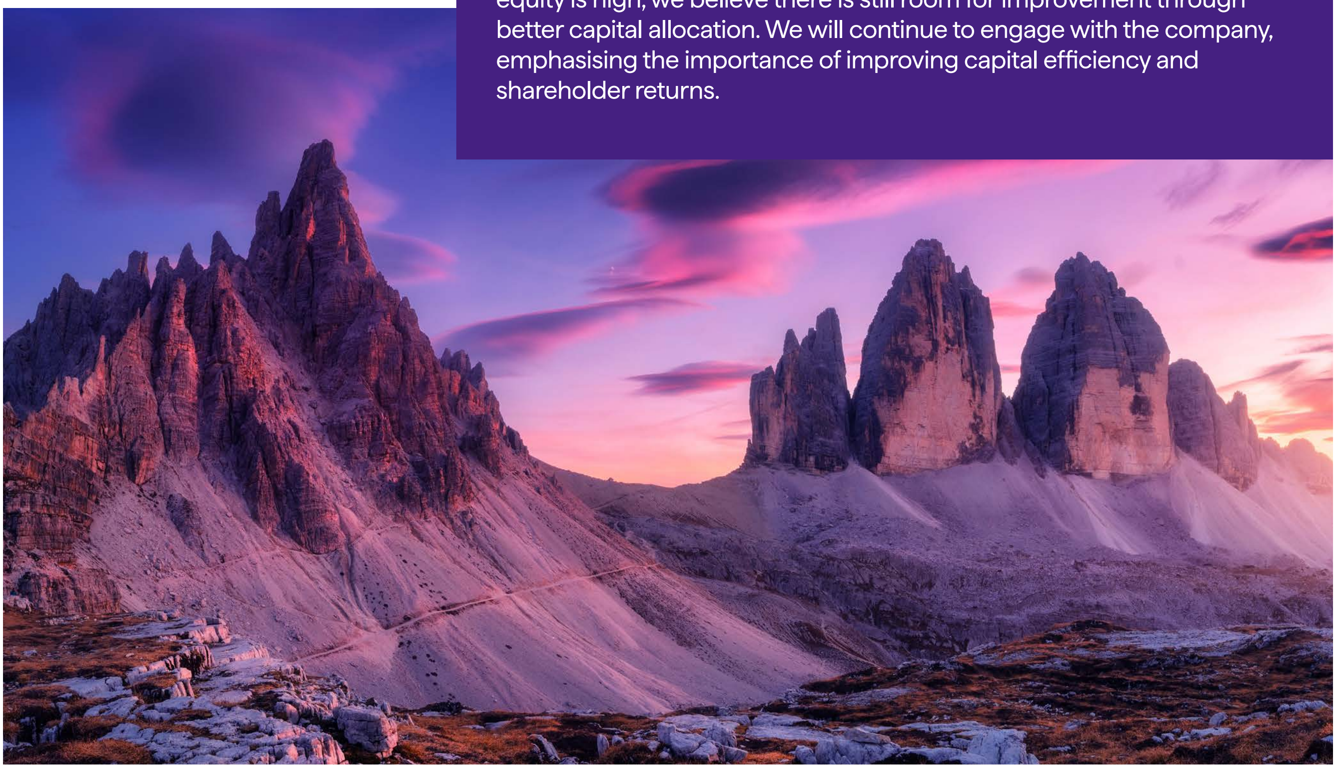
This is a leading Japanese maker of industrial automation and inspection equipment, held in some of our Japanese Equity and Global Equity portfolios.

Issue: We have been engaging with this company for several years over its use of capital. We detailed in last year's report (Global Stewardship Report, April 2024, p. 71) how our Japanese Equity and Global Equity teams joined forces to try to persuade the company to increase dividend payouts. Despite these efforts and the company's strong financial condition and minimal capital requirements, the level of shareholder returns has remained low, while cash continues to accumulate. Moreover, the company's approach to capital allocation, including shareholder returns, is not clearly articulated.

Activity: We have been engaging with the company before its annual general meetings of shareholders. In May 2023, we queried the company's approach to shareholder returns and capital allocation. The company responded that dividend levels are considered with future profit levels in mind and are discussed at various levels in the company.

