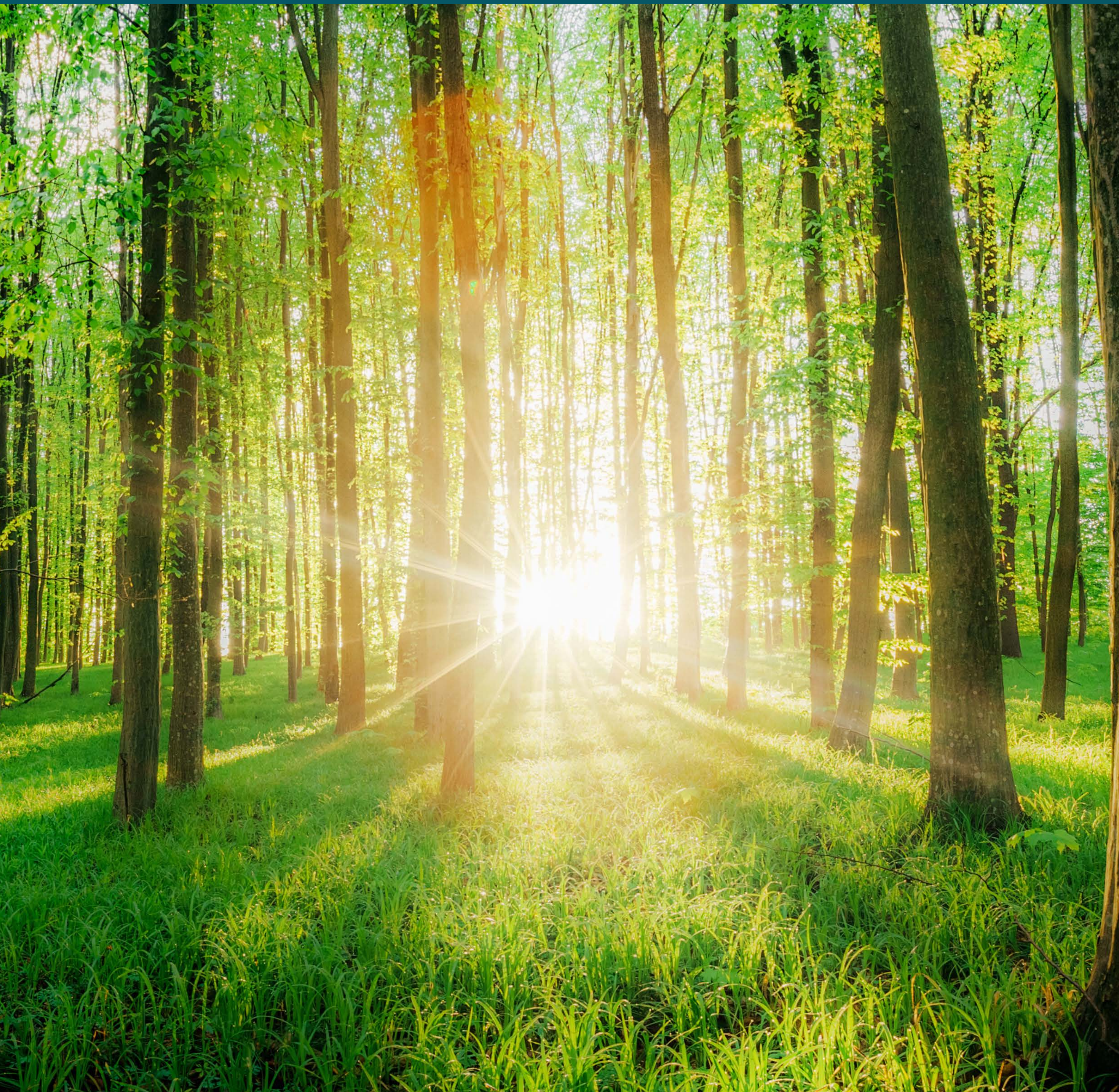
YOUR GOALS,
OUR COMMITMENT.

April 2024

Global Stewardship Report

For the reporting period 1st January to 31st December 2023

For Professional Investors – Marketing Communication



Foreword

If anyone doubted the need for better stewardship of our planet, last year should surely have convinced them. 2023 broke several environmental and social records. It witnessed the hottest year on record by some margin. This heat was accompanied by climate-related events all around the globe, from the most devastating fire season in Canada and the worst drought in the Amazon, to the highest-ever monsoon rainfall in parts of Japan, China, South Korea and India.

Against this background, we believe that stewardship is becoming an imperative for the asset management industry. The generations now growing up will not thank us if our risk-adjusted investment returns are bought at the expense of a degraded planet. It is no longer possible to separate the search for returns from its cost in environmental and social terms.

We outlined in our 2022 report how Nikko Asset Management has been on the front foot in rising to this challenge. From creating the world's first dedicated green bond fund in conjunction with the World Bank in 2010, to playing a leading role in the introduction of Japan's version of the Stewardship Code in 2014 and my appointment as the first female president of a Japanese financial institution in 2022, Nikko has been a pioneer. Last year was a further milestone in our journey. As I said then, among my top priorities were further growing our newly established Global Sustainable Investment team, advancing our ESG integration and stewardship activities and increasing the number of women in senior roles. We have made advances in all these areas.

Backed by our enlarged and streamlined ESG resources – and our Global Head of Sustainable Investment – we have significantly deepened our engagement with companies on a range of ESG issues, as is demonstrated by our case studies this year. They show the steady progress we have made in guiding more of our investee companies to adopt better ESG practices, particularly in Asia. We have also been more active in backing climate change resolutions at shareholder meetings and, conscious of the fragmentation of various ESG labelling standards and regulations, we have undertaken an extensive internal project to develop our own, internal ESG AUM classification framework.

Advancing the role of women is something I have championed throughout my career. We have more work to do on this, but we can report solid progress. Women now make up nearly two-fifths of our total staff and approaching a quarter of our management positions. We continue to actively promote women and other groups that have experienced discrimination in the past, and are doing so in a number of ways.

On the wider stage, we continue to take an active part in several industry groups promoting sustainability and better corporate practices. I was, for instance, very pleased to be involved in the establishment of the Japan Chapter of the Glasgow Financial Alliance for Net Zero and participate in a discussion about how Japan is to reach net zero by 2050.

Our stewardship journey continues and 2023 saw us take some big strides along that path. Aware of the prints we leave behind, we know we still have a way to go, but the work we have put in to build our sustainability capabilities and the progress we have made in integrating ESG into our business in 2023 bodes well for the future.

Stefanie Drews, Group President

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Principle 1

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

Statement of purpose

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

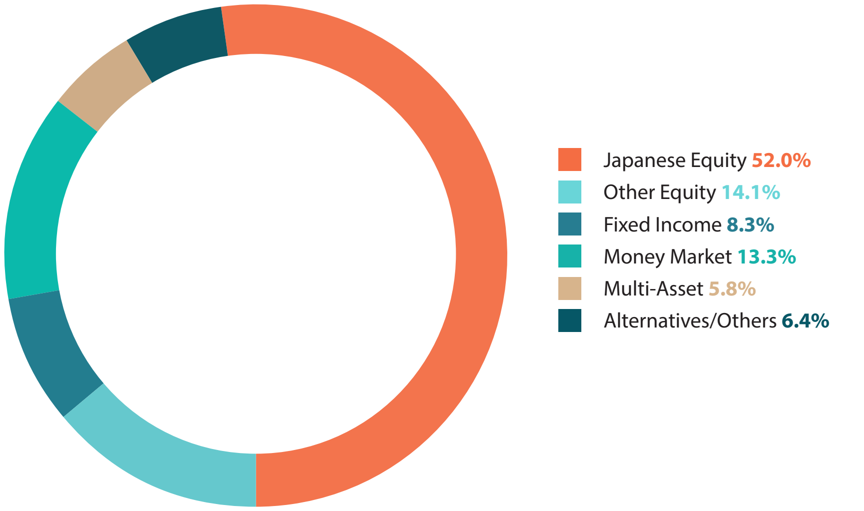
Context

With its origins in Japan, the Nikko Asset Management Group ("Nikko AM Group") is today one of Asia's largest independent asset managers, with USD 228.7 billion[1] assets under management ("AUM", as at 31 December 2023). Headquartered in Japan, which is home to a large proportion of both our clients and our AUM, we also manage assets from a number of offices around the world, including the UK. We combine a global perspective with our Asian roots to create sophisticated and diverse investment solutions to meet our clients' needs. These needs differ, depending on whether the client is retail or institutional. But for all types, our guiding strategy is to ascertain the purpose for which their assets are being managed and then to steer them towards the outcomes that best meet that purpose. In doing so, we put stewardship at the heart of our activities and the distinctive values that our Japanese heritage brings.

