Global Climate Change Report

2025

nikko am
Nikko Asset Management

Foreword

Foreword from Group President and CEO

Evolving market pressures and the increased regulatory scrutiny around sustainable investment present both challenges and opportunities. At Nikko Asset Management, we see this as a time for rethinking, introspection, and thoughtful recalibration. We remain committed to sustainable investment, but we are mindful of the complexities and uncertainties that lie ahead. Our focus is on transparency and ensuring that our actions contribute meaningfully to real-world decarbonisation.

In this context, Japan's new Strategic Energy Plan, approved in February 2025, reaffirms our commitment and motivates us to intensify our efforts towards a sustainable future. Japan has set an ambitious target of reducing greenhouse gas emissions by 73% by 2040. This provides a strong foundation for our ongoing work and climate initiatives throughout 2025.

As global expectations around climate-related disclosures continue to evolve, we aim to ensure that our reporting is robust and transparent. The introduction of IFRS S2 Climate-related Disclosures marks a significant evolution in climate-related reporting, building on the TCFD framework. Navigating the increasingly complex and fast-changing regulatory landscape for climate reporting is a responsibility we take seriously. However, access to consistent and comprehensive data remains a significant challenge, impacting the comparability and depth of disclosures across the industry. Despite these obstacles, we continue to strengthen our practices to ensure that our disclosures are not only compliant but also meaningful and decision-useful for our clients, stakeholders, and society at large. To help address this, we actively engage with our stakeholders: from data providers to our portfolio companies, as well as with third parties such as ESG associations, to advance the overall quality, consistency, and availability of climate data. We recognise there is more work to be done and aim to continuously improve the quality and impact of our climate-related reporting in the years ahead, as we play our part in the global climate transition.

To support the transition to a more sustainable and resilient economy, we continue to integrate climate considerations across our investment processes, stewardship activities, and risk-management frameworks. We also work closely with our clients to support their climate journeys, offering insights, tools, and strategies that align with their decarbonisation goals. Internally, we are strengthening our capabilities through ongoing talent development, training and cross-functional collaboration, ensuring that our teams are equipped to meet the evolving demands of sustainable investing and climate-related disclosure. In June 2024, we announced a strategic partnership with Tikehau Capital, which includes a joint venture aimed at developing innovative private-asset investment strategies focused on decarbonisation in Asia. We are confident that this collaboration will enhance our ability to provide impactful solutions to our clients and contribute to the global effort to combat climate change.

To sustain our contribution to this effort, we will continue to engage with our companies and industry groups in 2025 and beyond. Our journey is one of continuous improvement, driven by knowledge, expertise, and a shared vision for a sustainable future.

Stefanie Drews, Group President and CEO

Information for New Zealand readers:
Please note that Nikko Asset Management New Zealand Limited (Nikko AM NZ) is not currently included in the group targets set out in this report, and a separate climate report for Nikko AM NZ was published in July 2024 and will be updated in 2025.

Contents

Introduction — who we are

The Nikko Asset Management group (Nikko AM) is a global high-conviction manager with a diverse range of individual investment teams that operate independently but share a common commitment to sustainable investment. Given the diversity of our investment teams and investment processes, each investment team is responsible for addressing, developing, and implementing its own approach to sustainable investing.

Our global investment capabilities include active equity, fixed-income, and multi-asset strategies. We also have a complementary range of passive strategies, including some of Asia's largest exchange-traded funds (ETFs). We have a long history in sustainable investing, beginning in 1999 when we launched Japan's first socially responsible investment fund. We were also early signatories to the Principles of Responsible Investment (PRI) in 2007.

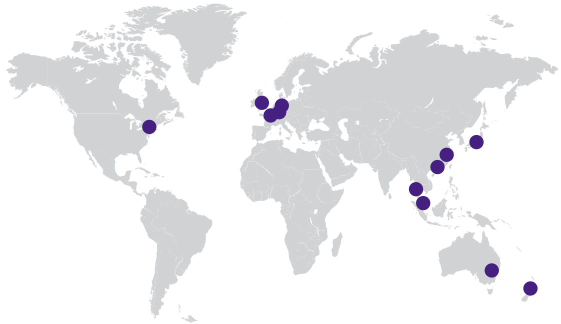
We have a diverse workforce that includes 30 nationalities with a presence in 12 countries across four continents. While most of our assets under management (AUM) and clients are based in Asia, our long-term business goal is to offer best-in-class investment solutions for clients worldwide.

Global Citizen with Asian DNA

13
Countries*

30
Nationalities**

USD
234.8bn*
Total AUM



Extensive Global Resources

- Japan
- New Zealand
- China
- Luxembourg
- Singapore
- United Kingdom
- Hong Kong
- Germany
- Australia
- Americas
- Malaysia
- Netherlands
- France

Our People

952
Employees** across all asset classes, located globally

222
Investment Professionals**

108
Portfolio Managers** with extensive, and locally driven research

60+ Years in Asia

One of the largest distributor networks in the Asian region

1st SRI Fund established in Japan*1
1st investment-in-kind ETF established in Japan*1
1st Robotics Equity fund established in Japan*1
1st Asia ex-Japan REIT ETF established in Singapore*1

*1 Based on Nikko Asset Management's research

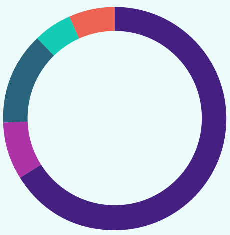
carbon footprint standard
Carbon Neutral
Organisation

Nikko AM works with the UK-based international organisation Carbon Footprint Ltd. to offset carbon emissions for our business operations through offset programmes, and has been certified as carbon neutral since 2018.

Our Global Capabilities

Qualitative insight through a broad range of global investment capabilities

Total Assets Under Management (USD 234.8bn*)



Our Specialisations

Equities
Global, Asia Pacific ex-Japan, Japan, Australia, China, New Zealand

Fixed Income
Global Bonds, Green Bonds, Asian Local Currency, Asian Credit, Australia, New Zealand

Multi-Asset
Global, Emerging Markets

ETFs
Equities, Bonds, REITs

*Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of 31 December 2024.
**Including employees of Nikko Asset Management and its subsidiaries as of 31 December 2024.

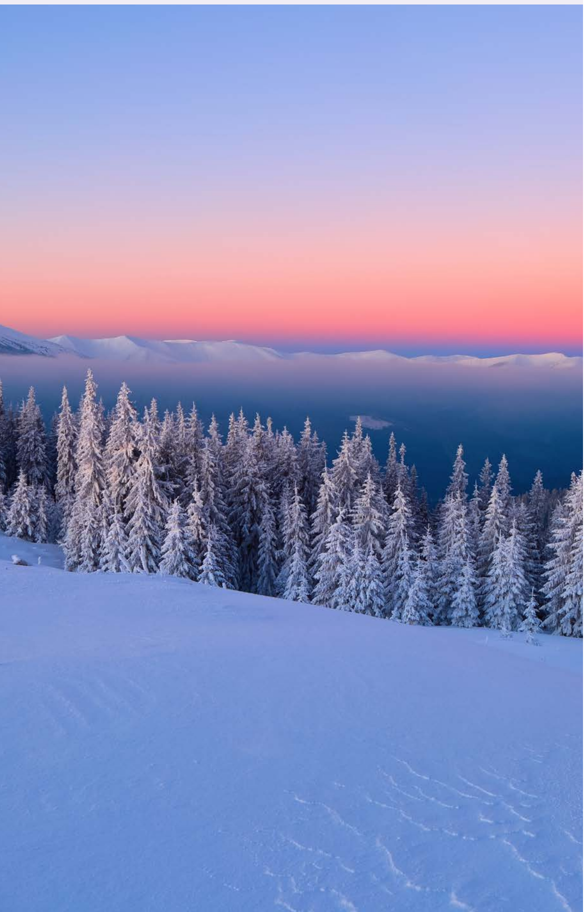
Governance

Governance

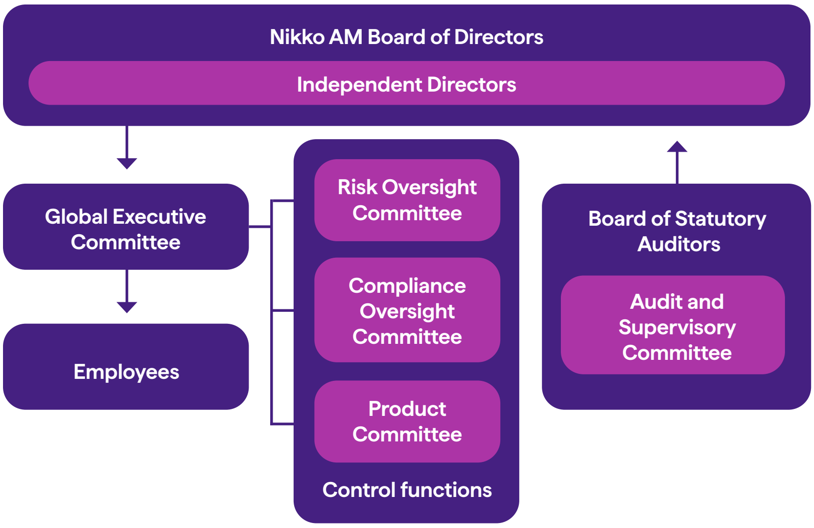
Overview of Nikko AM group governance

We implement cross-border delegation arrangements whereby the locally contracted Nikko AM group office manages business development, supported by local client-servicing teams. Portfolio management is delegated to the respective regional Nikko AM entity where the relevant investment expertise is based.

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 in the leadership section of our website. The charts below show a simplified representation of our group governance structure.

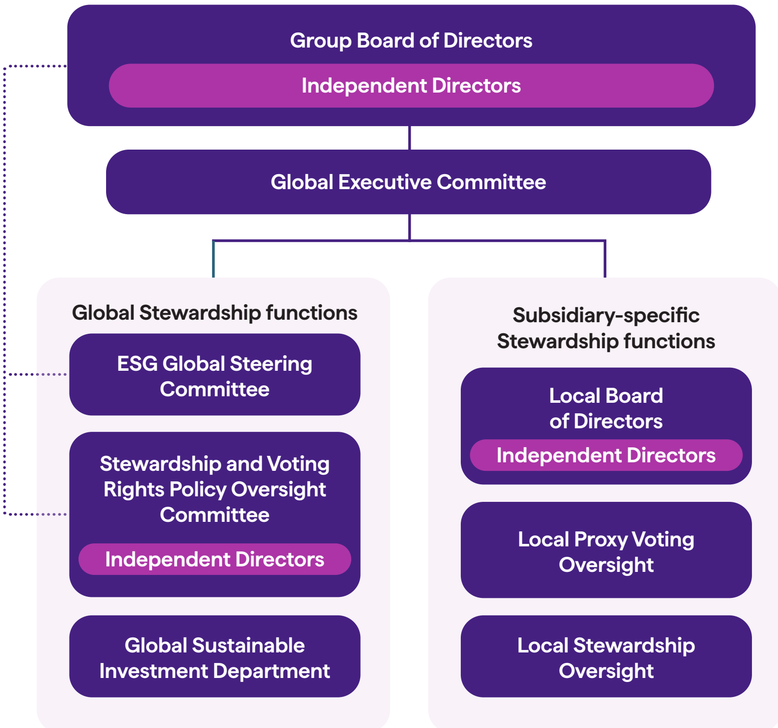


Nikko AM governance



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



Nikko AM group sustainability governance

Our sustainable investment activities are governed at both the global and local subsidiary level. The 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, develops strategy, makes external disclosures, and recommends ESG-related initiatives and participation in external bodies.

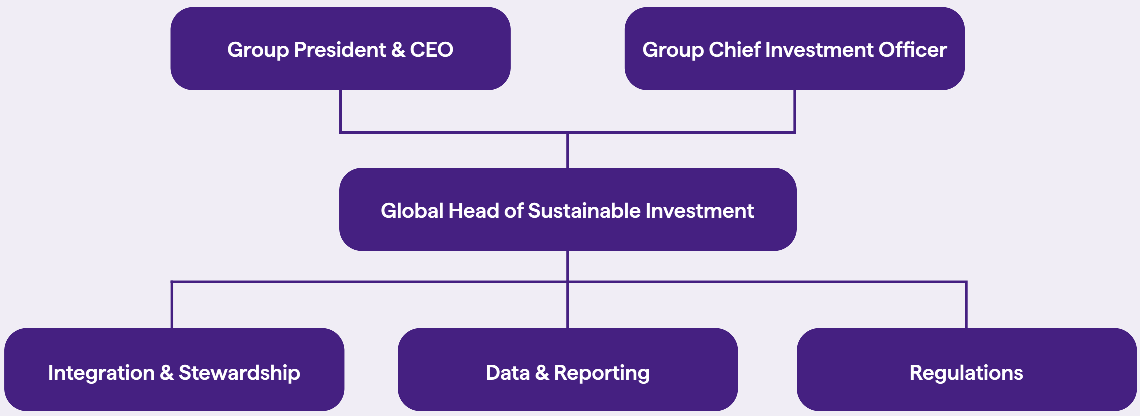
The ESG Global Steering Committee is governed by the GEC and, in addition, reports directly to the Group Board. It is chaired by the chief investment officer, and its voting members are the heads of our investment teams worldwide, who are in charge of ESG integration and oversight in their individual investment processes (including company engagement and proxy voting, where applicable).