We felt this was an inadequate response to our expectations and we voted against the dividend payment resolution at the annual general meeting in June, as well as voting against the entire incumbent board. We took the same view at the 2024 annual general meeting, where we voted against a number of management resolutions to register our disquiet at the continuing poor capital allocation, restricted board diversity and limited financial disclosure.

Outcome: There has been no significant change in the company's approach to shareholder returns. While the company's return on equity is high, we believe there is still room for improvement through better capital allocation. We will continue to engage with the company, emphasising the importance of improving capital efficiency and shareholder returns.



Case study:

Lending our support for climate change policies at a major Japanese bank (equity)

This is a large Japanese banking and financial services group.

Issue: We have long recognised the importance of addressing both climate change risks and opportunities if there is to be long-term sustainability in the banking sector. Given its size and involvement in all parts of the economy, this bank faces significant risks from its lending to carbon-intensive sectors.

Activity: In June 2023, we opposed a shareholder proposal related to climate change, but sent a letter explaining our reasons and expectations for the bank's future efforts. It responded positively, indicating its commitment to decarbonisation. (For more on this and a summary of the bank's approach to climate change, see Global Stewardship Report, April 2024, p. 79.)

In May 2024, we held a meeting with the Chief Strategy Officer and Chief Sustainability Officer to discuss the board's oversight of climate change and the bank's approach to evaluating clients' climate transition plans. At the June 2024 annual general meeting, another shareholder proposal related to climate change was put forward, requesting that the company effect (i) Partial amendment to the Articles of Incorporation (Director competencies for the effective management of climate-related business risks and opportunities); and (ii) Partial amendment to the Articles of Incorporation (Assessment of customers' climate change transition plans).

The proponents suggested that the bank can have more effective governance system and decarbonisation strategies and policies.

According to the proponents, the current approach lacks clarity for clients and they argue that megabanks do not require their clients to have credible 1.5°C pathway-aligned transition plans and strategies, and they do not have a clear process, timelines, or metrics to evaluate their clients' progress and to determine whether to continue clients without credible decarbonisation pathways. Such shortcomings expose megabanks to several risks, including default risks due to stranded assets, loss of investor confidence, or legal and regulatory risks (greenwashing).

ISS recommended voting against this proposal on the basis that the company already releases some disclosure regarding its transition assessment framework, current fossil fuel emission reduction targets and related progress, as well as phase-out commitments. However, we recognise the potential benefits for the bank and in line with our revised Standards for Exercising Voting Rights on Japanese Stocks (detailed under Principle 10), since we do not believe that such enhanced disclosure would disadvantage the firm or restrict its business activities, we supported the shareholder resolution.

Outcome: The two resolutions failed with respectively 25.8% and 18.4% of votes in favour. We will continue to engage with this and other banks to encourage them to maintain and enhance their climate change policy and to monitor their progress.

Case study:

Getting active leads to better governance at a US healthcare company (equity)