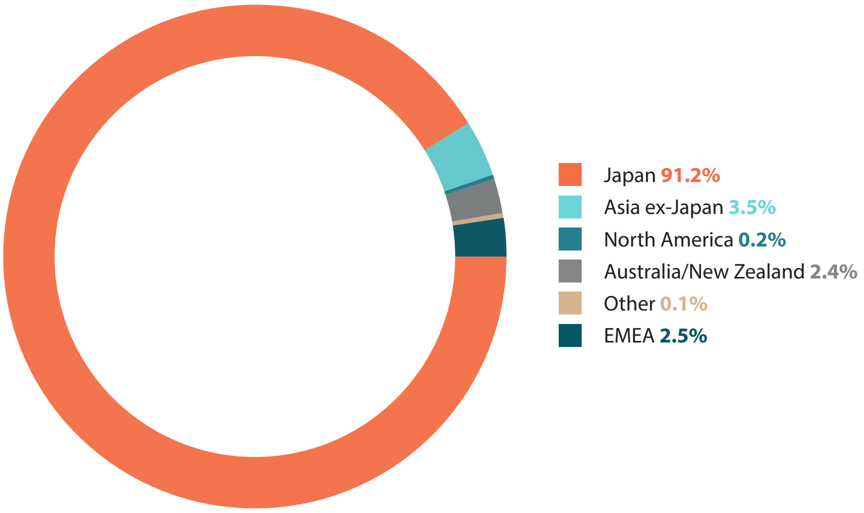
Japanese culture values harmony, both with nature and with other people, putting less emphasis on the individual and more on society than in Western traditions. We have therefore grown up over the past 60 years infused with the belief that we must be good corporate citizens. Our approach to stewardship and engagement has evolved against that background and it informs the way we have addressed our response to the UK Stewardship Code.

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

Assets under Management by asset class*



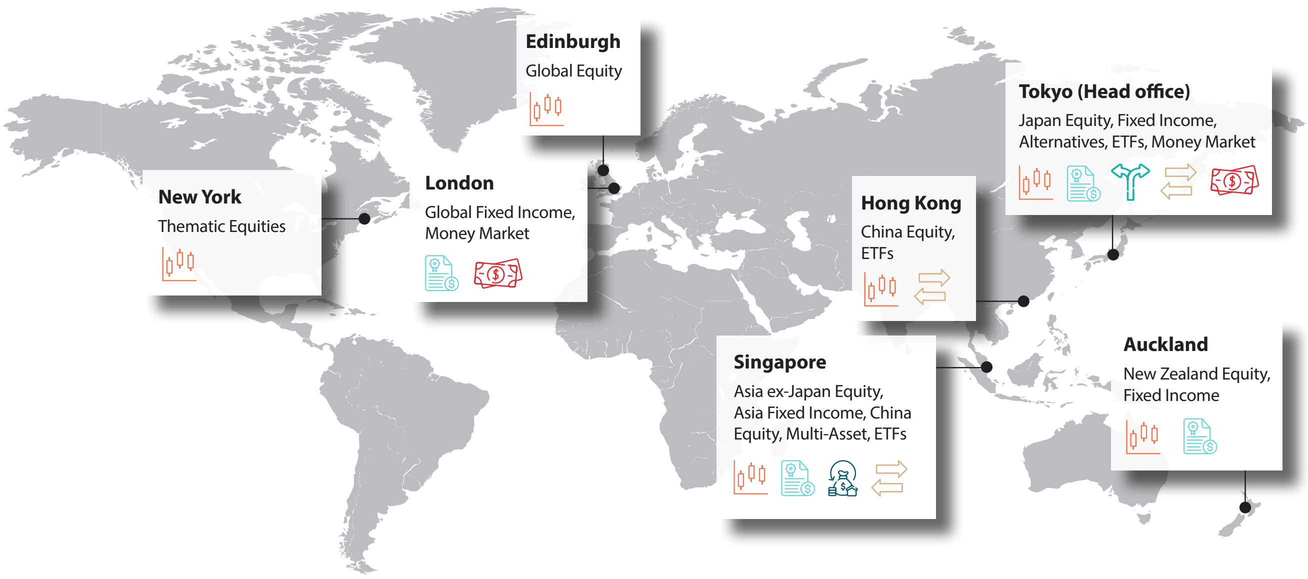
Assets under Management by client domicile*



*As of 31 December 2023

1 As of 31 December 2023. Consolidated assets under management and sub-advisory of Nikko AM Group, including subsidiaries but excluding minority affiliates and minority joint ventures.
2 Totals may not sum due to rounding of data at source. "Multi-asset" funds are made up of equity and fixed income assets. The stewardship of each of these assets is addressed individually in this report. "Alternatives" constitutes REITs, equity long/short and infrastructure funds. Infrastructure represents 0.8% of group AUM and is managed by external managers. These managers are subject to Nikko AM's external manager due diligence process, which includes a review of ESG policies.

Locations of our investment teams



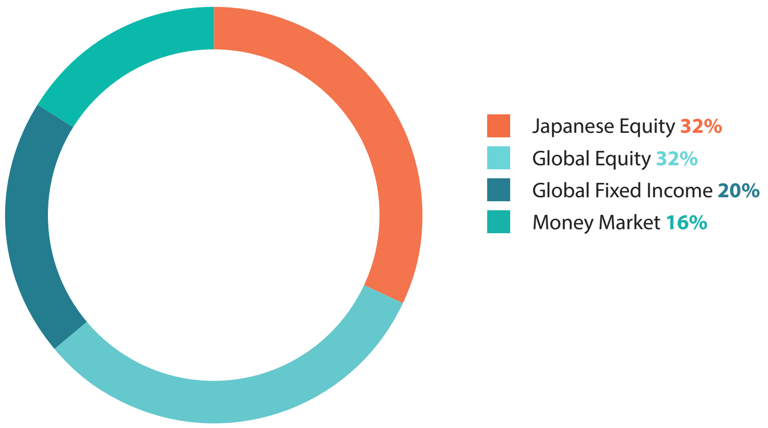
Equities Fixed Income Multi-Asset Alternatives ETFs Money Market

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

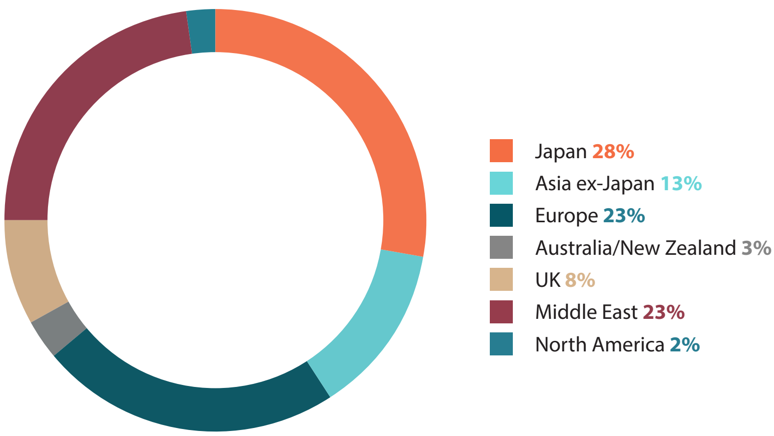
While most of our AUM and clients are based in Asia, our long-term business goal is to offer best-in-class investment solutions for clients worldwide.

We implement cross-border delegation arrangements whereby the locally contracted Nikko AM Group office manages business development, supported by local client servicing teams, with portfolio management delegated to the respective regional Nikko AM entity where the relevant investment expertise is based. For example, the AUM of our UK entity, accounting for approximately 7% of the Group total (as at 31 December 2023), represents assets managed on behalf of a range of clients who are accessing the investment capabilities of both our local and global investment teams. A breakdown of the AUM of our UK entity as at 31 December 2023 is provided in the charts opposite.

UK breakdown by asset class*



UK breakdown by client domicile*



*As of 31 December 2023

Code of ethics

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

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

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

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

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

Environmental, social and governance and wider global growth strategy

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

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

Our approach to ESG integration is outlined in more detail under Principle 7. Our policies on ESG, responsible investing and stewardship are available on our website under the following headings: **Fiduciary and ESG Principles**, **Commitment to Responsible Investment**, **Position Statement on Climate Change**, **Task Force on Climate-Related Financial Disclosures**, **Sustainability Report**, **Engagement and Stewardship Strategy**, and **Stewardship Activities Report and Self-assessment**.

As part of our commitment to meeting international standards, we are continually improving many of our existing frameworks, policies and disclosures.

Culture

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

Our team meetings encourage widespread participation, drawing on the collective intellect, experience and cultural and gender diversity of our teams and each individual's experience to question the market consensus. Combined with common values based on mutual respect, our teams are well-constructed to meet the challenge of investing in diverse and fast-moving global and regional markets. As a global business committed to the values of diversity, equity and inclusion, it is appropriate that our approach to governance reflects not only the Western paradigm but also the standards of other parts of the world. For instance, when the Chairman of Nikko AM Group, Nishida Yutaka, visited the Nikko AM New Zealand offices in 2023, he received training in Maori perspectives on the world. It was evident that the Maori outlook had similarities with the Japanese world view in terms of their focus on the collective rather than the individual and the emphasis on the long-term. We believe these principles infuse our respect for diversity and the rights of our fellow workers as set out in our Code of Ethics.

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

Investment beliefs

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

Activity

Strengthening stewardship

In line with our commitment to continuous improvement, during 2023 we took steps to ensure that our investment approaches, strategy and culture continued to foster effective stewardship. This included the further enhancement of people and integration capabilities to ensure that we continue to be able to provide strong solutions to our clients.