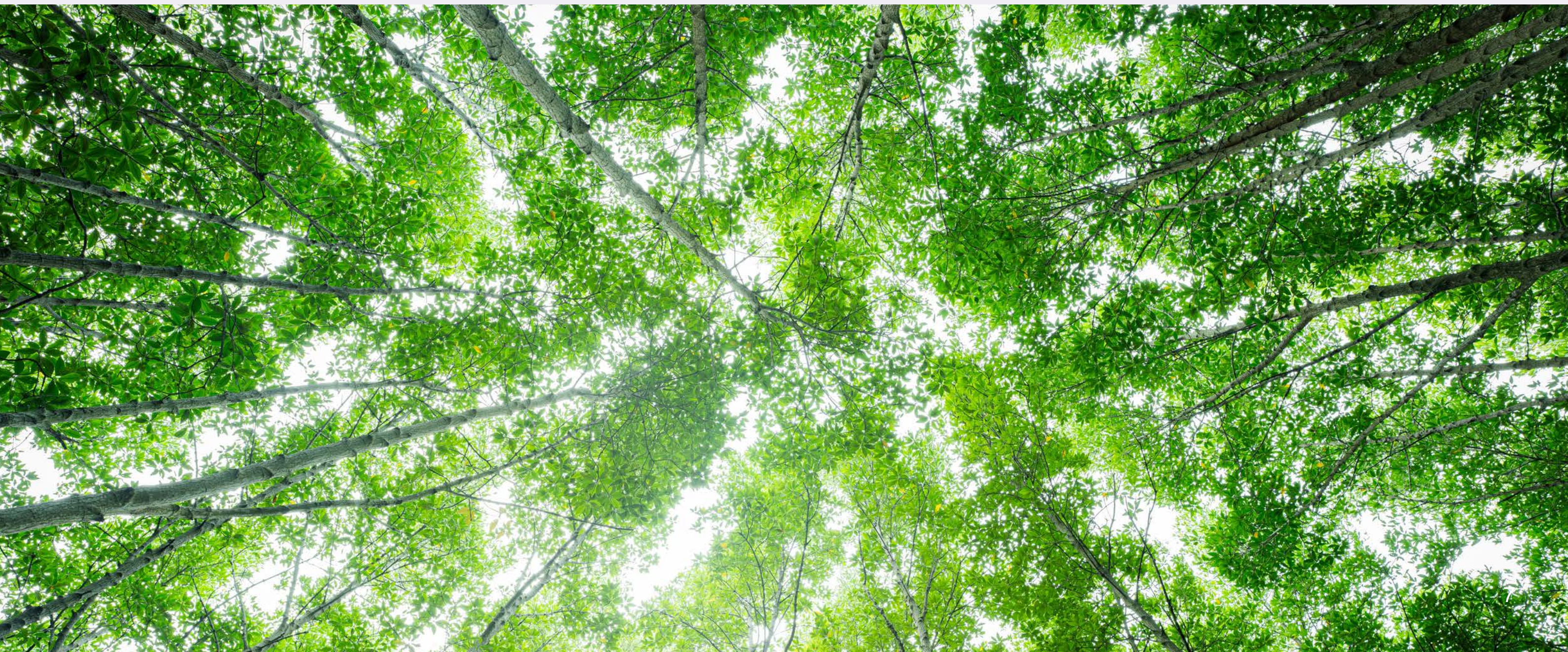
Through these channels, the Group Board is kept informed of material climate-related risks and opportunities while day-to-day management is delegated to relevant committees and senior members of staff.

The Nikko AM group also has a dedicated Global Sustainable Investment Team that provides expertise and support on ESG matters. As part of this structure, the global head of sustainable investment reports directly to the group president and group chief investment officer. This ensures that senior executives in the company have oversight of ESG matters. Both the group president and group chairman have key performance indicators (KPIs) to strengthen the firm's ESG capabilities, which include climate-related risks and opportunities.

Our group-wide reports, including this Global Climate Change Report, are approved at the highest level, which includes the ESG Global Steering Committee and the board, among other key stakeholders.

Global Sustainable investment team structure





Strategy

Strategy

Our approach

We recognise that climate change presents a broad spectrum of risk and opportunities that may have an impact on the assets in which we invest. It is our fiduciary duty to identify and manage these, with the goal of enhancing long-term risk-adjusted returns. We are aware that climate change is a systemic problem requiring appropriate climate policy and actions from governments; with this in mind, we will follow through on our commitment with the expectation that governments will implement stronger policies to accelerate progress.

We assess and address these impacts through two main channels:

Our investments: As a global manager, we serve a diverse client base, and it is not feasible for us to adopt a "one size fits all" approach to climate change. We base our approach on extensive bottom-up analysis that is undertaken by investment teams working closely with the global sustainable investment team. Each investment team is responsible for assessing climate-related risks and opportunities within its portfolios, using proprietary tools and data to determine the extent to which climate impacts investment decisions.

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

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

We have set a goal to reduce our GHG emissions from corporate operations by 40% per employee by the year 2030, compared with 2019 levels. For 2024, our total market-based carbon footprint — which recognises a reduced emission factor for green energy contracts — was 2,795.6 tCO2e* (2.8 tCO2e per employee) compared with 1,905.17 tCO2e in 2023 (2.13 tCO2e per employee). Compared with our baseline year of 2019, when we generated 5,469.5 tCO2e (5.9 tCO2e per employee), this represents a 59.6% reduction in emissions per employee.

Business flights accounted for 65% of the total carbon footprint. Meanwhile, electricity usage from our offices and remote-working employees' homes accounted for 5% and 14%, respectively.

As mentioned earlier, the biggest contributor to our operations' emissions is business flights. Business travel is crucial for our operations to support the investment research needs and commercial priorities of the organisation. We have implemented steps to raise awareness among employees about its impact on the environment.

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

*Tonnes of carbon dioxide equivalent

Progress and key milestones

Since we became the first Asian-headquartered asset manager in 2018 to support The Investor Agenda's four core areas, our climate change journey has continued. The timeline below highlights our progress and key milestones.

- **2007**
  - An early signatory of the PRI
- **2010**
  - Launched the world's first World Bank Green Bond fund
  - Developed Corporate Environment Policy
- **2011**
  - Signed Japan Ministry of Environment's Principles for Financial Action for the 21st Century
- **2018**
  - Joined Asia Investor Group on Climate Change
  - Joined Climate Action 100+
- **2019**
  - Set three firmwide focus areas: Diversity & Inclusion, Reducing Inequalities, and Environment & Climate
- **2021**
  - Joined Net Zero Asset Managers initiative
  - Revised groupwide environmental policy and set a GHG reduction target
- **2022**
  - Set 2030 interim target for 2050 net zero goal
- **2023**
  - Published first TCFD report with scenario analysis
- **2024**
  - Joined NZAMi Global Advisory Group
  - Initiated development of internal Net Zero alignment tool

Identifying climate risks and opportunities

As regulations, markets, and clients continue to evolve towards a lower-carbon world, Nikko AM intends to be in a position to support all of its clients to achieve their climate goals and support real-world decarbonisation. We aim to achieve this through research and data, investment solutions, and active stewardship.

We broadly consider climate risks and opportunities over the following time horizons:

- **Short term:** Three to five years — generally in line with investment horizons
- **Medium term:** Five to ten years — in line with interim climate goals
- **Long term:** Up to 2050 — in line with net-zero targets

We are mindful that the consideration of climate-related risks and opportunities can take place over a longer period than investment time horizons.

Identifying and understanding the types and impact of these risks, and the time horizon over which these risks can manifest, are important to us as investors. This is because these risks could result in reduced valuations of our investments, thus potentially impacting our portfolios and revenue, as well as entailing reputational risks to the firm. The following table outlines the climate-related risks our companies face, the potential impact on them, and, ultimately, the potential impact of such risks on us as an asset manager should we not take pre-emptive steps to mitigate such risks.

Alongside the risks that arise from a changing climate, the transition towards a lower-carbon economy presents climate opportunities that our companies can tap into. As asset managers, we encourage our companies to seek climate opportunities throughout their value chain in their products and services. In the table below, we outline how various opportunities impact our companies, which could in turn impact us as asset managers.

Risks summary

Risk	Description	Timeframe	Potential impact on our companies	Potential impact on us as asset managers
Transition Risk				
Regulatory & legal	Risk from new and/or advancing climate-related regulations and potential climate litigation that might impact a company's operations and/or products/services	Industry- and region-dependent: e.g. carbon-intensive sectors (short term), less carbon-intensive sectors (medium to long term)	Increased costs from: ■ Increases in carbon price ■ Compliance costs or fines arising from regulatory breach ■ Accelerated decarbonisation measures ■ Potential climate litigation	■ Lower AUM ■ Lower revenue
Technology	Risk from the need to invest in technological innovations to keep up with the transition towards a lower-carbon economy	Industry-dependent: on availability of technologies e.g., automotives (short term), cement (long term)	Increased costs from: ■ Writing off less efficient assets ■ Capex investments in lower-emitting technology ■ Lower profitability due to inefficient operations ■ Lower demand compared with competitors	
Market	Risk from shifting consumer behaviour, hence switch of demand	Industry-dependent: e.g., automotives (short term), steel (long term)	Decreased revenues from: ■ Reduced demand for products/services ■ Inability to capture changing market demand	
Reputation	Risk from public perception of a company's response to climate risk or its contribution to climate change	Short, medium, and long term	Decreased revenues from: ■ Reduced demand due to negative perception (e.g. greenwashing) ■ Increased cost of debt	
Physical Risk				
Acute	Risk to physical operations from increased severity of extreme weather events	Long term	Decreased revenues due to: ■ Reduced production capabilities, and hence output, because of damaged facilities and supply-chain and transport disruptions ■ Changing consumer patterns as a result of changing climate conditions ■ Increased cost from rising insurance premiums or, ultimately, inability to insure ■ Asset write-offs due to asset damage ■ Changing physical landscape and availability of natural resources (e.g. water scarcity)	■ Lower AUM ■ Supply-chain reverberations that result in implications throughout our investments from operational losses and slowdowns linked to weather events
Chronic	Risk to physical operations from shifts in climate patterns that may impact productivity and/or consumer behaviour	Long term		

Opportunities summary

Opportunity	Description	Timeframe	Potential impact on our companies	Potential impact on us as asset managers
Transition Risk				
Resource efficiency	Opportunity from more efficient use of energy and resources	Short term	Increased revenue due to more efficient resource use and allocation.	■ Increased AUM
Energy source	Opportunity from the transition to lower-carbon sources of energy	Region-dependent e.g. policy-driven	Increased revenue from transitioning towards more sustainable energy sources. This can lead to improved financial planning and lower-cost volatility in light of emerging carbon-tax regulations.	
Products & services	Opportunity from the ability to develop products and services to capture opportunities in the shift towards a lower-carbon economy	Short-to-medium term	Increased revenue from developing of products or providing services that can aid other companies in transitioning towards a lower-carbon economy.	
Markets	Opportunity arising from ability to adapt to and capture changing consumer behaviour	Short-to-medium term	Increased revenue from capturing changing client demands.	
Resilience	Opportunity arising from the ability to manage the impacts of climate risk	Region-dependent e.g. country adaptation measures	Reduced cost from asset damage or operational loss as a result of climate risk.	

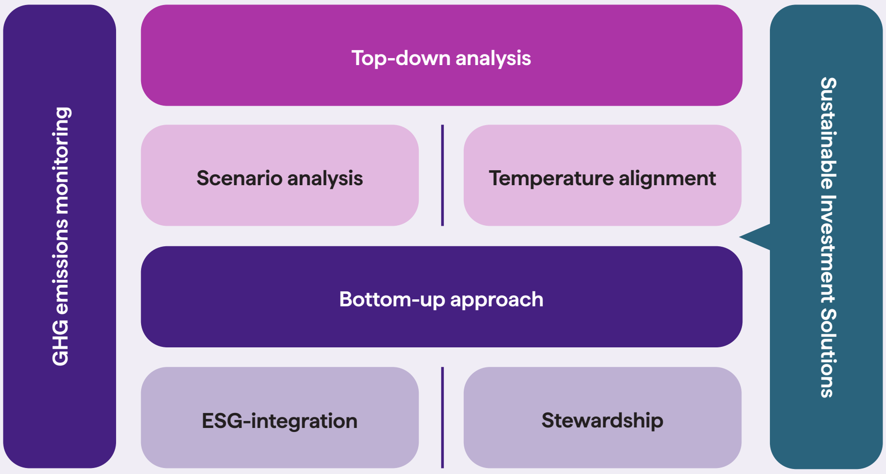
A comprehensive climate approach

We take a comprehensive approach to addressing climate-related risks and opportunities across our investment activities. Our strategy is anchored in five interconnected levers that work together to support informed decision-making, drive real-economy impact, and deliver long-term value for our clients:

1. **Scenario Analysis** — Helps us understand how different climate futures could impact our portfolios by modelling potential risks and opportunities across a range of transition and physical risk pathways.
2. **Temperature Alignment** — Enables us to assess how our portfolios align with global climate goals, providing insights into the pace and direction of decarbonisation.
3. **Integration of Climate Considerations** — Embeds climate-related risks and opportunities into our investment decisions to support robust, risk-adjusted decisions across asset classes.
4. **Stewardship** — Focuses on active engagement with portfolio companies to encourage credible transition planning, improved climate disclosures, and accountability for progress.
5. **Sustainable Investment Solutions** — Offers clients dedicated climate-related solutions, including green bond strategies, proprietary climate alignment tools, and partnerships with specialist managers, to finance the transition to a low-carbon economy.