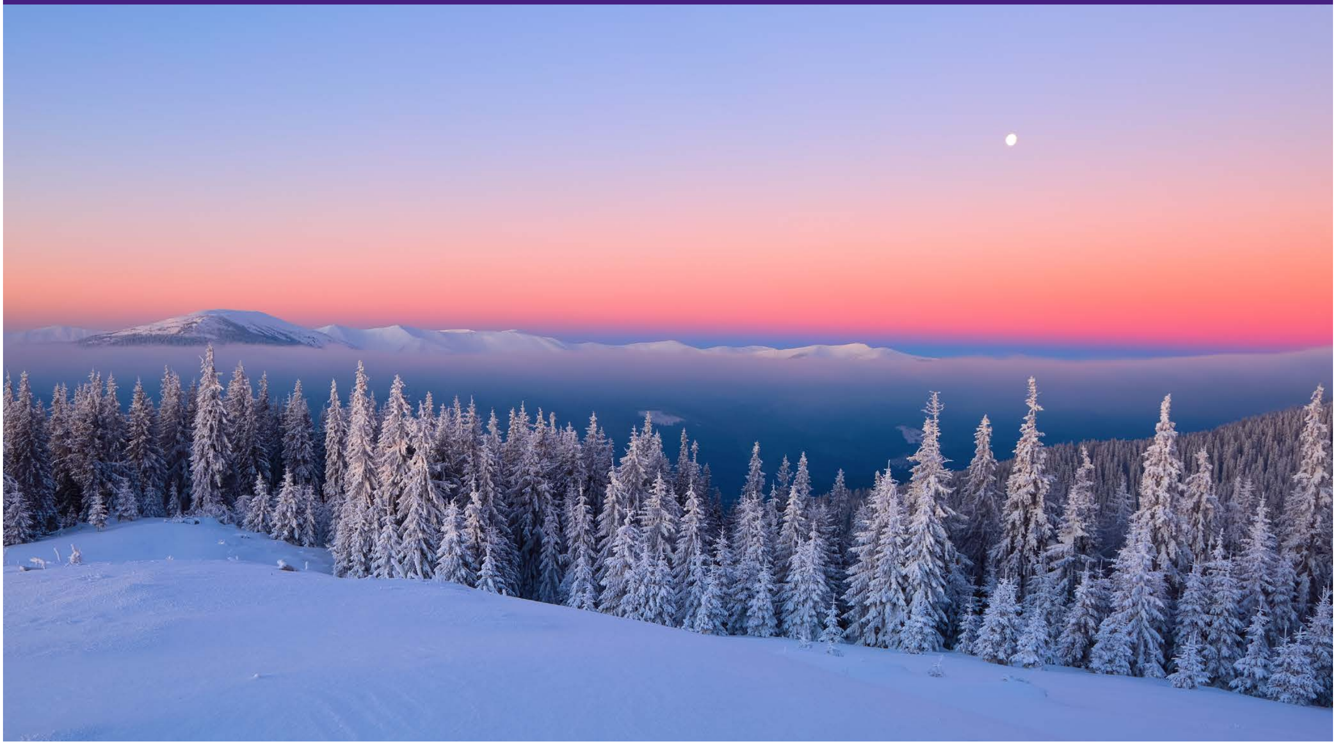
Masimo Corporation* is a US health technology and consumer electronics company whose products include wearable health-monitoring devices.

Issue: For the last two years, an activist shareholder, Politan Capital Management, has been pursuing Masimo over its capital allocation, board oversight and worries about its $1 billion purchase of Sound United, a consumer audio products company.

Activity: We have held numerous calls with the company, including its chief financial officer since November 2022 to discuss governance and other concerns raised by the activist shareholder. We met in May 2023 to receive an update on the dispute and again in June ahead of the shareholder meeting to encourage the company to make further governance improvements. In May 2024, we held another meeting to discuss the possibility of spinning-off the consumer electronics wearables part of the business and the progress of the activist battle. This followed the announcement by Politan of a proposal to appoint independent directors at the 2024 annual general meeting.

As well as meetings, we have been actively using our proxy votes at shareholder meetings. We supported the appointment of Politan's nominee directors at both the 2023 and 2024 annual general meeting. We agreed with Politan's view that independent oversight of management action was needed and that the nominated directors would help in achieving this objective. A number of key decisions appear to have been made unilaterally by the chief executive, including the Sound United purchase and recent sale discussions. This has emphasised the need for better oversight to protect shareholders' interests. The last-minute postponement of the shareholder meeting in July 2024 further reinforced this sentiment.

Outcome: Politan's nominees gained support from a majority of shareholders at both the 2023 and 2024 annual general meetings. The issue came to a head at the 2024 annual general meeting, when Masimo's founding chief executive, Joe Kiani, resigned after receiving support from less than 40% of shareholders. The two new directors proposed by Politan were elected with 70% and 61% support respectively, and a Politan nominee director was appointed interim CEO. We now consider the board to be truly independent of management, which we hope will help the company to unlock its true potential and value for shareholders. Market reaction was certainly positive, Masimo's share price rebounded by about 20% in the four days following the September annual general meeting and about 48% by the end of year.



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Case study:

Supporting dissident shareholders seeking more transparency at Microsoft (equity)

Microsoft* is one of the world's largest software groups.

Issue: In last year's report (see Global Stewardship Report, April 2024, p. 82), we recorded our concerns about Microsoft's plans to build new data centres in a number of countries with questionable human rights records, notably Saudi Arabia. At the time, 18 human rights groups led by Human Rights Watch called on the company to hold off establishing the centre in Saudi Arabia until it could demonstrate how it would mitigate the risk of it aiding in the violation of human rights.

We voted in favour of a resolution at the 2023 annual general meeting that called on the company to prepare a report on its human rights' due diligence process in high-risk countries. This vote failed to pass, although it received a favourable response from a third of the votes cast.