As an integral part of the development of our climate strategy, we strengthened our reporting under the Taskforce on Climate-related Financial Disclosures ("TCFD"), enhancing our climate scenario analysis capabilities and supporting our progress towards our net zero carbon commitments. The revised TCFD report presents a deeper explanation of how Nikko AM identifies, manages and governs climate risks and opportunities. It also includes a more thorough top-down analysis of various climate scenarios. Further information about this work can be found in our **TCFD report**.

Staff diversity and inclusion

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

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

It aims to ensure that:

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

Support for our diversity and inclusion initiatives comes from the highest levels of the organisation, with particular focus from Stefanie Drews, Nikko AM Group Director and President. Ms Drews has been a champion of diversity and sustainability issues within the company since joining in 2014 as Head of Institutional Marketing and Proposition. She has been an internal campaigner on matters of equality as she has moved through the ranks of the organisation, working to foster a culture based on talent and merit. She continues to be a vocal champion of sustainability and diversity issues, both within the organisation and publicly.

Ms Drews is particularly keen to boost the number of women in senior roles. We are certainly improving in terms of staff diversity, but we need to keep up the momentum to achieve our goals. Currently, women make up 39% of our total staff and occupy 23% of our management positions globally. We are actively trying to raise the numbers, backed by our 2021 commitment to ensuring that at least 30% of all our managerial positions are occupied by women by 2030. We are a member of the 30% Club Japan Investor Group, which aims to have 30% of all board seats of TOPIX 100 companies occupied by women by 2030. Currently, female representation on our Group Board stands at 33%. We do not believe that diversity should stop at the global board. Further down the scale, we have regional action plans to achieve our goal of raising the percentage of female managers. Initiatives to improve diversity now stretch across many areas of the group, including recruitment, the working environment, talent development and culture building. In 2023, we further developed our training programmes aimed at employees at different levels of the organisation.

We are also actively seeking to create more welcoming working conditions for LGBTQ+ employees. We are an official member of LGBT Finance, an organisation set up by financial institutions in Japan to support LGBTQ+ individuals. This initiative enjoys very visible grassroots support from our employees and very engaged sponsorship from our senior management. In 2023, for the fifth year running, Nikko AM Group was awarded a gold award in the Pride Index, created by Work With Pride, a non-profit-making organisation that helps companies and other organisations adopt and promote LGBTQ+-related diversity and inclusion initiatives. Nikko AM Group was also the first Japanese fund manager to become part of the LGBT Great initiative, receiving a bronze award. LGBT Great is a group of organisations in the financial services industry with a shared vision of making it a trusted place for LGBTQ+ talent, clients and investors.

Last year, the Group launched a programme involving employee speakers from across the firm to raise awareness about racial equality. We also conducted several employee education seminars on supporting people with disabilities, including a series of sign language lessons. Since late 2022, we have made a text interpretation service available to our employees with hearing disabilities, which allows them to participate in internal online events. As a firm, we also sponsor the Japan Wheelchair Rugby Federation and employ wheelchair rugby athletes, two of whom are on the Japan national team.

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

Investing in Future Talent

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

Several members of our Global Equities team are mentors and judges in the annual Growing Future Assets Competition, run by Future Asset, a group dedicated to improving the education of girls in Scotland about investment management. The competition involves teams of girls making an investment pitch to win prizes for themselves and their school. There were more than 100 teams entered in 2023 and each had to prepare an investment report on a company by answering questions about the industry, the company and how to value it, presented via a short video which was pitched to a live panel of judges. We hope our involvement with Future Asset will help girls in Scotland to leave school understanding that investment management is relevant to everyone, can have a positive impact, and offers fulfilling career opportunities.

We are also signatories to the UK-based Progress Together. This is the first body of its kind to promote socio-economic diversity and progression in the UK financial services sector, particularly at a senior level. As a member firm, Nikko AM Group has committed itself to start collecting employee data and sharing them (anonymised) with Progress Together to help it strengthen its benchmarking capability. Following our initial submission in 2022, our data were combined with those of other Progress Together member firms to produce the first official snapshot of social economic data for the UK financial services industry in 2023, in the hope of encouraging wider participation in 2024. The report revealed that socio-economic background is more likely to affect a person's career progression in financial services than gender or ethnicity. Details of the full report can be found **here**.

In Singapore, our team held its Teens@Work Programme in 2023 for children of employees for the first time since 2019. This allows young people to learn both hard and soft skills that will serve them well into their adult years.

Investments

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

Equity

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

Fixed income

Fixed income is an area where it can be more difficult to have a direct influence on the direction of investee companies. A bondholder lacks the voting rights that accompany equity ownership, however bond holders may choose not to participate in new issues or to divest holdings of a company as a way of expressing their displeasure at corporate behaviour. It is also important to engage with management to encourage positive changes where we as stewards see areas of improvement for a company. Our teams have been active in extending our stewardship activities in a number of fixed income areas during the year, which are discussed further throughout the report. In certain cases, we have also been able to combine forces with our equity management colleagues to increase our leverage over companies. Some examples can be found in case studies under Principles 4, 9 and 11.

Outcome

We believe this year's report reflects progress in our efforts to cultivate a culture of stewardship. Having put in place a robust infrastructure to embed sustainability, diversity and sound governance in all that we do, 2023 was a year of consolidation and growth. The best evidence of our progress will be found in our case studies illustrating each Principle, which we believe show a growing determination to do the right thing, whether it is us, our clients or the companies in which we invest. The progress of our investee companies is particularly evident in Asia, as sustainability is increasingly becoming a priority.

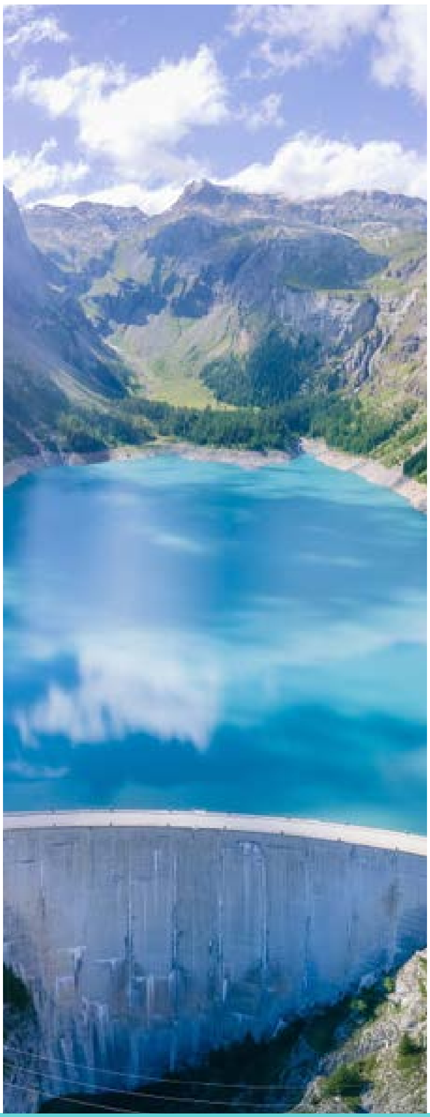
Where we have identified failings at investee companies, we believe we have been more effective in our interventions, whether on our own or collectively with other investors. In part this is because we have strengthened our ESG integration but we also sense a wind of change amongst investee company management.

We realise that we are often a relatively small investor in some very large companies and so our influence is limited. However, we have been increasingly active in our participation in industry initiatives and conferences on major issues, which are often stewardship related. Further information on these will be found in our responses to Principles 4, 7 and 10.

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

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

We believe the policies and activities described in this report reflect our continuing commitment to fiduciary duty and our effectiveness in embedding stewardship across the organisation. As discussed earlier, we think this year's report shows that commitment is steadily growing, whether it be on our part, that of our clients or that of the companies in which invest. There is still a long way to go, but we are now seeing several initiatives put in place over the last few years starting to bear fruit. These very positive signs encourage us to expand our stewardship efforts. We know this is a marathon, not a sprint, but we believe our Japanese heritage of stewardship and long-term horizons make us particularly well fitted to succeed.



Principle 2

Signatories' governance, resources and incentives support stewardship.

Activity

We regard fiduciary and ESG principles as paramount guides in fulfilling our duties as stewards of our clients' assets. In implementing these principles, corporate governance is critical. Our fiduciary and stewardship responsibilities are overseen by the Nikko AM Group Board of Directors, including Non-Executive Director and Chairman Yoichiro Iwama, Director and Executive Chairman Yutaka Nishida, and Director and Group President, Stefanie Drews. Our commitment to gender diversity is reflected in the composition of our Group Board, where three out of nine members are female, while our commitment to independence is ensured by having 75% of the Group Board made up of outside directors.