Together, these levers form the foundation of our climate strategy and underpin our ambition to contribute to real-world decarbonisation.

Top-down approach



Our top-down analysis looks at climate-scenario analysis and temperature alignment to better understand our portfolios' climate risks and opportunities.

In accordance with the Task Force on Climate-Related Financial Disclosures (TCFD), whose recommendations are now fully incorporated into the International Sustainability Standards Board (ISSB) IFRS S2 Climate-related Disclosures, as well as in response to increasing regulatory pressure to conduct climate-scenario analysis, we have assessed our portfolios for both transition and physical risk under multiple climate scenarios. In more recent years, there has been a growing interest in utilising forward-looking metrics, such as temperature-alignment tools, to understand company- and portfolio-level climate-related risks and opportunities. For both climate-scenario analysis and temperature alignment, we utilised industry-recognised third-party models to ensure transparency and interpretability.

We have drawn on MSCI Inc's suite of products, utilising its Climate-Value-at-Risk (CVaR) and Implied Temperature Rise (ITR) models to conduct our scenario analysis and temperature-alignment assessments, respectively. We have also adopted the terminology associated with these models.

Scope

Our analysis is conducted on our exposure to public listed equity and corporate bonds. Analyses of our in-scope portfolios cover 71.3% of the total assets under management (AUM) for our Japan Equity, Japan Fixed Income, Japan Investment Technology, Asia ex-Japan Equity, Asia Fixed Income, Global Equity, Global Fixed Income, New Zealand Equity, and New Zealand Fixed Income investment teams as of 31 December 2024. Our in-scope Japanese-domiciled holdings are aggregated and reported as "NAM JP", and our in-scope companies domiciled outside of Japan are aggregated and reported as "NAM ex-JP". For our fixed-income portfolios, we include corporate bonds and exclude sovereign, supranational, and agency issues. Although there are methodologies to model sovereign climate-scenario analysis, these tools are in their infancy, which may impact the accuracy of their output. We continue to monitor new developments in the models. The analysis takes into consideration both active and passive portfolios managed by the Nikko AM group, of which 67.6% of our in-scope AUM is passive.

Scenario analysis

We believe climate-scenario analysis is an important tool that enables investors to gain a thorough understanding of climate-related risks and opportunities and their impact on portfolios. These scenarios are not predictors of the future; rather, they provide a range of possible future states under conditions of uncertainty.

Methodology

The following assessments were conducted utilising MSCI Inc's CVaR methodology. We acknowledge that the understanding of and, hence, the process of assessing climate-related risk and its impact are constantly evolving, and we will update our approach accordingly. In 2024, our understanding of the model's methodology and limitations remained unchanged. We have described key limitations in our previous TCFD reporting.

To further assess the underlying risk, we utilise both top-down and bottom-up processes. This provides a more holistic analysis than relying solely on a third-party data source. Our bottom-up approach is presented later, and our commentary here is related to the top-down methodology. As we are conducting analysis on a broad range of securities, there will be cases where data is missing. To ensure our risk measurements are not skewed by the missing data, we have reweighted all metrics based on a data-coverage factor, which means the percentage covered within each metric is always 100%. We have chosen not to use any filling approaches given the idiosyncratic nature of the data.

Transition risk

In the global effort to address climate change and support the Paris Agreement, countries around the world have ratified the Paris Agreement, committing to put forth climate action plans, also known as Nationally Determined Contributions (NDCs), on how they would work towards reducing their carbon emissions. However, this would not be without economic and societal impact. As countries enact climate action plans to reduce their carbon emissions, their decisions cascade down to the population — corporates and individuals. This can result in policy and legal risks stemming from regulatory changes, technology advancements, and changes in market demand.[1] Therefore, transition risk is defined as the risks stemming from the global transition towards a lower-carbon economy. This does not happen consistently with the same nature, speed, and focus, however, and is subject to sectoral and geographical nuances. MSCI's transition-risk methodology assesses companies' CVaR under various Network for Greening the Financial System (NGFS) climate scenarios.[2] This assessment focuses on policy risk, modelling a company's CVaR as a function of its annual carbon emissions and annual carbon-price estimates over 15 years. The carbon-price estimates used are dependent on the climate scenario.

As a result, the CVaR associated with the company is the aggregated cost it is expected to pay to reduce its carbon emissions to reach emission-reduction targets over 15 years.

The process utilised by MSCI provides a sound grounding for us to analyse transition risk while acknowledging that there are limitations to the methodology. Over 2024, our understanding of the model, its methodology, assumptions, and limitations remained unchanged.

We have assessed our portfolios under the following scenarios:

- 1.5°C and 2°C
  - Orderly — climate policies introduced early with gradual intensification. Transition risk is relatively subdued
  - Disorderly — delayed or divergent climate policies. Higher transition risk from more stringent and stricter measures that are delayed and/or divergent across countries and sectors, leading to higher carbon pricing
- Hot house world — climate policies are implemented only in some jurisdictions but are globally insufficient to halt global warming, not going beyond the NDCs. Implies temperature rise of 3°C by 2100[3], which leads to higher physical risk.

Transition risk represents the largest risk to our holdings, with the 1.5°C Disorderly scenario posing the most severe risk to our portfolios, given that it is the most disruptive scenario.

Under the 1.5°C Disorderly scenario, the model indicates a potential CVaR of 17.4% for our NAM JP assets, as seen in Figure 1, and 5.3% for our NAM ex-JP assets, as seen in Figure 2. Under a more orderly scenario (1.5°C Orderly), the potential risk diminishes substantially, to 14.8% for NAM JP and 4.5% for NAM ex-JP.

Diving deeper into the numbers, we are unsurprised to find that the bulk of our risk is attributable to carbon-intensive sectors, such as energy, materials, and utilities. When jurisdictions start to increase carbon prices in a bid to bring down carbon emissions, the cost to companies in these sectors will increase should their emissions profile not come down.

1 Transition Risk Definition: https://www.tcfdhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf
2 NGFS Climate Scenarios: https://www.ngfs.net/ngfs-scenarios-portal/
3 UNFCCC: https://sdg.iisd.org/news/unfccc-reports-warn-about-2-5c-warming-amid-glimmers-of-hope/#:~:text=The%20UNFCCC's%20second%20synthesis%20of,2.5%C2%B0C%20of%20warming

Figure 1. Transition risk — NAM JP (CVaR, %)

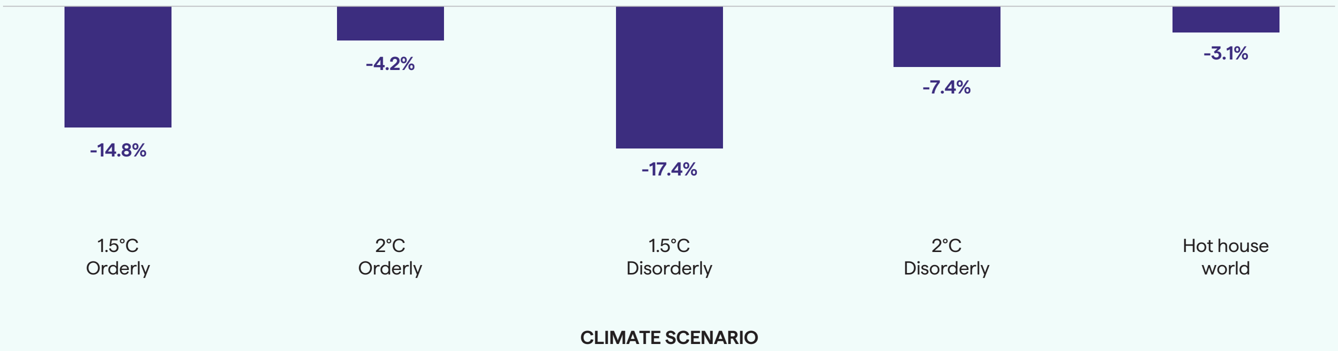
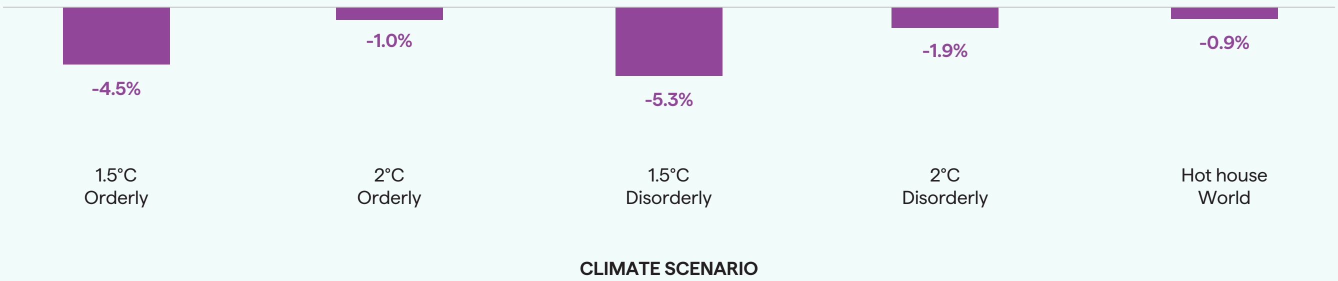


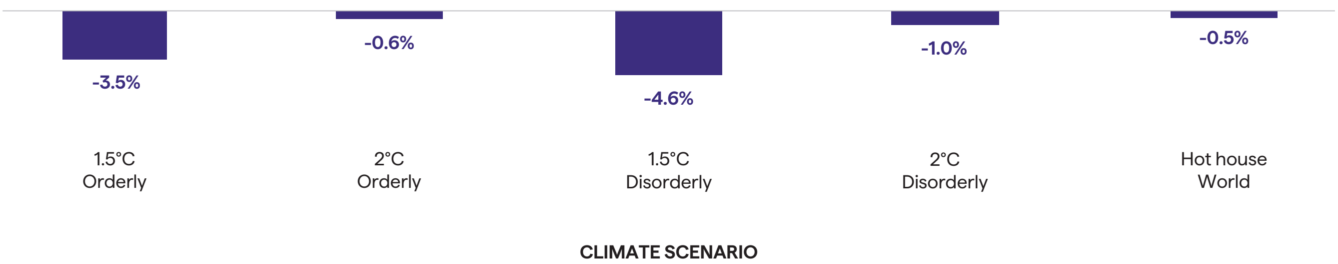
Figure 2. Transition risk — NAM ex-JP (CVaR, %)



As a global asset manager with both active and passive strategies, we are likely to maintain some exposure to these sectors, but we will continue to monitor the risk and apply mitigation techniques as described later in the report. Of our NAM JP and NAM ex-JP assets, 74.9% and 11.0% are passively held (respectively). We have limited discretion over our passively held funds, and their transition risk largely mirrors that of the indices the funds track. To mitigate the transition risk faced by our passive assets, we take an active stewardship approach by engaging with our companies and actively voting on all of our equity holdings, as described further down.

If we take our Global Equity UCITS fund as an example in Figure 3, the fund has a lower transition risk than its benchmark (the MSCI All Country World Index) as the fund has a commitment to keep its portfolio's relative carbon intensity more than 20% below the benchmark. So, given that the transition-risk scenarios here are driven by a company's carbon emissions, the portfolio carries significantly lower risk under all scenarios.

Figure 3. Transition risk — Global Equity



Physical risk

In recent years, we have seen an increasing occurrence and severity of natural disasters such as wildfires and hurricanes, along with an increase in weather patterns such as prolonged and heavier rainfalls that lead to floods. With climate change leading to higher global temperatures, the frequency and severity of such events is only set to increase. These events have financial implications for organisations, not only through direct asset damage but also indirectly through operational disruptions that can stem from changes to productivity. Therefore, physical risk is defined as risks stemming from the physical impacts of climate change. These risks can be event-driven (acute) or arise from longer-term shifts in climate patterns (chronic), which lead to changes in habitable landscapes.[4] Whether it faces acute or chronic weather events, the economic system will have to adapt.