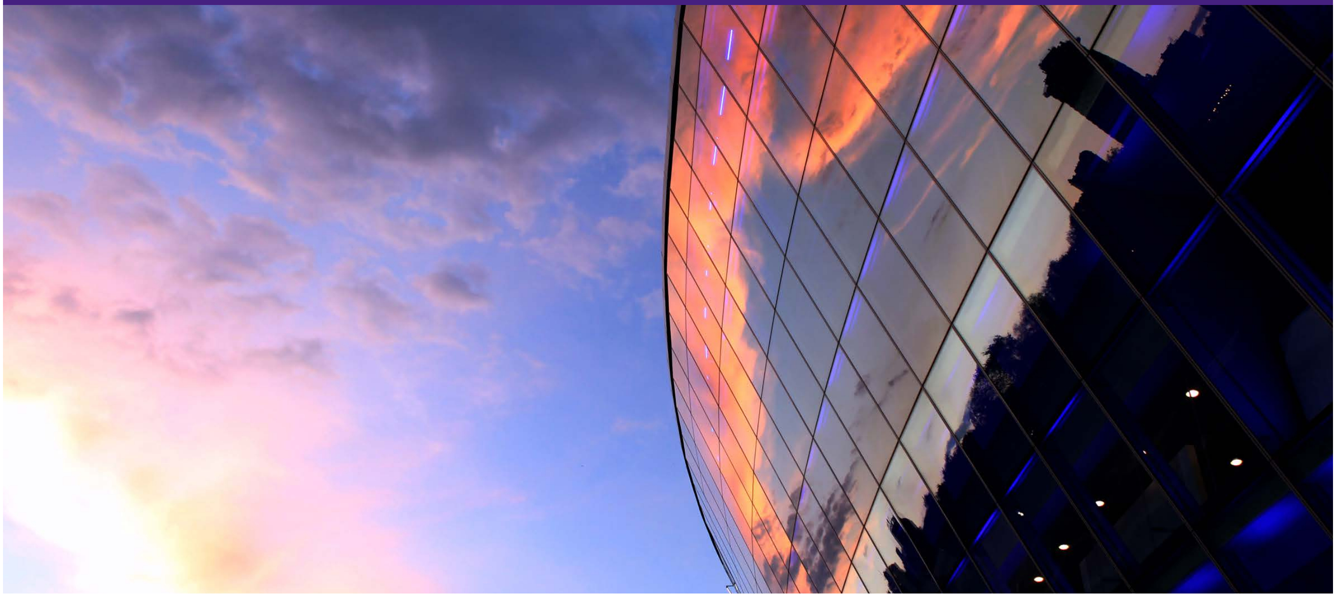
Activity: In 2024, two shareholders again put forward a motion asking that the directors commission a report assessing the implications of siting Microsoft cloud data centres in countries where there are significant concerns about human rights, as well as the company's strategies for mitigating their impact. It called on the report to be published within a year of the 2024 shareholders' meeting.

We agreed with the assessment by our proxy adviser, Institutional Shareholder Services, that there are legitimate concerns over the company's potential complicity in human rights violations in high-risk countries where data centres are to be built. This could increase reputational, legal and workforce risks for the company, so it needs to provide additional disclosure about its due diligence process to help allay these fears. We therefore voted in favour of the resolution. While the resolution did not pass, 32% of shareholders still voiced their support for it.

In another area of concern, a US ethics pressure group, The National Legal and Policy Center, proposed a motion to the 2024 annual general meeting relating to the increased risks of copyright infringement due to the widespread use of artificial intelligence (AI). The motion came in the wake of problems being faced by the OpenAI research organisation owing to its unauthorised use of personal data.

Although Microsoft discloses information about its general assessment of AI risks, the shareholder was seeking a report assessing the risks of the company's use of external data for the training of artificial intelligence. It called on Microsoft to disclose how it was minimising those risks and the measures it was using to gauge success. ISS concluded that, given several high-profile lawsuits and increased regulation, shareholders would benefit from greater disclosure about how the company views the use of copyrighted information. It therefore supported the resolution.

Outcome: We agreed with the recommendation and voted in favour. Again, while this did not carry sufficient support to go through, with well over a third of votes (36%) in favour, it showed this concern is widely shared among shareholders.



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