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

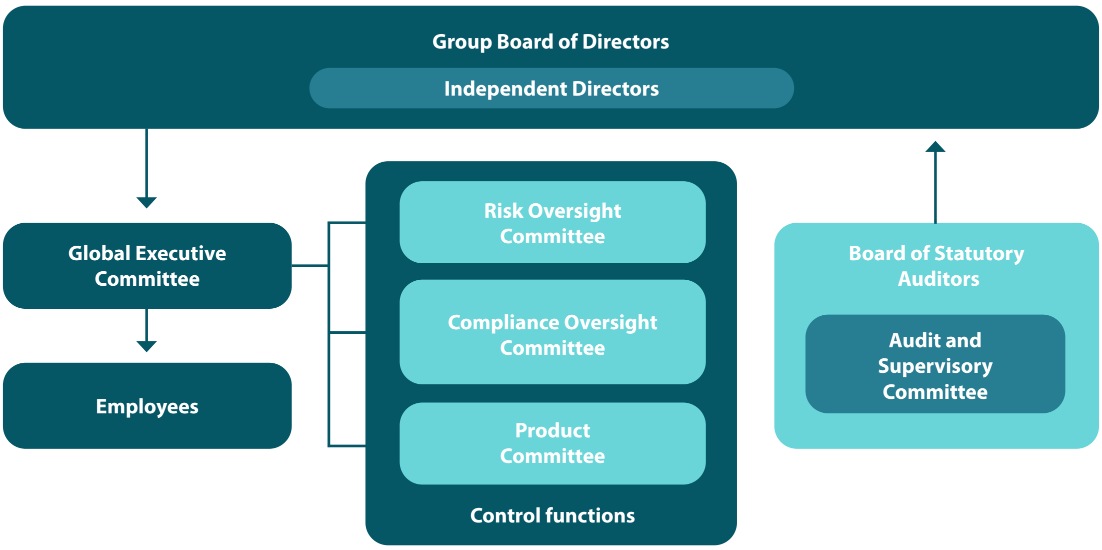
The chart below is a simplified representation of our group governance structure.

Yoichiro Iwama
Outside Director and Chairman of the Board of Directors

Stefanie Drews
Group President

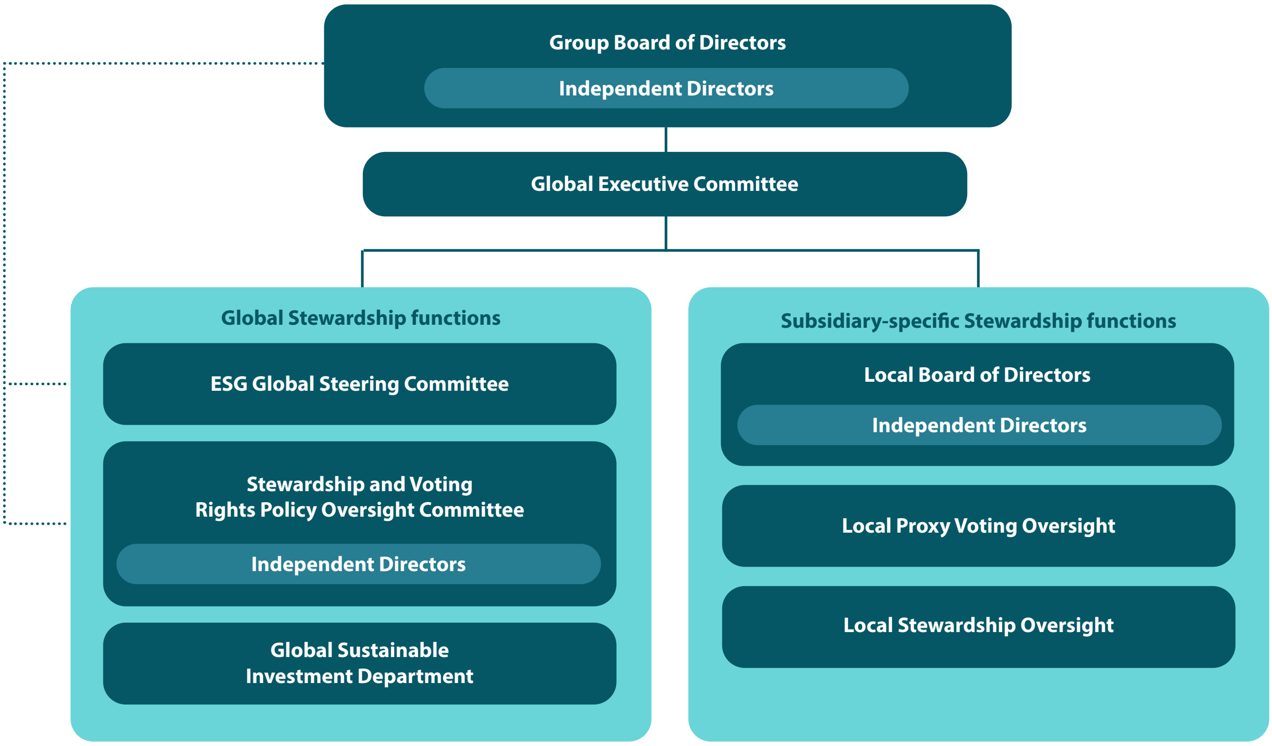
Yutaka Nishida
Executive Chairman

Nikko AM Group Governance



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

Stewardship Governance Structure



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

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

Ms Rajewska's core priorities centre around shaping our sustainable investment strategy, building Nikko AM Group's Global Sustainable Investment team and working closely with investment teams and other business functions in all the regions to strengthen the firm's ESG capabilities and provide insight on broader ESG topics. This mission of strengthening the firm's ESG capabilities is supported by senior leadership, with both Ms Drews and Mr Nishida having specific key performance indicators, extended for the second consecutive year, to continuously improve the group's ESG implementation, demonstrating a top-down readiness to put principle into practice. In addition to the regular ESG updates, in January 2024 Ms Rajewska presented to Nikko AM Group Board of Directors the achievements made across ESG activities in 2023.

Further details on subsidiary-level governance and ESG resources are described in the sections below.

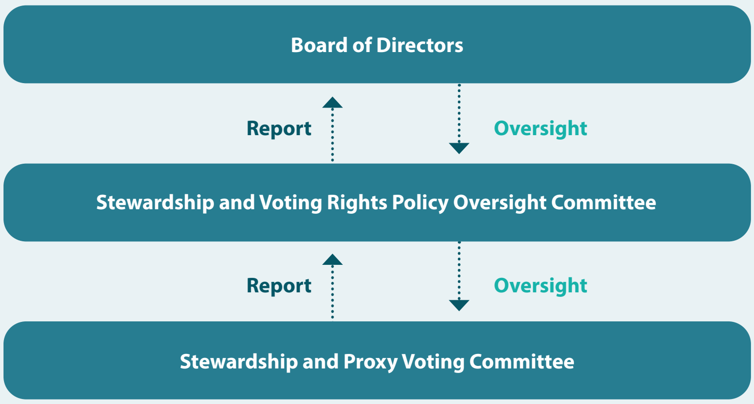
Subsidiary-level governance

Each Nikko AM Group subsidiary has an independent executive team led by a regional head who reports to the Group President and is responsible for formulating and executing targets and plans decided by the Group Board and GEC in line with local regulations and customs. The global and local stewardship oversight framework is illustrated in the chart above. There are differences in detail as to how these processes operate at subsidiary level, depending on the make-up of particular oversight platforms. For example, some regions have dedicated committees, such as the Japan Stewardship and Voting Rights Policy Oversight Committee or the UK ESG and Stewardship Oversight Committee, which feed into both the Global ESG Steering Committee as well as respective local boards, whereas other regions report directly to the Global ESG Steering Committee via their regional members. The differences between local stewardship oversight frameworks are often attributable to different regulatory requirements in some regions. As examples, we outline the Japanese and UK approaches below.

Stewardship oversight of Japanese investment functions

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

Oversight of proxy voting at our Japanese entity



Our Japan Sustainable Investment department (previously known as the Active Ownership Group) was set up in 2017 to enhance the firm's ability to, firstly, make judgements on how to exercise voting rights and implement stewardship activities in our Japanese portfolios, and secondly, conduct engagements with Japanese companies not already covered by sector analysts in actively managed portfolios. As a result, even stocks that are held only in passive portfolios are subject to engagement.

The department was fully incorporated into the Global Sustainable Investment team in early 2023, when it also increased the breadth of its scope to (i)cover all asset classes managed by our Japanese investment teams and (ii) to act as a central ESG hub for our Japan office.