MSCI's physical-risk methodology models companies' CVaR based on a variety of potential physical-risk events over 15 years. The impact from these physical-risk events can be measured in two distinct ways: disruption to operations and direct damage caused by the events. As the type and impact of physical risk is location-specific, the methodology models the likelihood of these changing weather patterns and, subsequently, the potential impact on companies' individual assets at a local level. The CVaR associated with the company is the aggregated cost it is expected to pay because of revenue loss and disruption to operations over 15 years.

We acknowledge that there are challenges in modelling the impact of physical risk, as the expected change to weather patterns may deviate from the trends that have already been observed and used to create forecasts. This deviation can occur in either direction, which means that the actual outcome may be more or less severe than currently forecast and may occur more or less frequently.

This limits the ability of any model to accurately predict how physical-risk types will develop and, even more so, the extent of its potential financial impact. In 2024, our understanding of the model, assumptions, and limitations remained unchanged. Any changes to the CVaR figures are a result of underlying updates made by MSCI.

We assessed our portfolios under the following scenarios:

- **Average scenario:** most likely impact of climate change over the modelled 15-year period — i.e. the expected value of the cost distribution.
- **Aggressive scenario:** the 95th percentile of the cost distribution and explores the severe downside risk within the distribution tail — i.e. the worst-case scenario.

[4] TCFD Physical Risk: **https://www.tcfdhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf**

The potential CVaR from physical risk in our funds is significantly lower than the transition risk in both the average and aggressive scenarios. Unlike transition risk, where CVaR is largely a function of the sector our portfolio companies are in, the geographic location of their assets is a key driver of physical risk.

Under the aggressive scenario, our NAM JP assets see a potential CVaR of about 10.6% (Figure 4) and about 5.0% for our NAM ex-JP assets (Figure 5). Under the average scenario, the potential CVaR is significantly lower, about 4.1% for NAM JP (Figure 4) and about 1.3% for NAM ex-JP (Figure 5). Given that NAM JP is fully invested in Japanese assets, its physical risk is concentrated in Japan, which has high physical risk because of its location, whereas the physical risk of NAM ex-JP assets is more diversified globally. Further analysis of the data shows that CVaR is more pronounced in geographical locations with high acute risk (i.e. event-driven). These events tend to occur suddenly, disallowing ample time for risk-adaptation or mitigation efforts. Additionally, the severity of these events cannot be predicted, which can result in the insufficiency of implemented risk-mitigation or adaptation efforts. Therefore, the geographical locations with the highest acute risks would result in the greatest asset damage and operational disruption.

For our passive funds, the physical risk largely mirrors that of the indices the funds track. To mitigate the physical risk faced by our passive assets, we take an active stewardship approach by engaging our companies and actively voting on all our Japanese equity holdings.

With our actively managed funds, where we have more flexibility in managing our portfolios, we can actively factor in physical-risk considerations when assessing our portfolio holdings. Physical risk still exists but is less than that of these funds' relative benchmarks.

Although we can physically feel and see the devastating impacts of various physical-risk events worldwide, it is unclear what impact these events will have on our companies' future value. Unlike transition risk, where companies can largely mitigate their risks from decarbonisation, physical risk largely relies on adaptation measures — not just from the company, but also the from authorities, the broader private sector, and society at large.

When assessing physical risk, we are also able to determine the physical risk events that might have the greatest impact on our portfolio holdings. This is largely driven by where our portfolio holdings' assets are located.

Comparing the exposures to physical risks of our NAM Japan (JP) and NAM ex-Japan (ex-JP) assets reveals interesting insights. The NAM JP portfolio is largely concentrated in Japan, a country particularly susceptible to climate-change risks. In contrast, NAM ex-JP assets are globally diversified across regions including the US, Asia ex-Japan, Europe, and New Zealand. Consequently, the asset concentration in Japan leads to a CVaR for NAM JP that is generally equal to or higher than NAM ex-JP across all physical risk types.

Under an average climate scenario, extreme heat poses the most significant risk for both NAM JP and NAM ex-JP, as shown in Figures 6 and 7, with CVaRs of -2.2% and -0.7%, respectively, followed by coastal flooding at -1.5% for NAM JP and -0.4% for NAM ex-JP. However, under an aggressive climate scenario, MSCI estimates a potentially significant exacerbation of these risks. For instance, the CVaR associated with coastal flooding for both NAM JP and NAM ex-JP is projected to increase more than 5.5 times to -8.4% and -3.0%, respectively. Similarly, the CVaR related to river low flow, negligible in an average scenario, would surge to -5.8% for NAM JP and -3.5% for NAM ex-JP. This could make river low flow the largest physical risk for NAM ex-JP, surpassing coastal flooding (-3.0%) and extreme heat (-2.2%).

Figure 4. Physical risk — NAM JP (CVaR, %)

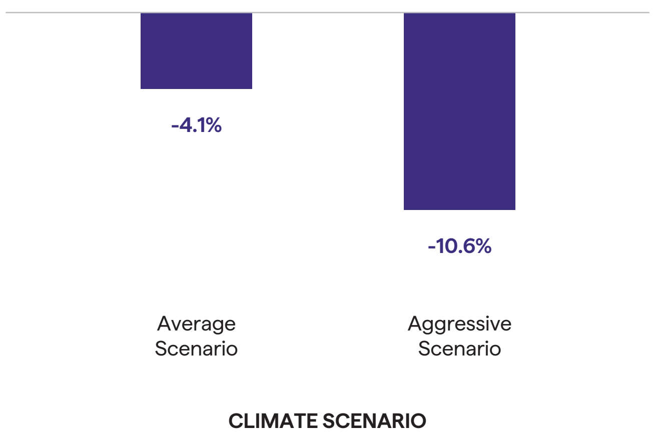


Figure 5. Physical risk — NAM ex-JP (CVaR, %)

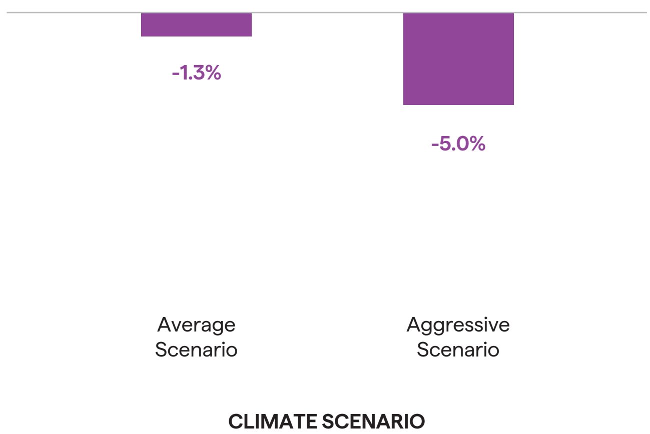


Figure 6. Physical risk (by type) — NAM JP

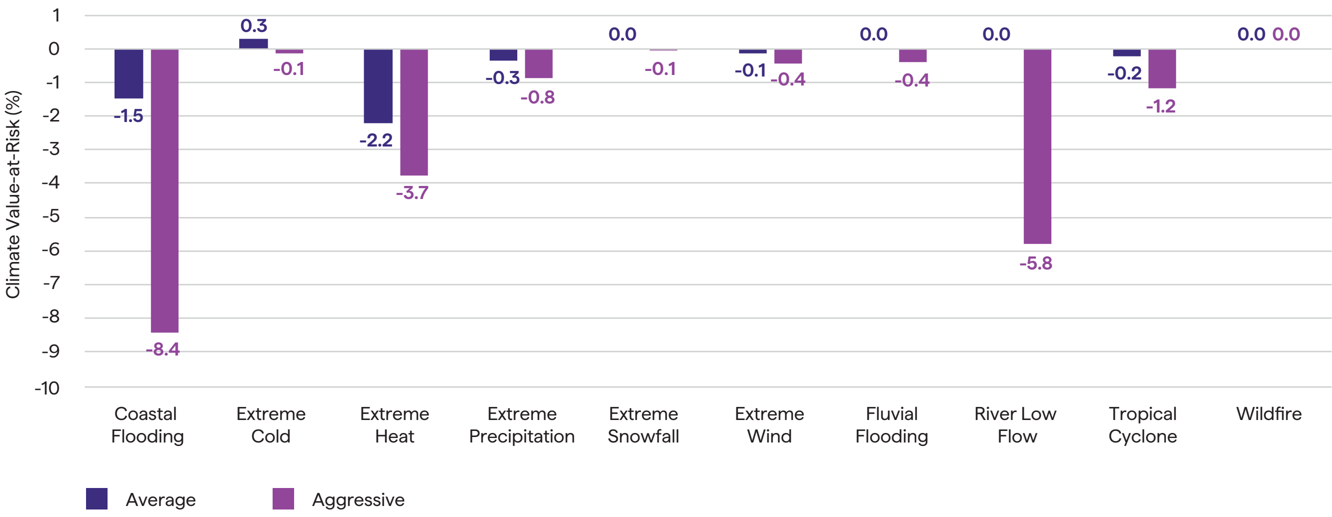
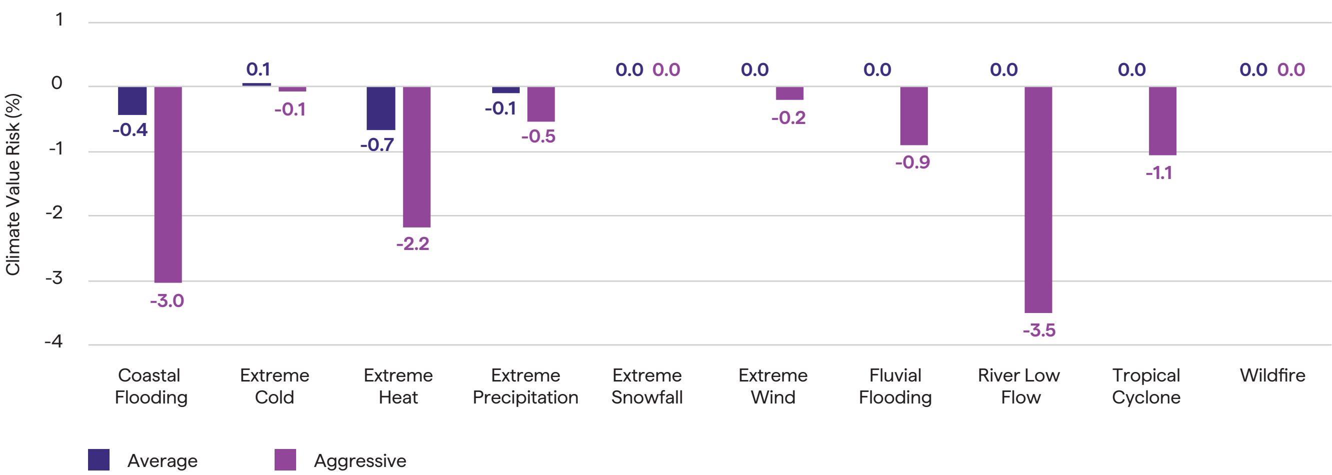


Figure 7. Physical risk (by type) — NAM ex-JP



Technological opportunities

Given the shifts that are occurring because of our changing climate, opportunities are likely to arise alongside the risks that have been highlighted. A myriad of climate-related opportunities can occur through direct actions, such as investing in more efficient processes, or through indirect actions across supply chains, such as the shift to cleaner energy sources. However, we understand that there is complexity in how these opportunities can be assessed, particularly with the data-based limitations on holistically encapsulating or assessing them.

Therefore, we rely on our bottom-up analysis across many of our holdings. This allows us to assess the context of each company's operations, the regions and sectors in which it operates, and its overall strategy, which may not be fully evident in existing data.

To supplement our bottom-up analysis, we can also draw on third-party data providers. This not only enables us to broadly assess the climate-related opportunities for our passive holdings but also provides us with additional insights into our more active holdings.

We understand the limitations of using broad datapoints to assess technological opportunities and of confining the consideration of climate-related opportunities to just R&D/green patents, as factors such as operational improvements can have a material impact. However, we also understand that this allows us to gain a high-level, top-down overview that can benefit our portfolios.

Meanwhile, we continue to rely primarily on our bottom-up analysis and in-depth discussions to best define climate-related opportunities. This provides a more idiosyncratic assessment, in keeping with our approach for more active funds.

MSCI's climate-related methodology focuses on current green revenue and opportunities arising from new technologies. In 2024, our understanding of the model, its assumptions, and its limitations remained unchanged.

For our active funds, we identify climate-related opportunities in companies individually, as part of our bottom-up ESG-integrated investment process, with portfolio managers and analysts providing the necessary insight. For our passive holdings, which form a large proportion of our AUM, we believe it is necessary to identify the climate-related opportunity set in a more structured and systematic way. For instance, for NAM JP, where the majority of our assets are passive, we find that technology-related data reflects the potential of our Japanese holdings to materially offset the transition risks highlighted earlier.

To illustrate this, we use our NAM JP assets as a case study. As shown in Figure 8, technological opportunities are greatest under the 1.5°C Disorderly scenario, at almost 6%. Under this scenario, the urgency to decarbonise is the greatest and steepest because of the delay in taking action. Therefore, the need for technological advancement is greatest. Under a more orderly scenario (i.e., 1.5°C Orderly), NAM JP's technological opportunities are slightly above 4%.

Transition risk and technology opportunities represent opposing outcomes from the same factor: namely, the impact that changing policy actions will have on our companies. By aggregating these across the portfolio, we can assess the overall impact from these changing policy actions. Looking at the aggregated risk faced by NAM JP in Figure 9, we see that transition risk is reduced in all scenarios.

Figure 8. Technological opportunities — NAM JP

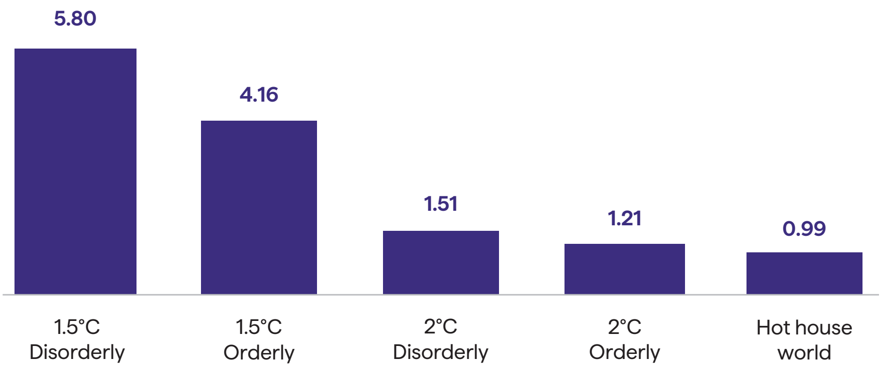
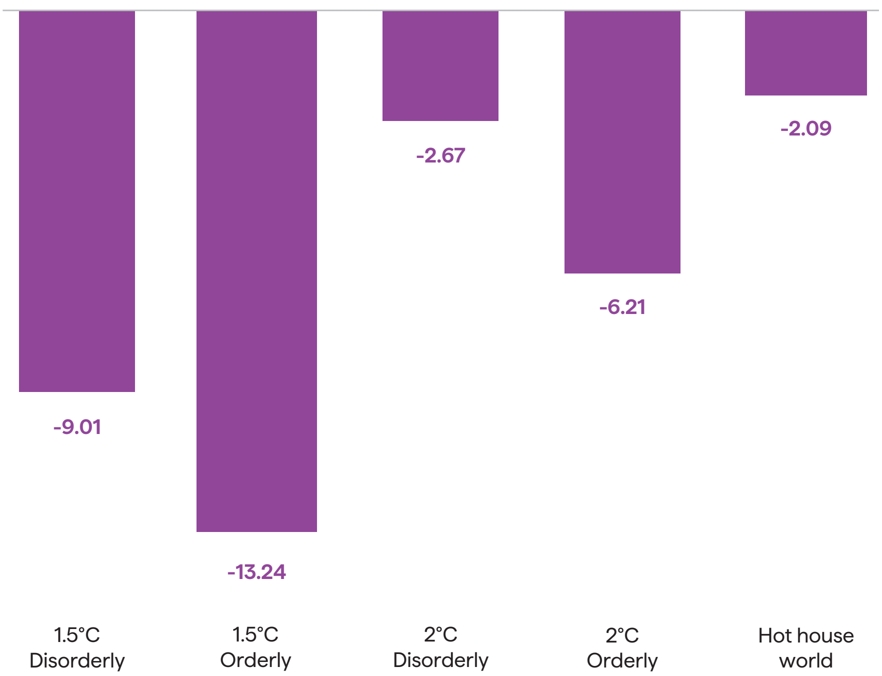


Figure 9. Aggregated risk — NAM JP



Temperature alignment

The magnitude of the global temperature rise is one of the key factors that will determine the state of the world we live in. Accordingly, governments and organisations such as the Intergovernmental Panel on Climate Change (IPCC) have called for the global temperature rise to be limited to well below 2°C above pre-industrial levels and have pursued efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The measurement of temperature alignment helps translate a company's carbon intensity into an intuitive temperature scale (°C) to communicate how companies are aligned with the Paris Agreement level of 1.5°C. This allows us to understand not only the exposure of our holdings to climate-related risk but also how our holdings are decarbonising (i.e. risk mitigation).

Methodology

We conducted the following assessments using the MSCI Implied Temperature Rise (ITR) model methodology. This model estimates the alignment of companies and investment portfolios with international climate goals, expressed in degrees Celsius. It is a forward-looking temperature alignment metric that considers a company's current emissions and its disclosed targets to project its future emissions. It utilises the NGFS REMIND Net Zero 2050 scenario to allocate carbon budgets based on sector-specific decarbonisation pathways and company revenue, projecting future emissions with consideration of historical data, disclosed targets, and a credibility assessment. The model updates carbon budgets annually to reflect market-share changes and realised emissions, converting the relative carbon-budget overshoot or undershoot into an ITR expressed in degrees Celsius using the Transient Climate Response to Cumulative Emissions factor. Based on its ITR, the company is then categorised into one of the following groups: Strongly Misaligned, Misaligned, 2°C Aligned, and 1.5°C Aligned.

Assessment

We understand that the relationship between emissions and temperature is not straightforward and that the ability of companies to reduce their emissions is highly dependent on the context of their operations. Some examples include the regulatory landscape in which they operate, the availability of resources, and their supply-chain dependencies. We understand that methodological limitations and assumptions are inherent in all models; with ITR, we believe that the model can currently gauge only the extent to which the companies and their targets are in line or misaligned with the Paris Agreement.

The translation of companies' commitments and targets into temperature alignment allows us to gauge the ambitiousness of these targets, which can drive further due diligence and engagements with our companies, in addition to our bottom-up research.

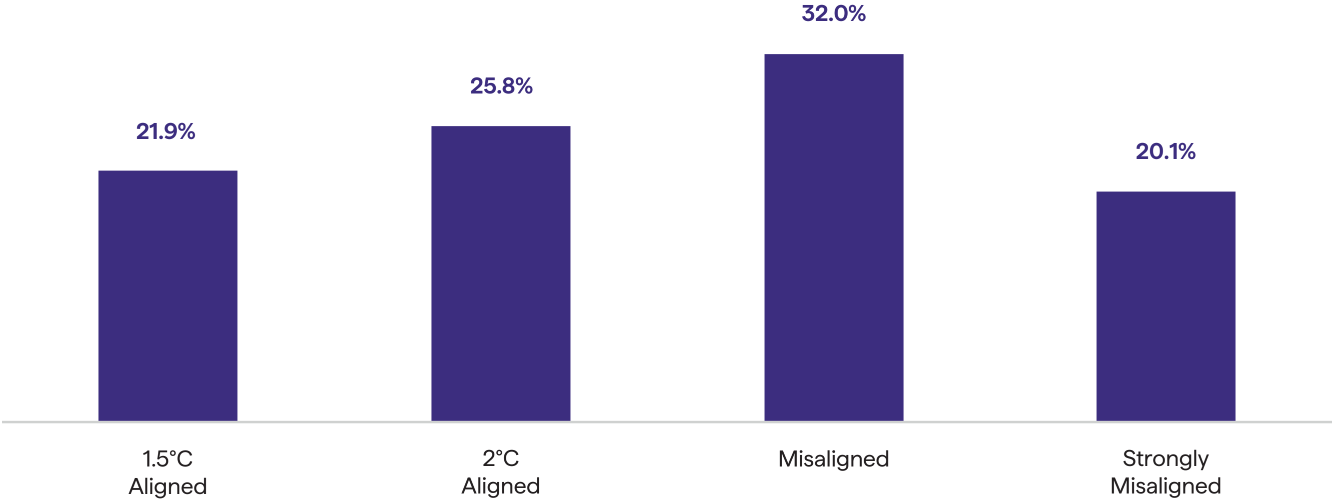
The following ITR calculations use MSCI's ITR methodology. We have calculated our NAM JP and NAM ex-JP assets under the MSCI updated methodology. The ITR is about 2.4°C for our NAM JP assets and about 2.6°C for our NAM ex-JP assets (Figure 10).

Figure 10. Implied Temperature Rise (°C)

Most of our passive assets are held in our NAM JP portfolios, with a minor portion held in our NAM Asia (Asia ex-Japan Equity and Asia Fixed Income) portfolios. We have limited discretion over our passively held funds, so the ITR closely mirrors those of the indices the funds track (for context, the TOPIX has an ITR of 2.4°C). Regardless, we seek to mitigate our portfolio holdings' impact on climate change through active ownership — via engagement and proxy voting, as described previously.

For our actively managed funds, where we have flexibility in managing our portfolios, we can be more selective and tilt towards companies that have credible transition plans and are making real-world impact through decarbonisation. To further enhance our risk assessment and inform our analysis, we assess the temperature-alignment bands of our portfolio and underlying holdings. Temperature-alignment bands are categorised as 1.5°C Aligned, 2°C Aligned, Misaligned, or Strongly Misaligned. Based on our analysis in Figure 11, we find that about 47.8% of the Nikko AM group's investments in scope for this report are 1.5°C and 2°C aligned. This insight will help us focus our stewardship activities on the rest of our investments: those companies where the most meaningful progress can be made in addressing climate-related risks.

Figure 11. NAM Group ITR Bands (% Weight)



Bottom-up approach

Integration of climate considerations and active stewardship are the two main approaches that we use to make better investment decisions and meet our fiduciary duties towards our clients.

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

Integration in investment decisions

In our actively managed strategies, our investment teams identify attractive companies through in-depth bottom-up research, based on their own philosophy and approach. We integrate ESG factors and the risks and opportunities they present for each company into this process, providing additional considerations for investment decisions. As a large proportion of the companies held in our active funds are simultaneously held in passive funds, many of the constituents of our passively held portfolios have also been actively researched, including on ESG.

We do not adopt a one-size-fits-all approach to ESG integration. The main responsibility for implementing our fiduciary duties falls on our investment teams. 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, ensuring that each chooses 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. Although ESG issues are rarely the only consideration when making investment decisions, an understanding of these issues informs the investment process and gives our investment teams a more rounded view of companies. ESG factors such as climate change are considered as part of our investment policies and processes, and not treated as part of a separate exercise. We believe that attention to ESG factors is essential to good investment discipline — core to any business and inherent to its long-term value creation 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.

That said, 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. Our 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.

The investment teams across the various regions are supported by the Global Sustainable Investment Team, which is made up of five functions: regional ESG specialists, research & integration; stewardship; data & reporting; and ESG regulations — as outlined under Nikko AM Group Sustainability Governance from page 7 onwards. The Global Sustainable Investment Team takes the lead in areas such as firmwide ESG policies, frameworks, initiatives, regulatory matters, organising ESG resources for investment and risk personnel, and enhancing our firm's understanding of important emerging global ESG developments.

The ESG specialists support the investment teams as part of our aim of having all investment professionals fully integrate ESG into their investment processes. They also build relationships with ESG-focused organisations and regularly share information with the ESG Global Steering Committee on developments such as ESG-related legal changes in countries around the world. The establishment of a centralised ESG data team allows for consistency, accuracy, and improvements in the coverage of our ESG data, as well as the expansion of our analytics capabilities. The strengthening of the ESG data team goes hand in hand with plans to evaluate and expand our external ESG data sources.

More details on how Nikko AM's investment teams integrate ESG and conduct stewardship activities can be found in our annual Global Stewardship Report and our Sustainability Report.

Active stewardship

Nikko AM recognises stewardship as an important part of our fiduciary duty. Active engagement with our companies is built into our investment processes and plays an integral role in fulfilling our duty as a good steward of the capital our clients have entrusted us with.

Globally, our **Engagement and Stewardship Strategy** defines our approach to corporate engagement. We became a signatory to the UK Stewardship Code (UKSC) in 2022, and we have maintained our signatory status since. We responded to the UKSC as a group, so the global stewardship activities of our investment team are represented in our response. We have recently published our latest **Global Stewardship Report**, covering the reporting period 1 January to 31 December 2024. We see stewardship as the core action that we can take to address climate-related risks in our own portfolios and in the wider economic system. By tracking and holding companies to account and engaging with material carbon emitters, we believe that we can better mitigate climate-related risks and benefit from climate-related opportunities.

Our stewardship activities are not limited to only our actively managed holdings. As previously mentioned, a significant proportion of our AUM is passively held — particularly our Japanese equity AUM. This limits our influence since we do not have the ability to reduce or divest these holdings. However, our Japan Sustainable Investment Department has been actively working to influence positive change at target companies on key ESG themes even where these companies are held only in passive portfolios. This is an ongoing, multi-year project with a strong focus on climate change, among other pertinent ESG topics.

Engagement activity

As highlighted in the section Bottom-up analysis: Proprietary ESG-integrated approach, ESG is integrated into our investment process, with investment teams engaging with our companies on relevant ESG issues both before and during the period of investment.