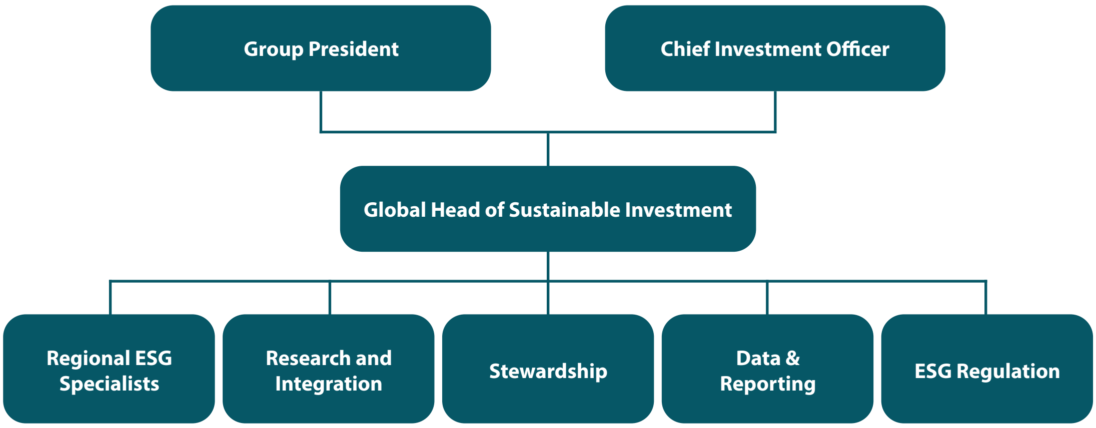
Stewardship oversight of UK investment functions

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

ESG resources

Our Global Sustainable Investment team is split into five functions:

Global Stewardship Investment Department Governance Structure



- Regional ESG Specialists: these are our ESG "all-rounders" who work closely with the regional investment teams supporting their ESG integration and stewardship efforts. They also work closely with our other functions, such as client services and product development, to ensure that we deliver the best outcomes for our clients across the entire value chain.
- Research and Integration: this function, which was expanded in 2023, is responsible for supporting our investment teams and ESG specialists with subject matter expertise, while ensuring we continuously improve our integration efforts.
- Stewardship: this function, which is still being developed, supports and co-ordinates our firm-wide stewardship efforts. It aims to continuously improve our stewardship activities, including engagement, proxy voting and ESG research and their respective disclosures.
- Data and Reporting: this function is dedicated to sourcing, storing, validating and disseminating ESG data globally, as well as providing support with ESG data analytics and reporting.
- ESG Regulation: this function is responsible for identifying, assessing, determining and supporting our approach to ESG regulations and standards globally, with a focus on regulations in EMEA.

In 2023, the Global Sustainable Investment team added three new roles: a global ESG Integration Lead located in Singapore and two ESG Specialists located respectively in Tokyo and London.

Stewardship resources

Seniority, experience, qualifications, training and diversity

It is our global network of more than 200 investment professionals, with their wide breadth of experience, which is at the forefront of our stewardship activities, aided by our Global Sustainable Investment team. As an organisation, we are committed to sustainable and responsible investing and our portfolio managers, analysts and governance specialists all share in this commitment. They apply this philosophy by implementing different stewardship perspectives in their day-to-day activities and by practising active ownership.

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

We have a strong emphasis on internal training as stewardship is the responsibility of our entire workforce. All employees have an annual training plan that includes topics such as conflicts of interest, personal trading and our code of ethics. Investment employees across the firm's global network are encouraged to undertake responsible investment training via an online course offered by the PRI Academy as part of our continuing focus on implementing the PRI's six Principles for Responsible Investment. The training concentrates on how ESG issues affect business and investment decision-making through the use of financial modelling and in-depth case studies. Considering time and commitment constraints, we do not ask investment employees to conduct this extensive training every year, but instead encourage them to take it at least once. In 2023, 17 employees of Nikko AM investment staff enrolled because they either newly joined the firm or wished to receive more advanced training.

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

Systems, analysis and service providers

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

Our Data and Reporting team helps provide consistency, accuracy and improves the coverage of our ESG data, as well as expands our analytics capabilities. The team works with a variety of stakeholders across the firm, focusing on analysing and integrating data we acquire from our primary ESG data provider for use by investment and client reporting teams. This work has included enhancing our ability to identify and assess climate-related risks and opportunities, which links with our work with the TCFD. It is explained in more detail under Principle 1 and 7 and in our **TCFD report**. The team also works on a variety of regulatory reports, plays a key function in providing data to prove our compliance with the EU's Sustainable Finance Disclosure Regulation and has been charged with developing leading ESG data capabilities to meet our evolving needs.

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

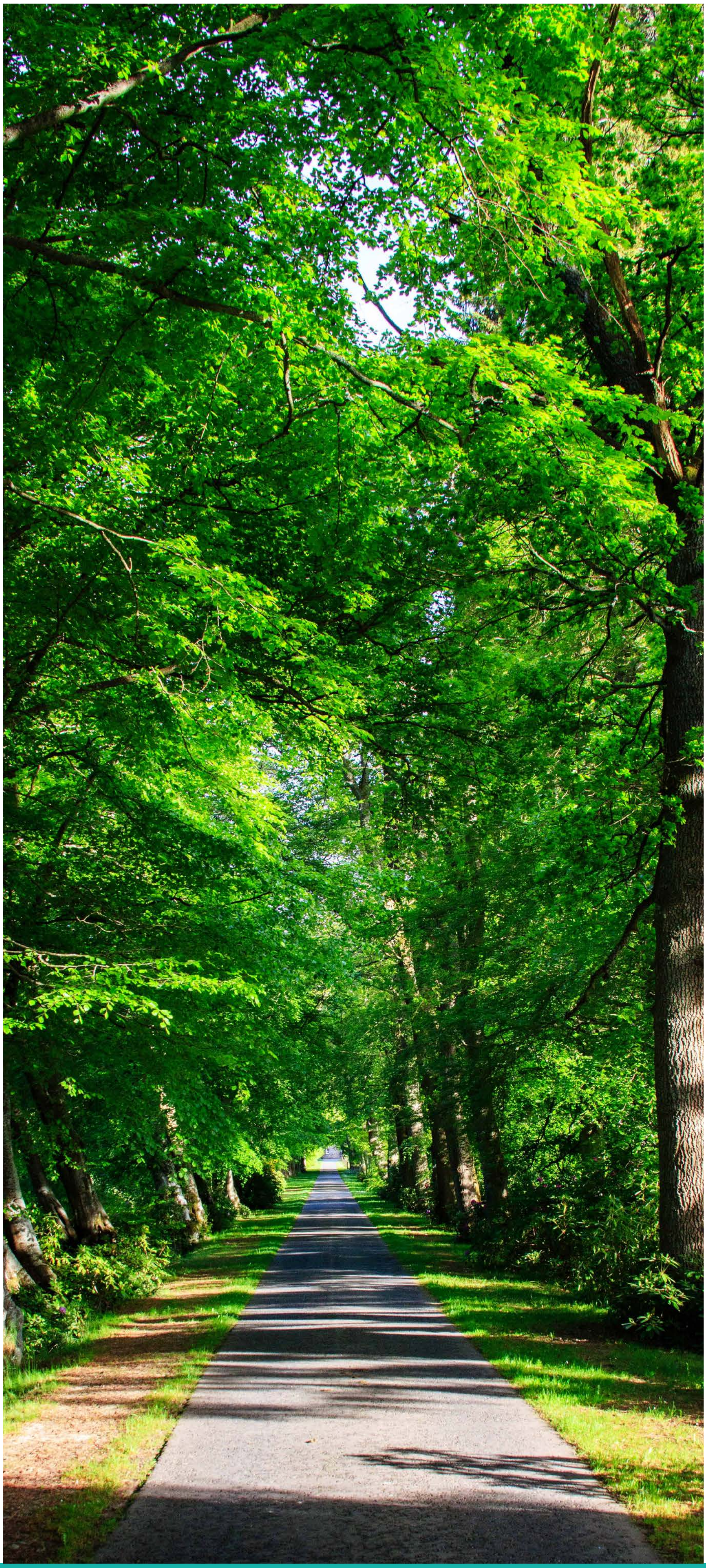
Having access to multiple sources of data can be useful in allowing us to cross-check our assumptions. However, we recognise that third-party data providers have shortcomings, including a lack of consistency arising from differences in methodology, and we therefore treat this data as supplementary to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

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

Outcome

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

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



Principle 3

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

Context

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

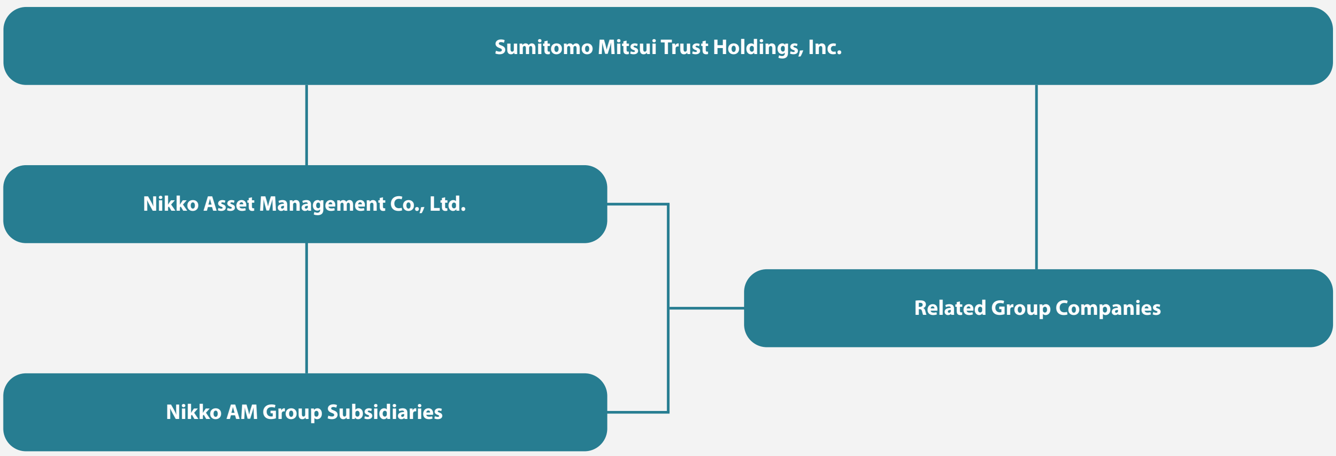
In addition, group subsidiaries maintain their own conflicts of interest registers which record potential conflicts that have come to light during their activities and the measures taken to resolve them. Each register is regularly reviewed and approved by the relevant subsidiary board of directors.