Our regional ESG specialists also perform more thematic engagements (for example, in relation to our responsibilities under NZAMi and CA100+), but the analysts and portfolio managers in our investment teams are ultimately responsible for engaging with the companies they cover and assessing the ESG risks and opportunities that inform portfolio buy and sell decisions.

In 2024, across all regions, 27% of our ESG-related engagements focused on the environmental pillar, on topics such as climate change.

Our engagement methods vary according to the needs of the situation. They include the following:

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

Where we engage with companies to shape corporate behaviour and influence positive change, we may escalate the discussions. The escalation methods vary across asset classes and regions. We describe them in more detail in our Nikko Asset Management Group Engagement and Stewardship Strategy. Escalation case studies are shared in our latest Global Stewardship Report.

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 that 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 said that discussions were taking place with the outside independent director on how to address climate issues. It emphasised that CO_2 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.

Voting activity

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.

The **Nikko AM Group Proxy Voting Policy** establishes our company-wide approach to proxy-voting decisions. This policy establishes the principles we use for determining the exercise of voting rights at the group level.

Implementation of the group-wide policy is undertaken by our local businesses, with the freedom to interpret the rules to suit local conditions. This gives our regional investment teams the ability to tailor their approach to stewardship according to the attributes of the local market. As a result, there are some variations in how stewardship activities, including voting, are implemented across the group. For example, our UK entity and Japan Equities Team have supplemental proxy-voting policies (**Proxy Voting Policy UK Addendum; Standards for Exercising Voting Rights on Japanese Stocks**) that address environmental and social principles, such as climate change.

In 2024, we analysed 7,013 shareholder meetings and voted on 70,125 resolutions. We cast votes on all shares where there were no legal, client, or technical constraints.

Over the past few years, we have noticed a rise in shareholder resolutions filed against companies that are critical for climate change. Although climate resolutions are not new in Japan, we find that they are increasingly relevant and an important escalation tool when appropriate. 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 resolutions in Japan further underlines our commitment in this area.

Our votes are carefully considered. They generally come after discussions with the company in question and the proposer of the resolution, as well as healthy internal debate. Nonetheless, we supported the majority of climate-related 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 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 (equity)" above and "Lending our support for climate change policies at a major Japanese bank (equity)" below.

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:

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. We followed up with 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.)

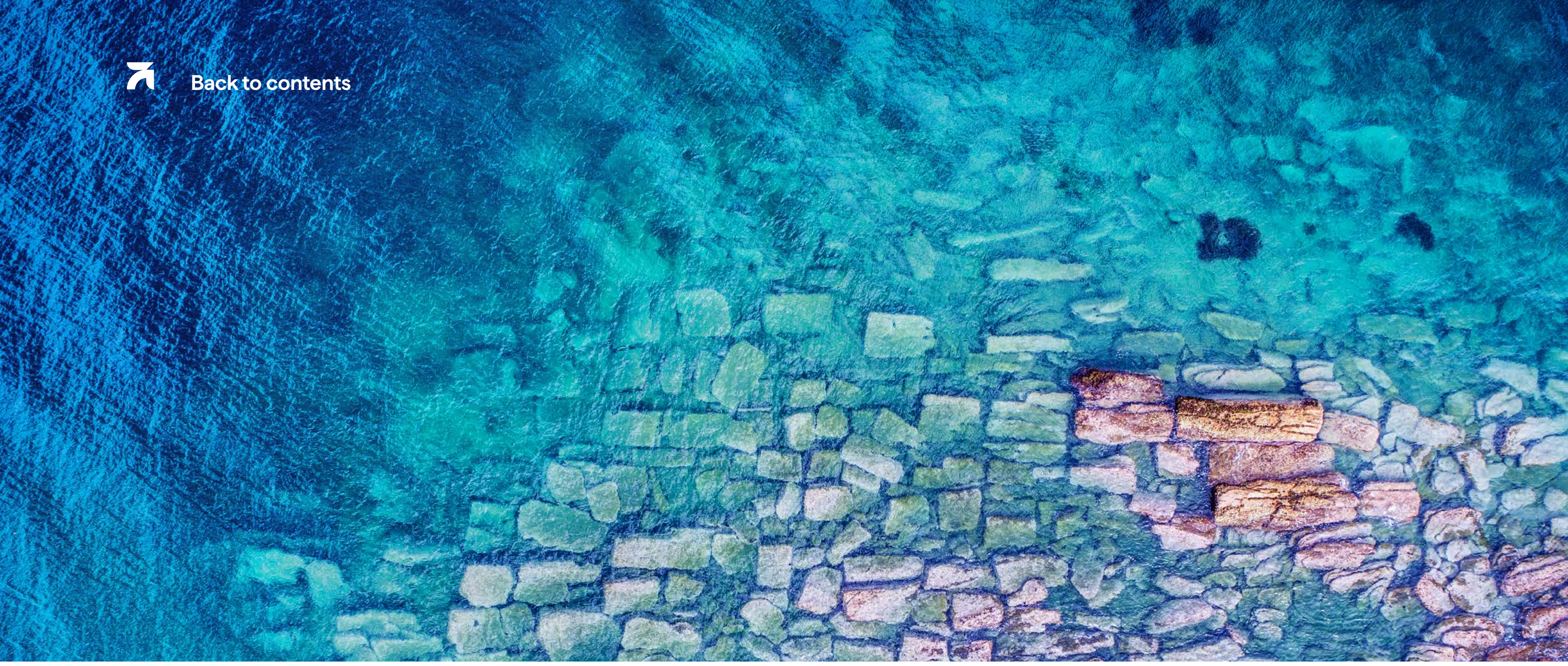
In May 2024, we held a meeting with the Chief Strategy Officer and Chief Sustainability Officer to discuss the board's oversight of climate change and the bank's approach to evaluating clients' climate transition plans.

At the June 2024 AGM, 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 could have more effective governance systems and decarbonisation strategies and policies. According to the proponents, the current approach lacked clarity for clients, and they argued that megabanks did not require their clients to have credible 1.5°C pathway-aligned transition plans and strategies, and they did 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 had already released some disclosures regarding its transition assessment framework, current fossil fuel emission-reduction targets, and related progress, as well as phase-out commitments. However, we recognised the potential benefits for the bank, in line with our revised Standards for Exercising Voting Rights on Japanese Stocks. Since we did 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 25.8% and 18.4% of votes in favour, respectively. 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.



Collaboration

Climate change is a systemic risk that affects every region and sector, directly or indirectly. Collective action is essential, not just from corporations and governments, but also from the financial sector through both private and public financing vehicles to direct funding towards sustainable solutions. Accordingly, we participate in and support various initiatives that aim to drive real-world impact to mitigate climate risks and seek climate opportunities.

Industry collaboration

We actively participate in various industry collaborations to address climate change. These collaborations include the following:

- **Climate Action 100+ (CA100+):** We engage with companies to drive significant improvements in climate-related disclosures and actions.
- **Asia Investor Group on Climate Change (AIGCC):** We collaborate with regional investors to promote sustainable investment practices.
- **Global Investor Statement to Governments on the Climate Crisis:** We advocate for stronger climate policies and actions from governments.
- **Net Zero Asset Managers Initiative (NZAMi):** We commit to aligning our investments with net-zero emissions by 2050.

We have also expanded our collaboration efforts by participating in climate-related consultations and roundtable events. For example, we submitted feedback on two consultations, on coal phaseout and transition planning, led by the Monetary Authority of Singapore in 2023. In August 2024, we held a one-to-one discussion meeting in August 2024, with the regulator following our initial response to the consultation on the Transition Planning Guidelines.

Collaborative engagements

In instances where one-on-one company engagements deliver insufficient progress, we believe that collaborative engagements with like-minded investors can increase shareholders' influence on companies' corporate behaviour and ESG performance.[5] Our regional investment offices select the most suitable and effective engagement methods for their portfolios, considering regional nuances and cultural appropriateness. In Asia, one-on-one engagements are often viewed as more constructive and culturally appropriate to build trust. In Japan, we participate in collaborative engagements while considering the possibilities associated with joint shareholdings. Mindful of these important regional nuances and our commitment to constructive, positive, and pragmatic engagements, we carefully select our engagement methods while remaining committed to supporting collaborative engagements.

In 2024 and through CA100+, we continued to take an active lead role in a long-term engagement with a Japanese machinery manufacturer. Multiple company engagements have taken place, and this engagement is scheduled to continue in multiple phases until 2030. More detail can be found about this collaborative engagement in the case study below.

More information on all our collaboration efforts can be found in the 2025 **Global Stewardship Report**.

[5] Coordinated Engagements: **https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3209072**

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 to 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 lead engagement with the company in collaboration with a like-minded investor.

Activity: We had an initial meeting with the chief financial officer in November 2023 and met him again in July 2024. During this second meeting, we confirmed the company's progress in developing decarbonisation technologies. These include gas-turbine combined-cycle power plants; hydrogen or ammonia co-firing in carbon-based power stations; and carbon capture, usage, and storage (CCUS). We also inquired about whether progress on greenhouse gas reduction could be incorporated into KPIs 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 members of CalSTRS and other contributing investors. 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 among 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.

Sustainable Investing Solutions

Helping our clients to achieve their climate goals and to contribute to real-world decarbonisation provides an opportunity for sustainable investing. This is a strategic focus for us as we continue to explore and expand our offerings of climate-related investment solutions.

Internal Solutions

Launched in 2010 following a partnership with the World Bank, Nikko's **Global Green Bond Fund** provides a unique offering for clients looking to finance impactful green projects. It initially invested only in green bonds issued by the World Bank. During 2023, we relaunched the Green Bond Fund, expanding its capabilities beyond sovereign, supranational, and agency bonds while maintaining its SFDR Article 9 label. We believe that green bonds continue to have a vital role to play in mitigating the severity of the global environmental crisis by supporting positive climate change solutions. The fund aims to address the challenges of climate change, promote nature and the protection of ecosystems, and prevent further biodiversity loss. By balancing fundamental and quantitative analysis, we provide a more comprehensive and sophisticated approach to investing in green bonds, ensuring that portfolios are both sustainable and profitable.

The **Hydrogen Fund**, managed by our Global Equity team, enables our clients to participate in the financing of the hydrogen economy and the transition away from fossil fuels.

As a signatory to NZAMi, we work on creating investment products aligned with net-zero emissions by 2050 and to facilitating increased investment in climate solutions. In December 2022, our Japan Investment Technology Department launched a **Japanese Equity Climate Change Solution Strategy**. The portfolio aims to achieve a 50% reduction in GHG emissions versus the TOPIX while minimising tracking error against the index. Details on the conceptualisation of the strategy can be found in our whitepaper Climate change solutions in Japan, recently published by Masayuki Teraguchi, Head of Japan Investment Technology Department.

In 2024, we started working on building a **Net-Zero Alignment tool** to measure the degree of alignment to Net zero of the company we invest in, following the recommendations of the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change. Initially designed as a monitoring tool for our Global Equity strategy, we are looking to scale it out to be available to most of our investment teams. For more information on this, please refer to the case study below.

Strategic partnerships

In 2023 and 2024, we developed two strategic partnerships with Osmosis Limited and Tikehau Capital. Both firms are signatories to the PRI and share similar ambition to develop lower-carbon investment products to support clients' climate objectives.

In June 2024, Nikko Asset Management and Tikehau Capital announced a strategic partnership, including a distribution agreement and the creation of a joint venture in Singapore to develop innovative investment strategies to address the growing demand for private assets in Asia. At first, the joint venture will focus on launching an investment strategy dedicated to decarbonisation in Asia, drawing on Tikehau Capital's expertise and strong track record in Europe.

- **Osmosis**, founded in 2009 and headquartered in London, is a research-based, quantitative investment manager focused on delivering better risk-adjusted investment returns with better environmental outcomes. Its investment philosophy is based on the view that companies that are more resource efficient are more likely to outperform their peers over the long term. The Osmosis portfolios overweight resource-efficient companies and underweight, or short, inefficient companies as identified by the Osmosis Model of Resource Efficiency. The approach targets excess returns through the identification of resource efficiency in listed companies. Osmosis defines resource efficiency as the carbon emitted, waste generated, and water consumed, relative to value creation. Resource-efficient companies are, therefore, those that most efficiently use limited resources to create economic value.
- **Tikehau Capital** is a global alternative asset management group, founded in 2004 and headquartered in Paris, with a strong emphasis on sustainable and impact-driven investing. Its sustainable investment philosophy is grounded in the belief that long-term value creation is intrinsically linked to environmental and social responsibility. Tikehau integrates ESG factors across all asset classes and leverages its private market expertise to actively engage with portfolio companies on sustainability performance. The firm has developed proprietary ESG assessment frameworks and impact measurement tools to align investments with the UN Sustainable Development Goals. Through strategies in private equity, private debt, real assets, and capital markets, Tikehau aims to finance the transition to a low-carbon, inclusive economy while delivering strong financial returns. Tikehau Capital has set a goal to manage at least €5 billion in assets dedicated to climate and biodiversity by 2025.