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

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

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

Our Corporate Structure



One area where conflicts can arise is as a result of our ownership, where there is the potential to treat a related group company more favourably than an unconnected company. Nikko AM Group is ultimately owned by Sumitomo Mitsui Trust Holdings, which is a large Japanese conglomerate with interests in, amongst other things, banking, pension administration, real estate, stock transfer, custody services, and asset management. Nikko AM Group has subsidiaries in the UK, Luxembourg, the US, Hong Kong, Singapore, New Zealand and has a branch office in Germany and associates in China, Malaysia and Australia. An up-to-date list of related group companies is maintained in the appendix of the Group Conflict of Interest Control Regulations. In addition, the names of related group companies, as well as that of our publicly-listed parent, are kept on a restricted list at local subsidiaries to help prevent any potential conflicts. Other possible conflicts are listed in the table below.

Activity

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

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

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

In 2023, the Japan Stewardship and Voting Rights Policy Oversight Committee reviewed proxy voting decisions related to 118 companies for conflicts of interest (120 votes in total including both AGMs and EGMs). There were no instances where the committee deemed that there was bias in the way that votes had been cast.

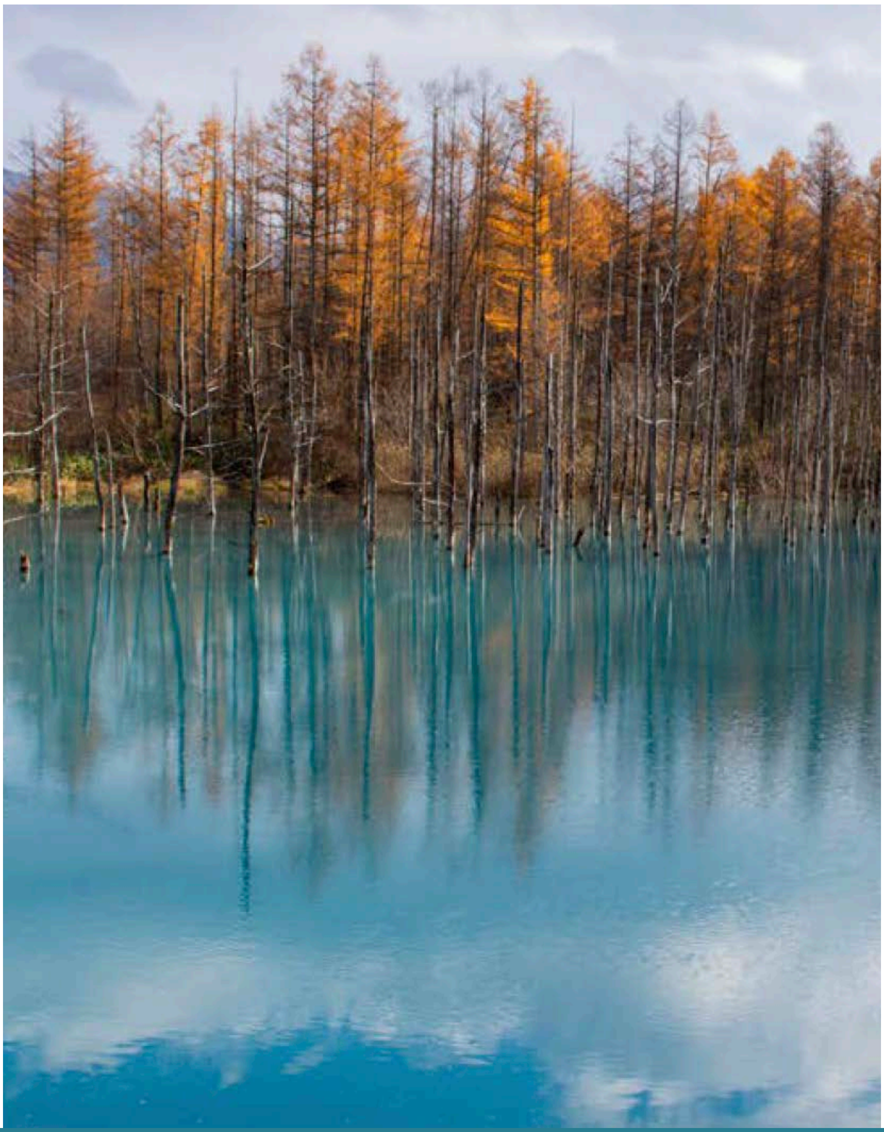
We firmly believe that such reviews of individual votes help us to increase the transparency of our stewardship activities and minimise conflicts of interest when we exercise our voting rights. We believe that having the reasons for our voting decisions reviewed by the independent oversight frameworks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

In 2023, our UK entity identified a new and highly relevant area for possible conflicts of interest in the shape of "greenwashing". This is where a business makes false or misleading claims about its adherence to ESG principles and/or the ESG performance of its products and services. Greenwashing is of growing importance, given the increasing appetite for sustainable products in both the UK and the rest of the world. To manage potential greenwashing risks in our disclosures and other communications, any materials due for external consumption are subject to a robust compliance review process before publication and/or distribution. We also update marketing procedures and provide training for staff on a regular basis. This review framework ensures that any materials are clear, fair and not misleading.

Outcome

No actual conflicts of interest arose during the year that prevented us from performing our stewardship activities in line with the best interests of our clients. In 2023, there was one addition to and one removal from the list of related group companies which is maintained in the appendix of the Group Conflict of Interest Control Regulations.

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



Principle 4

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

Activity

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

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

Our fundamental research is supplemented by external sources which enhance our overall understanding of the investment landscape. External sources include contacts with market-makers and related participants, dialogue with companies, sell-side research, independent research vendors, roadshows, presentations, conferences and rating agencies.

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

Further, we have our Global Investment Committee ("GIC") which consists of senior investment representatives from the group's investment teams and meets remotely on a quarterly basis to set the group's house view on the economy and markets for the coming year. The GIC chair and global strategist develops six global macroeconomic scenarios ahead of each committee meeting. Scenarios reflect how the economy and the markets will be affected by the different ways in which political and economic events develop. They contain differing forecasts for economic growth, central bank policy rates, inflation and financial market conditions for each of the world's major regions over the coming year. GIC members are presented with the scenarios at each meeting and after thorough deliberation and, if necessary, adjustment of the scenarios, members will vote for one, which then becomes the house view. The other scenarios are often used for risk analysis. While Nikko AM Group's investment teams determine independently which inputs to use in their investment decisions, the house view provides them with a valuable resource.

Group Risk Management Framework

Managing portfolio risks

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

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

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

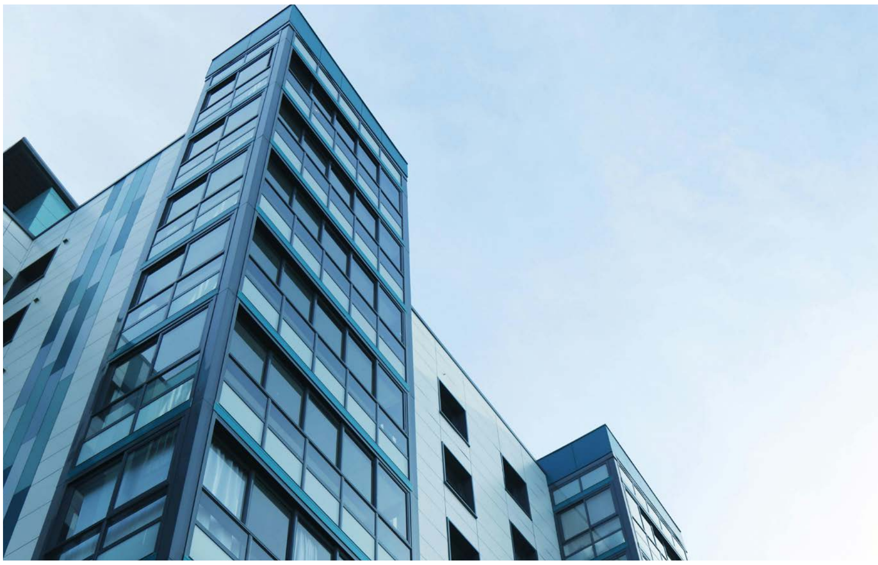
The Group's Risk Oversight committee reviews the firm-wide stress test and scenario analyses and their impact on the firm's business at its quarterly meetings. Once risks are identified, we have a responsibility as an active manager to mitigate them in order to achieve the best outcomes for our clients.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

Managing emerging and systemic risks

Emerging systemic risks and their impact on companies and industries are discussed at regular investment meetings. Financial markets faced a number of challenges in 2023 – geopolitical tensions, banking crises, global inflationary trends, as well as the ever-present hazards of climate change, to name just a few. The impact of each challenge varies depending on the nature of the asset class and the make-up of each individual portfolio. This means that the way that each investment team responds to these challenges varies as they try and position portfolios to ensure the best outcomes.

In our passive portfolios for example, our operations team rebalances portfolios frequently to ensure they maintain a low tracking error versus the respective benchmark and to keep transaction costs to a minimum. For active fixed income portfolios, we hold monthly meetings to review the foreign exchange and interest rate outlook, and quarterly "horizon-scanning" meetings which consider long-term market issues without the distraction of having to consider products or issuers. These meetings are led by our Global Fixed Income team specifically to address fundamental challenges to the smooth functioning of global fixed income markets and what we can do to mitigate them.

Systemic risks come in many forms and require many different methods to deal with them. The banking crisis that engulfed several banks in the first half of 2023 was one that could have had devastating effects on our clients. Our case study "Dealing with the fall-out from a banking crisis" illustrates how two of our fixed income teams dealt with it in very different ways.



Case study:

Dealing with the fall-out from a banking crisis (fixed income)

Issue: Last year saw the biggest upheaval in the banking sector since the Global Financial Crisis in 2007-08. Several major banks collapsed or had to be rescued. Notable amongst them were the US bank Silicon Valley Bank Financial Group, and the Swiss "global systemically important bank" ("G-SIB") Credit Suisse.

Although controversy and bad news had surrounded Credit Suisse since 2020, the immediate catalyst for the crisis was the troubles and ultimate collapse of the US Silicon Valley Bank in March, which led to heavier scrutiny of weaker banks. This raised questions as to the continued viability of the Swiss bank, prompting the authorities to step in to orchestrate a merger between Credit Suisse and its close rival UBS to contain the fallout. The merger announcement shocked the world, being the first collapse of a G-SIB, i.e. a bank too big to fail.

Activity: How these events were dealt with by our fixed income teams provides a good illustration of our approach to market-wide risks. First we focus on how we dealt with the fall-out in the currency and bond markets.

Currencies: Our fixed income risk scorecard (see below) is used to gauge risk in both the bond and currency markets. It was instrumental in helping the Global Fixed Income team to monitor the impact on currencies and interest rates ahead of and during the banking crisis. The collapses led to a crisis of confidence in the entire banking sector, with customers pulling more than USD 1 billion of deposits from regional banks over the course of March 2023, regardless of bank asset quality.

We determined that, while confidence and profitability had been knocked, there did not appear to be a solvency crisis in the sector. In terms of interest rates, the team increased exposures to sterling relative to the euro and the Norwegian krone to reflect relative valuations.

Fixed income risk scorecard

	Qualitative								Quantitative					
	Duration (1 Min to 5 Max)				FX (1 Max to 5 Min)				FX (over) Under			Duration		
	Median Team View	Quant	T-1	Δ	Average Team View	Quant	T-1M	Δ	FX (over) Under	RSI(30)	FX Rank	10yr Bond over (Under)	RSI(30)	Factor Rank
USD	4.0	2.5	4.0	0.0	2.5	0.0	2.5	0.0	-0.4%	46.7	10	0.69%	51.6	10
AUD	4.0	2.0	4.0	0.0	4.0	3.8	4.0	0.0	8.1%	45.0	3	1.68%	50.0	13
NZD	4.0	2.5	4.0	0.0	4.0	3.8	4.0	0.0	8.0%	36.8	4	1.01%	53.4	11
GBP	3.5	3.0	3.5	0.0	3.5	0.0	3.0	0.5	-3.2%	55.2	12	0.28%	45.8	8
CAD	3.0	5.0	4.0	(1.0)	2.5	7.0	2.5	0.0	4.6%	48.9	6	-0.64%	46.7	1
SEK	3.5	1.5	3.5	0.0	3.0	2.4	3.0	0.0	10.9%	45.3	2	2.09%	45.9	14
CHF	3.0	4.0	3.0	0.0	2.5	8.4	2.5	0.0	2.0%	46.7	7	0.00%	0.0	6
NOK	2.5	3.5	2.5	0.0	3.5	6.5	4.0	-0.5	12.2%	44.8	1	0.16%	49.7	7
EUR – core	3.5	4.5	3.5	0.0	2.5	4.8	3.0	-0.5	1.8%	45.3	8	-0.46%	46.4	2
EUR – periphery	3.0		3.0	0.0										
JPY	2.0	4.5	2.0	0.0	2.5	0.0	2.5	0.0	-4.6%	46.56	13	0.42%	47.3	3
EM	2.9	3.3	2.9	0.0	**3.0**	3.7	2.92	**0.1**						
MYR	2.5	3.0	2.5	0.0	3.0	6.0	3.0	0.0	-0.1%	45.86	9	0.45%	54.2	9
MXN	4.0	4.0	4.0	0.0	3.5	0.0	3.5	0.0	-7.4%	50.63	14	-0.24%	72.1	4
PLN	3.0	4.0	3.0	0.0	3.5	7.4	3.5	0.0	5.2%	43.87	5	-0.01%	54.9	5
SGD	3.0	2.0	3.0	0.0	3.0	5.6	3.0	0.0	-2.5%	47.93	11	1.61%	44.3	12
CNY	2.0		2.0	0.0	3.0		3.0	0.0						
ILS	3.0		3.0	0.0	2.0		2.0	0.0						

Bonds: Our Asia Fixed Income team took a particular interest in the events leading up to the March crisis given Credit Suisse's active role in the Singapore dollar bond market. This scrutiny raised concerns over the bank's poor risk management and potential for disappointment and, as a result, the team took early action to divest all its positions in Credit Suisse bonds*.

However, the crisis also had wider ramifications. The nature of the bail-out proved controversial. Banks hold so-called additional tier 1 ("AT1") bonds to give them additional financial capital to absorb losses in times of distress by being written down to zero. Normally, even holders of AT1 bonds would rank ahead of equity shareholders in a company collapse but, under the terms of the merger deal with UBS imposed by the Swiss authorities, equity shareholders were able to retain some value by virtue of being given UBS shares, while holders of Credit Suisse convertible AT1 bonds had their investments written down to nought.

This had implications in the US, where the loss of confidence in banks threatened to have a contagion effect. After the risks came to light, the team assessed the stance of financial regulators and the possible impact on our portfolios of further collapses. The team also revisited the offering documents for many of the banks' capital instruments to discover which bonds were most at risk in the event of losses or failures and whether a bail-out similar to that at Credit Suisse could be repeated. The team concluded that bank regulators in Asia were more investor friendly, as many issued statements in the wake of the crisis reaffirming the need to respect the pecking order of capital instruments when handling a bank resolution or bail-out.

Overall, the impact on our bond universe was less severe than in Europe and the US as authorities in the region have well-established frameworks and laws in place to ensure the orderly management of the bank resolution process.

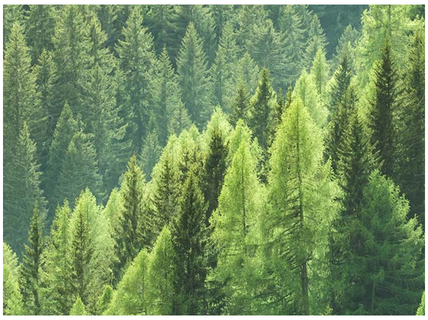
Outcome: Our analysis, combined with the statements of regulators on the treatment of AT1 instruments in a bank resolution reinforced our view that what happened at Credit Suisse did not set a precedent. It was a unique outcome and should not be the base case for banks in other jurisdictions. Other AT1s saw their prices recover as the market digested the events surrounding the crisis, with AT1s of Asian banks being the quickest to rebound, particularly in Singapore and South Korea, in line with our expectations. Our assessment gave us the conviction to retain our existing exposure. Subsequently, the new issuance market for AT1s has returned, with investors again showing strong appetite for such instruments.

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

Climate change

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

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



1

Collaboration with other stakeholders:

We work with other stakeholders to help develop solutions and support global initiatives to address the issue, such as the UN Paris Agreement to limit carbon emissions and the UN Sustainable Development Goals. In Asia, we collaborate with other fund managers to combat climate change, of which more details can be found under Principle 10. As set out under Principles 1 and 7, we have also committed ourselves to environmental initiatives such as Net Zero Asset Managers initiative ("NZAMi") and TCFD. Other collective initiatives in which we are involved are described towards the end of this section.

Case Study:

Helping to lift the veil on corporate emissions (equity and fixed income)

For several years, we have been a member of CDP, an international non-profit organisation that aims to improve climate-related disclosures, working through two of its initiatives, the Non-Disclosure Campaign ("NDC") and the Science-Based Targets initiative ("SBTi"). We participate because we believe companies need to apply higher standards of transparency and disclosure if we are to tackle some of the most important areas that society faces, such as climate change, biodiversity and the wider environment. In 2023, we served as the lead investor in engaging two companies under the NDC. This included a call with a renewable power generation company in Japan in August, when we emphasised the importance of disclosure. We were happy to see that this company subsequently disclosed its carbon emissions data for the first time.