Case study:

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

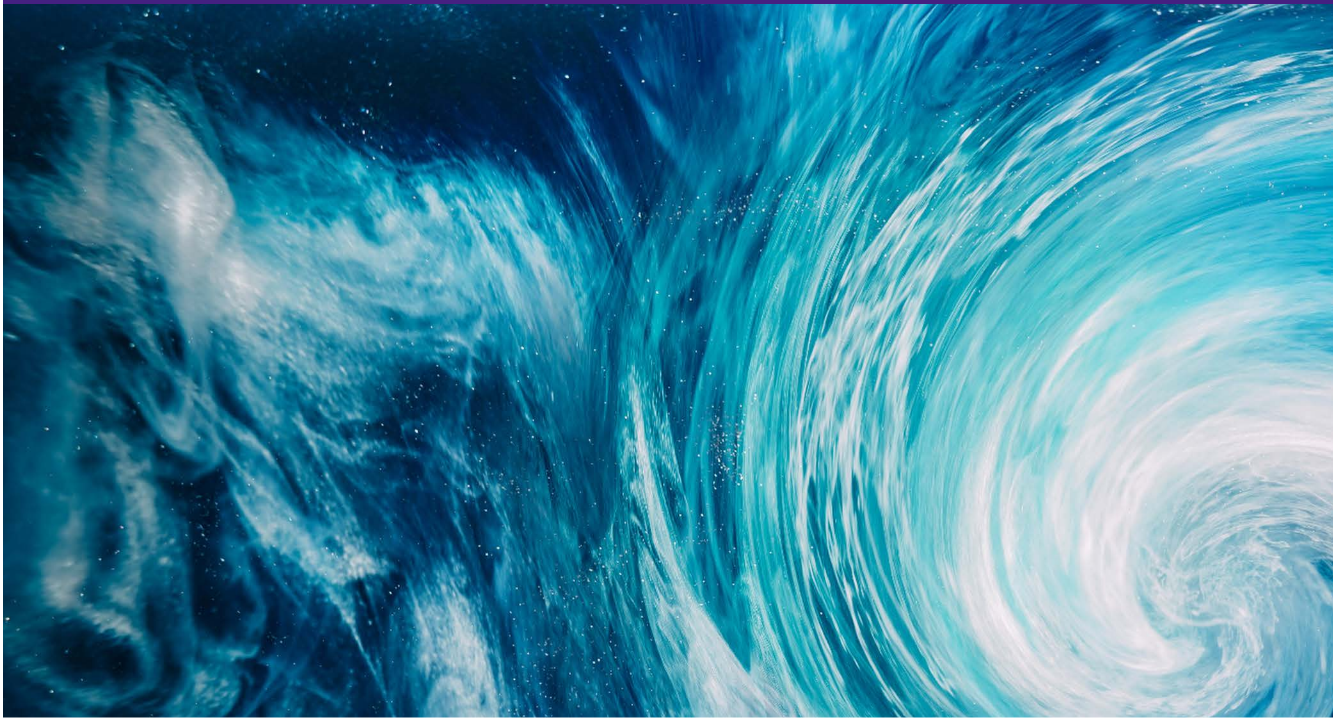
Our approach to identifying climate risks and opportunities is constantly evolving. In our 2023 response to the Stewardship Code (see Nikko Asset Management Response to the UK Stewardship Code 2020, April 2023, p. 29), we discussed an initiative undertaken by our Global Equity team to write to all the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

In the light of the responses, in 2023 we identified a number of companies that were engagement priorities, as they required improvement in particular areas (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 and 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 in 2024 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.



Risk Management

Overview

The Nikko AM Group Board has ultimate responsibility for the management, direction, and performance of the group.

The Nikko AM Group Board delegates responsibility for day-to-day decision-making to our Global Executive Committee (GEC). Further delegation then occurs to relevant departments across the business.

The Group Risk Management Department oversees the risk management of the group apart from compliance risk (which is overseen by our Legal & Compliance Department). The Risk Management Department reports on risk to the GEC via the Risk Oversight Committee and, periodically, to the Group Board.

Each of our group entities manages risk in line with our Group Risk Management Policy. As part of this, each entity has its own risk department and committees, which report into the central Risk Oversight Committee. Through this governance, we enable regional flexibility while retaining central oversight and reporting.

Within each region, quarterly risk reports are typically prepared by the executive owner of each risk. These quarterly assessments detail an overall summary position of the risk, highlighting key issues, key events, and potential future exposures. These are presented to the relevant regional risk committee and then up through our group structure.

Risk identification, assessment, and management

Risk appetite

For the group, the willingness to take on risk is determined at a local level by the respective boards, with oversight from the GEC in Tokyo.

Risk appetite defines the nature and level of risks considered acceptable to the group as part of our day-to-day operations. It forms the basis against which risks are monitored and reported.

Our risk appetite is developed and agreed by the board. It is inextricably linked with global and local strategy, business plans, and shareholder and client expectations; it is a fundamental component of the risk-management framework.

Climate-related risk is viewed as a "risk driver" — a potential internal or external event that creates or influences existing risks. For example, heightened physical or transition risk in our portfolios leads to greater investment risk — the risk that our portfolios underperform against objectives, targets, or benchmarks.

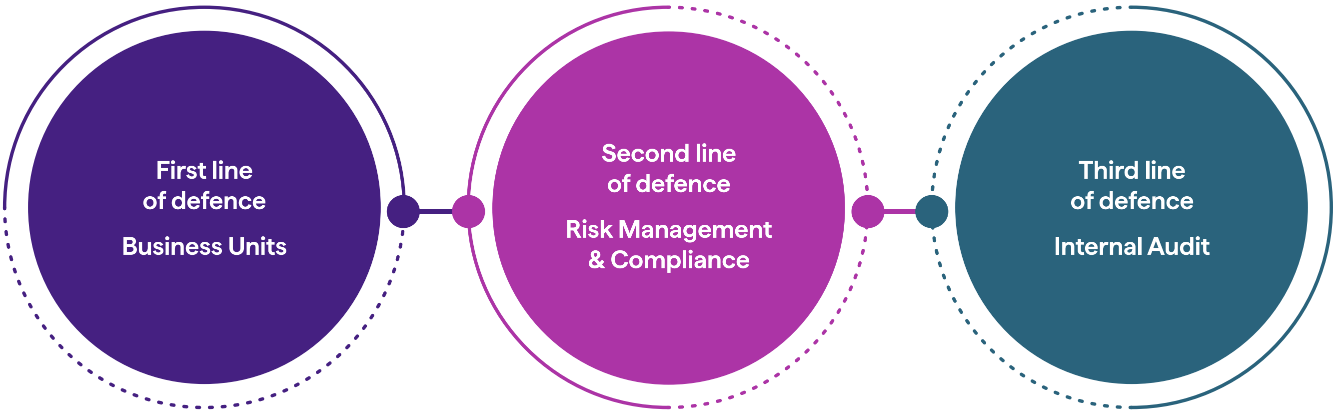
“Three lines of defence” model

The Nikko AM group operates a “three lines of defence” model to assign risk-management responsibilities. This model is based on the principle that, to be effective, risk-management capability must be embedded in front-line teams with independent oversight and assurance.

- **First line of defence**
The first line of defence is the departments themselves (and their relevant heads/leads). These functions are directly involved in each business and operation of the group and so are responsible for risk identification (including climate-related risks), assessment and control (in line with the group-defined risk appetite). An annual risk and controls self-assessment process is conducted to ensure that functional risks and controls are periodically reviewed and updated.

- **Second line of defence**
Oversight departments such as risk, compliance, and legal form the second line of defence. These departments are independent from the first line and conduct ongoing monitoring to ensure the effective application of our risk-management framework. Monitoring of climate-related risk within our investments is a good example of this in action. Our investment teams use relevant tools and analysis to make investment decisions. This includes climate-related risks, opportunities, and supporting metrics. Our second-line investment-risk team performs independent monitoring of our portfolios. Where appropriate, it will challenge our investment teams on levels of climate-related risk, with any conclusions and actions documented. We are continuing to refine and support this process with additional data capabilities.

- **Third line of defence**
The Internal Audit Department undertakes internal audits of Nikko AM group companies and evaluates the design, implementation, and effectiveness of internal controls over processes within the group, including governance, risk management, and compliance with laws and regulations. Audit engagements are performed based on an annual audit plan approved by the Group Board, and audit results and the status of follow-up on the implementation of corrective action plans is reported directly to the Group Board.



Operation and monitoring

Identify and manage risks that occur in their business function that could threaten the achievement of the business unit objectives.

Responsible for complying with the Risk Management Methodology, including the completion of risk assessments.

Verification

Provides independent oversight of the first line of defence.

Assess and oversee risk at the firm level employing a risk-based approach focusing on the key risks.

Responsible for the development of the risk-management policies, systems and frameworks.

Oversight and independent assurance

Provide independent challenge and objective assurance regarding the design and effectiveness of the internal controls framework.

Responsible for providing assurance to Nikko AM Senior Management and Audit Committee on all aspects of risk management and control arrangements.

As an example, the UK subsidiary (Nikko Asset Management Europe Ltd) Investment Risk Department and the Enterprise Risk Department are part of the second line of defence applied by the firm. Ongoing monitoring of risks, including climate-related ones, is conducted to ensure the effective application of our risk-management framework. Our second-line investment-risk team performs independent monitoring of our portfolios.

Climate-scenario and carbon-intensity analysis is performed and compared over time and with the respective funds' benchmarks. Particular attention is also paid to high-impact sectors, including energy.

The results of this analysis are presented to the investment teams on a monthly basis, and quarterly risk reports are prepared by the executive owner of investment risk, presented to the ESG & Stewardship Oversight Committee and then passed up through our group structure. These quarterly assessments detail an overall summary position of the risk, highlighting key issues, key events, and potential future exposures.

Risk lifecycle

- The process of identifying, assessing, and managing risk is broadly applicable to both the investments we manage and our own operations
- In the identification of risk, each business unit adopts an approach to ensure that all known risks are clearly identified and the estimated exposure to this risk is reported and escalated through the company. Risks can be identified and described in terms of their potential impacts and the likelihood of those impacts
- With climate-related risks, we primarily monitor their impacts on our investments

Our approach to the management of climate-related risk is described in the sections below.

Climate change as a driver of group risk

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 see as 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 GHG emissions from the Nikko AM group's corporate operations based on firm-wide energy consumption and transportation data. We offset GHG emissions from our operations through an equivalent amount of carbon credits from projects that are certified to reduce carbon emissions.

Risk type	Description	Comments
Investment	Risk that Nikko AM portfolios underperform against benchmarks, objectives, or competition	We view the potential impact of climate change on our investments as one of the drivers of group risk. Exposure of our companies to heightened physical and transition risks exposes our portfolios to potential loss. This may have negative impacts on our ability to maintain or grow AUM.
Compliance	Risk that the group may fail to meet its regulatory obligations. This includes the failure to meet new requirements as they are established	Climate change has driven various national commitments and regulatory frameworks worldwide. Policy risk impacts the group through an increasing number of climate- or ESG-related regulatory requirements with which we must comply. Failure to meet these requirements may result in regulatory sanctions/ fines and/or litigation
Operational	Risk of loss or other business impacts resulting from inadequate or failed internal processes, people, systems, or external events	Climate change can lead to some potential negative impacts on our business operations. Within our European entity, as described later in this report, climate and other ESG risks are being integrated across the risk-management framework. These risks can lead to business costs resulting from supplier disruption, systems failure, and other related operational events.

Managing climate-related risks within our investments

This includes surfacing relevant information through governance structures across our investment, risk, sustainable investment, and corporate sustainability functions.

As highlighted earlier in this report, our investment teams identify attractive companies through in-depth bottom-up research based on their own philosophy and approach.

This already includes understanding how ESG risks (and opportunities) may impact value. The section Bottom-up analysis: Proprietary ESG-integrated approach highlights how our investment teams integrate ESG factors, including climate, into their decision-making process.

Additionally, to monitor risks on an ongoing basis, we conduct frequent investment-risk monitoring on portfolios and benchmarks. We incorporate two levels of assessment: a global baseline, which focuses on GHG emissions; and a regional "top-up" approach, which allows for additional monitoring of further climate-related risks. Many of Nikko AM's regional offices already have frameworks in place to monitor GHG emissions, but work is underway to further advance these processes across regions and asset classes. We will continue reporting on the progress in future reports.

To conduct our analysis, we utilise data from a third-party vendor, as outlined earlier in this report.

To ensure accuracy of our metrics, we will utilise a two-stage process:

1

As a first stage, funds are monitored by our Risk Department, taking into consideration applicable exclusions. Our process uses existing frameworks and processes to ensure a high-level overview of risk across all portfolios. All data will be provided by our primary data provider, but calculations will run "in house" to allow customisation for our needs.

2

As a second, independent stage, our Global ESG data team works with front-office departments to develop independent analysis. While the data is provided by the same data provider, all calculations are run independently, with further customisation to meet end-user needs.

Through this two-stage process, we are seeking to ensure accuracy and ensure that the analysis is usable for all parties. The independent processes help us to achieve two lines of defence and ensure a robust data-quality process with appropriate checks and accountability.

Metrics and Targets

Overview

In working towards our goal of aligning our portfolios to net zero by 2050, we use a range of metrics to track and monitor our progress but also to mitigate climate-related risks and capture opportunities.

As a signatory to the NZAMi, we completed our initial target disclosures in 2022, committing to 43% of our assets (or USD 115.68 billion) to be managed in line with net zero. Our interim 2030 target is a 50% reduction of our portfolios, relative to our 2019 baseline (84.7 tCO2e/USD million invested).

Scope and methodology

The metrics below capture our carbon emissions for years ending 31 December 2023 and 31 December 2024. The in-scope portfolios were Japan Equity, Japan Fixed Income, Japan Investment Technology, Asia ex-Japan Equity, Asia Fixed Income, Global Equity, Global Fixed Income, New Zealand Equity, and New Zealand Fixed Income investment teams as of 31 December 2024.

We have aligned with the Partnership for Carbon Accounting Financials (PCAF)[6] to calculate our absolute carbon emissions and carbon footprint (equivalent to economic emissions intensity under PCAF) and TCFD for weighted average carbon intensity (WACI).[7]

The emissions metrics disclosed in this report are calculated using the most recent available data, with reporting periods ending on 31 March 2025 and 31 March 2024, respectively, in alignment with PCAF methodology. While PCAF uses "enterprise value including cash" (EVIC) as the denominator, the final TCFD Guidance uses a revenue-based denominator. We internally monitor and report on all three metrics to obtain a more holistic view for decision-making.

Metric	Definition	Calculation	Uses	Limitations
Absolute carbon emissions	Total GHG emissions of a portfolio.	$tCO2e = \sum \frac{Current\ value\ of\ investment}{Issuer\ EVIC} x\ (Issuer\ Scope\ 1 + 2)$ Emissions are allocated based on equity-ownership approach where the company's emissions apportioned to the portfolio are based on ownership share of the company based on EVIC.	Track changes in GHG emissions of a portfolio on an absolute basis.	Data is not normalised, so suboptimal to compare portfolios or against benchmark.
Carbon footprint	Total GHG emissions of a portfolio, normalised by the enterprise value including cash (EVIC) of the portfolio.	$tCO2e/\$m\ invested = \frac{\sum \frac{Current\ value\ of\ investment}{Issuer\ EVIC} x\ (Issuer\ Scope\ 1 + 2)}{Current\ portfolio\ value}$	To compare portfolios regardless of their AUM.	Sensitive to changes in issuer's EVIC and portfolio weights.
WACI	Portfolio's exposure to carbon-intensive companies.	$tCO2e/\$m\ revenue = \sum (\frac{Current\ value\ of\ investment}{Current\ portfolio\ value} x \frac{Issuer\ Scope\ 1 + 2}{Issuer\ revenue})$ Emissions are allocated based on portfolio weights (current value of investment relative to current portfolio value) rather than equity-ownership approach.	To compare portfolio and benchmark.	Revenue base results in a bias towards companies with higher pricing levels. Sensitive to changes in issuer's revenue and portfolio weights.

Calculations were computed in April 2025, using the most recent data available for GHG emissions (i.e., Scope 1 and 2) and financial data (i.e., EVIC and revenue). This is in line with the latest Global GHG Accounting and Reporting Standard for the Financial Industry suggested by PCAF.

6 Partnership for Carbon Accounting Financials (PCAF) Methodology (page 63): **https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf**

7 Taskforce for Climate-related Financial Disclosures (page 1): **https://www.tcfdhub.org/wp-content/uploads/2022/04/Table-3.pdf**

Reported metrics

	Asset class	AUM (USD billion)			Absolute emissions (million tCO2e)			Carbon footprint (tCO2e/USD million invested)			WACI (tCO2e/USD million revenue)		
		2024	2023	Change	2024	2023	Change	2024	2023	Change	2024	2023	Change
NAM JP	Equity	129.0	119.3	8.2%	6.76	7.70	-12.2%	52.4	64.5	-18.8%	69.0	77.9	-11.4%
	Fixed income	1.1	1.4	-19.1%	0.34	0.28	19.6%	296.2	200.3	47.9%	370.7	316.9	17.0%
NAM ex-JP	Equity	16.8	13.5	23.9%	0.53	0.60	-11.3%	31.6	44.2	-28.4%	98.9	117.0	-15.5%
	Fixed income	4.7	5.2	-9.7%	0.16	0.16	2.0%	35.0	31.0	12.9%	87.2	86.1	1.4%
Total (as of 31 Dec 2024)		151.6	139.4	8.8%	7.79	8.74	-10.9%	51.3	62.7	-18.1%	75.2	84.4	-11.0%

Note: Total coverage for the figures reported above represents 99.94% (2023: 99.90%) of the total AUM in scope. As of this reporting period, absolute emissions figures are shown with two decimal places, instead of one. This provides clearer data and more precise year-on-year comparisons.

In 2024, absolute emissions decreased to 7.8 million tCO2e, from 8.7 million tCO2e in 2023, despite the increase in AUM. This is evolution is reflected in the significant decrease in our carbon footprint and Weighted Average Carbon Intensity (WACI) compared with 2023.

The overall carbon footprint decreased by 18.1% in 2024, and the WACI by 11.0%. The overall decrease was largely driven by the NAM JP Equity portfolios, which represent 85.1% of our AUM in scope of reported metrics and faced similar changes in both footprint and WACI. Details of our efforts to reduce our carbon footprint across NAM JP Equity asset class are described in the next section related to our commitments.

Movements in carbon metrics are not always attributable to a single factor such as company emissions. They have to do with a wide array of factors, including portfolio positioning, changes in the company's financials (i.e., revenue and EVIC — which can also change because of market movements), data coverage, and exchange rates, among others. Therefore, it is important to evaluate various data metrics to get a full picture of the progress made in the reduction of GHG emissions over the years.

Our commitments

For our commitment under the Net Zero Asset Managers initiative (NZAMi), our net-zero target follows the methodology set out in the Net Zero Investment Framework (NZIF), which draws on the IPCC scenarios.[8] We have committed 43% of our assets (or USD 115.68 billion[9]) to be managed in line with net zero. As a start, our initial target covers our equity strategies, for the following reasons:

- They form the largest portion of our AUM
- Analysis methodologies are more established for equities than for other asset classes
- Data coverage tends to be better for equities

We note that there have been significant improvements made in both the methodologies and data coverage of assets, especially fixed-income assets. As part of NZAMi, we are committed to renew our targets every five years, with the aim of being more ambitious with each iteration; we look to incrementally add further AUM and asset classes to be managed in line with net zero.

Our interim 2030 target is to reduce the carbon footprint of our committed assets by 50%, as compared with our baseline year of 2019.[10] Currently, our commitment covers Scope 1 and 2 emissions. To the extent that it is possible, we will include material Scope 3 emissions when data becomes more readily available.

In addition to our NZAMi commitment, several strategies have committed to portfolio-level GHG emissions-reduction targets from a top-down perspective. For instance, our Global Equity strategy has a commitment to maintain its portfolio's GHG emissions at 20% below those of its benchmark.

From a bottom-up perspective, climate risks and opportunities are considered as part of the various investment teams' ESG-integrated process, as detailed in Bottom-up analysis (page 22). As we detailed in the sections above, climate-related risks and opportunities are not the same for all companies but depend on industry and geography, across different time horizons, with varying severity and type of impact. These nuances are taken into consideration as part of the materiality assessments conducted for individual companies in the investment teams' bottom-up analyses. The investment teams identify climate-related risks where these are material to the company assessed. We believe that stewardship is key to enable collective decarbonisation and as a tool to further assess and manage climate-related risks and seek out opportunities. So, to complement our bottom-up approach, we take an active ownership approach. This allows us to engage companies on their climate-related risks, understand how they are managing their risks, and push them to decarbonise. We engage our companies — both directly and collaboratively — to better understand their transition plans and to push them to set more ambitious targets to reduce their emissions.

8 Net Zero Investment Framework (NZIF): **https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/**
9 AUM figures as of 31 December 2021
10 As of 31 December 2019

Progress towards NZAMi

For our assets in scope of NZAMi, we have made progress towards our commitment since our initial target disclosures in October 2022. Figure 12 shows that the carbon footprint of our committed portfolios was 53.25 tCO_2e/USD million invested as of 31 December 2024. This represents an important decrease of 37% from our 2019 baseline carbon footprint of 84.7 tCO_2e/USD million invested. It is important to note that we have standardized our carbon accounting methodology across all regions to ensure consistent and comparable climate metrics. This global alignment enhances the quality and reliability of our financed emissions reporting. We are in the process of reviewing the impact of this adjustment on historical figures disclosed in this report and past reports.

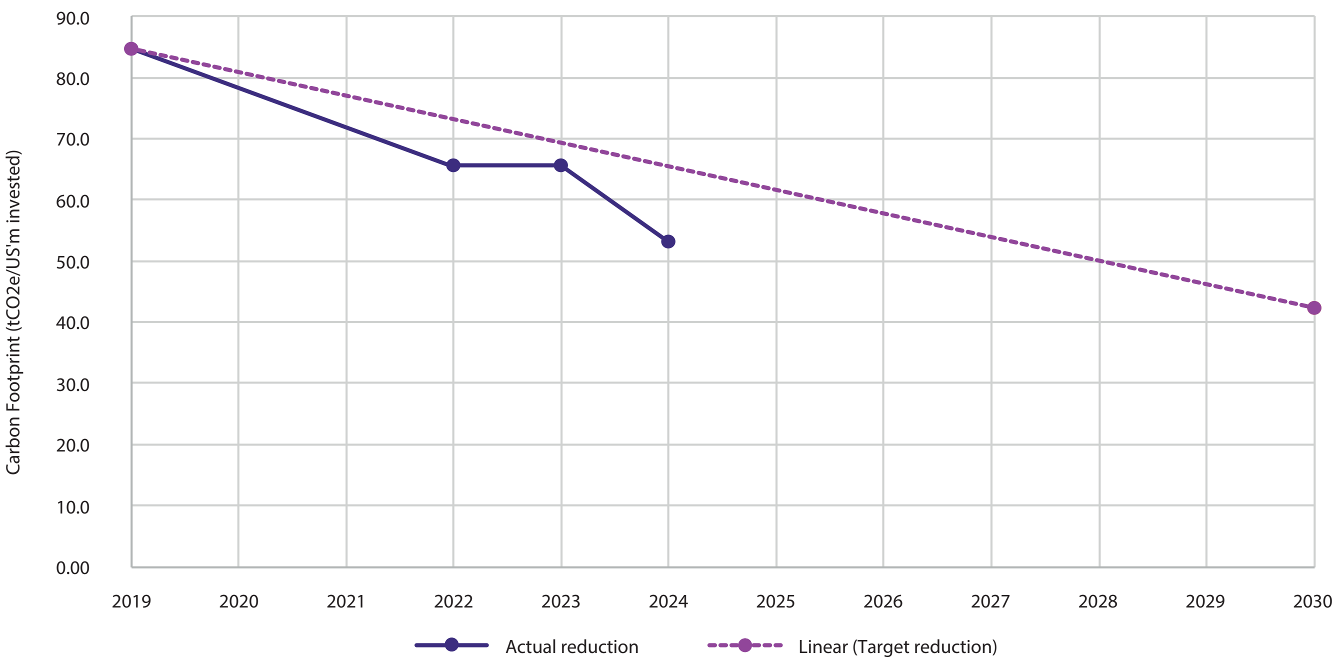
Our Japan Sustainable Investment Department has put together a climate-focused engagement list consisting of 70 companies, narrowed down, from over 2,000. Of these companies, 60 account for 72% of the overall GHG emissions (Scope 1+2) across Japan equity,[11] which makes up the largest portion of our AUM. The remaining 10 were chosen because they are important companies with regard to their Scope 3 footprint.

As part of the engagement plan, the team evaluates the companies' corporate initiatives against NZAMi's recommended framework.

As part of the focused engagement, we sent a letter to companies at whose general shareholders meetings we voted against shareholder proposals related to climate change.

The letter explained our reasons for opposing the proposals and actions we would like to see from the companies in the future. The letter conveyed our intention to avoid situations in which votes in opposition of such shareholder proposals (votes in favour of companies) are interpreted as allowing companies to slow down their decarbonisation initiatives.

Figure 12. Progress towards our NZAMi commitment



The linear "reduction pathway" (dashed line) is meant to illustrate how much we have to decarbonise between our baseline year of 2019, to meet our 2030 interim target. It does not constitute a commitment to decarbonise in a linear, year-on-year fashion.

[11] As of 31 December 2019.

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