2

Addressing climate-related portfolio risks:

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

Zeroing in on climate hot spots in the Global Equity portfolio (equity)

In our 2022 response to the Stewardship Code, we included a survey made by our Global Equity team of companies in our Global Equity strategy to determine whether their managements understood the implications of our commitment to supporting and contributing to a low-carbon future.

In the light of the responses, in 2023 we focused on the hotspots in the portfolio, i.e. those companies with the highest carbon intensities or those in sectors most exposed to climate change risks, even if their carbon footprint might be relatively low. Through this process we identified a number of engagement priorities where there were particular areas for improvement.

Such priorities were specific to each company as we wanted to ensure that our engagements added value to both the company and our investment thinking. We adjusted our expectations according to the importance of each company's carbon footprint. For example, we engaged with one company even though it already had an ambitious climate strategy compared with its peers (such as having targets verified by the UN-backed Science Based Targets initiative and targets linked to board-level remuneration etc.). However, we believed it was a priority for engagement as by far the largest emitter of greenhouse gases in our portfolio and therefore demanded higher expectations and a higher degree of scrutiny.

Case study:

Anticipating the ramifications of climate change in New Zealand (fixed income)

Issue: Climate change is a market risk that is going to be with us for the foreseeable future. In New Zealand, as in many other locations, climate change is a market risk that is resulting in more extreme weather on a regular basis. In January 2023, Auckland, New Zealand's largest city, experienced catastrophic floods caused by heavy rainfall. This was followed in February 2023 by a cyclone that led to significant flooding and landslides across the North Island. Both events resulted in large and widespread damage to property. Should such weather become more regular and more extreme, bond holders will increasingly face risks due to losses on uninsured or under-insured property and loss of income while damaged assets are unusable.

Activity: The New Zealand Fixed Income team reviewed potential sectoral risk exposures across its holdings. Risks were deemed to be any assets that could be significantly damaged by weather events or where insurance might not be sufficient to mitigate potential losses, such as securitised vehicle and equipment loans and the companies that provide such finance. To better understand and manage these risks, the team asked all issuers and primary financiers of these types of assets a set of questions seeking to ascertain whether:

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

Outcome: This exercise allowed the team to better understand our exposure to extreme weather events, giving us comfort that no undue risk currently exists. However, the team acknowledged that risks could increase in the future. The team will continue to stay abreast of developments in this space to determine whether intervention may be necessary.

Collaboration to promote well-functioning markets

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

- The Investment Association ("IA") in the UK. Members of our UK subsidiary have joined the IA's peer-to-peer knowledge sharing forums, such as the Net Zero Forum, the SFDR Implementation Forum (concerning the EU's Sustainable Finance Disclosure Regulation) and the TCFD Implementation Forum.
- The New Zealand Corporate Governance Forum, composed of high-level institutional investors such as sovereign wealth funds, which aims to influence the formulation of governance rules and takeover practices.
- Several Singapore consultations in 2023, including one on the phasing-out of coal-fired power stations conducted by the Monetary Authority of Singapore ("MAS"), the MAS consultation on its proposed Guidelines on Transition Planning for Banks and other financial institutions, a roundtable with Indonesia's government ministries, and the Consultation on Turning Climate Ambition into Action as a result of the recommendations of the Sustainability Reporting Advisory Committee.

- The PRI Nature Reference Group. Members of the Global Sustainable Investment team joined this group looking to improve their understanding of biodiversity- and nature-related risk, participating in several calls in 2023 with the other investors to discuss Nikko AM Group's position on nature-related risks, experiences in engaging on nature-related risks and topics as well as the challenges faced, and what clients are asking on nature and/or biodiversity (if any). These meeting feature presentations, peer-to-peer sharing, and small group discussions, outputs of which the Global Sustainable Investment team then uses for internal education on nature-related risks.
- A consultation meeting organised by the Japan Stewardship Forum, an institutional investor group. Members of the Japan Sustainable Investment department joined six other Japanese asset management firms and provided feedback on the current state of regulation with regards to stewardship in Japan, its limitations and how alternative approaches would help to advance stewardship activities in the Japanese market. This consultation was part of a wider consideration by the Financial System Council, which compiled a draft report to be passed into law during the current parliamentary session. The aim is deregulation to allow domestic institutional investors in passive fund management to conduct engagement activities virtually without restriction.

Additional to industry initiatives, members of the Japan Sustainable Investment department, in collaboration with Dr Ryohei Yanagi, a visiting professor at the Waseda University Graduate School of Accountancy, and our Senior Quantitative Analyst, Kyoji Hasegawa, have conducted a collaborative research project analysing the impact of corporate ESG initiatives on shareholder value, how it has changed and likely future returns. This research has used a wide range of Japanese companies not found in previous studies. The results provide valuable suggestions for improving the predictive power of investment models, stewardship activities and ESG initiatives to increase shareholder value at investee companies. We plan to use the findings to refine our existing investment models and the findings will also be published in a Japanese journal for practitioners.

Our senior officers are also active participants in national and international bodies promoting better-functioning markets and wider issues. In 2023, these included:

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

Stefanie Drews, Group President, participated in the Japan Chapter of the Glasgow Financial Alliance for Net Zero ("GFANZ") Asia-Pacific Network established in June 2023. The intention is that the Network should support local financial institutions in sharing knowledge and best practice in developing net-zero transition plans as they work to decarbonise the economy and seize transition-related opportunities, which will help catalyse and accelerate the change needed for Japan to meet its domestic net-zero goal. The Japan Chapter also aims to support financial institutions in their work with relevant public and private stakeholders on other policies and initiatives necessary to deliver a just transition. We contributed to the Japan Chapter by providing feedback on a draft response to the GFANZ Global consultative paper on transition finance. Key points of this feedback were included in the final report.

Eleanor Seet, the President of our Singapore subsidiary, is deputy chair of the Executive Committee of the Investment Management Association of Singapore ("IMAS"), a representative body of investment managers spearheading the development of the industry in that country. IMAS partnered with the Singapore Green Finance Centre to introduce an inaugural course on climate change management, aligned with the Institute of Banking and Finance's Sustainable Finance Technical Skills and Competencies. Ms Seet is also a member of the IMAS Conference Organising Committee, which organises networking events such as the IMAS-Bloomberg Investment Conference & Masterclass 2023, which strengthened collaboration with the UK's IA.

Phillip Yeo, Joint Global Head of ETF Business, is part of the IMAS Development Committee which develops events to enhance membership engagement, advocacy and education, such as roundtables between chief investment officers and chief operating officers. These forums are designed to promote in-depth discussions on pertinent topics, such as digital assets, fund tokenisation, ESG investments, and cyber resilience and security.

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

Simon Haines, Head of Legal, Risk and Compliance at our New Zealand subsidiary, chairs the Boutique Investment Group ("BIG"), a collection of New Zealand fund managers who share knowledge and critical thinking on regulatory, compliance and governance issues affecting our sector. In early 2023, BIG met Mindful Money, a charity and one of the most popular platforms for providing retail customers with information on portfolio holdings. As a result, it was agreed that fund managers should be able to explain their case on the Mindful Money website, allowing users of the website to understand differences of opinion on holdings between the Mindful Money analysis and that of the fund manager. Longer term, BIG and Mindful Money are also considering moving toward more standardised language. We believe that these initiatives can help improve understanding amongst investors without requiring new regulation.

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

IMpower Incorporating FundForum: Ms Drews spoke on two panels providing a Japanese and more general Asian point of view of the major trends shaping the asset management industry, as well as the growth dynamics and strategic challenges faced by asset management companies. Other senior colleagues participated in the Women Mean Business digital panel, discussed best practice ESG across the value chain and spoke on a panel about what the new universe of green bonds needs to look like for us to reach net zero and other sustainable development goals.

Bloomberg Key Account Summit: Ms Drews spoke at an internal, off-the-record event with 20 of Bloomberg's buy-side client-facing staff from its offices in Tokyo, Hong Kong and Singapore. This gave Bloomberg staff a chance to put questions directly to our senior management. For Nikko AM, it was an opportunity to explain our firm's position in the global asset manager landscape, try to shape how Bloomberg services our firm and other clients, and further enhance the strong relationship we have with Bloomberg. This already includes the Bloomberg Women's Buy-side Network, Bloomberg Philanthropies and other sustainability efforts.

Asia Research & Engagement: Ms Rajewska, our Global Head of Sustainable Investment, spoke at a press event on catalysing decarbonisation in Asia and achieving sustainable outcomes in the region. She shared insights on how we integrate sustainability into our investment processes, address climate change and other aspects of ESG, overcome challenges in ESG data and the importance of tailoring ESG analysis to Asian portfolios.

PRI in Person: Ms Rajewska spoke at a panel session on bridging the ESG skills gap. The panel, through drawing on latest research and case studies, explored the importance of internal ESG training in helping organisations to realise the benefits of responsible investment strategies.

PSE Investor Relations Workshop: Deborah Loke, ESG Specialist based in Singapore, participated in a workshop organised by the Philippine Stock Exchange involving investor relations officers from companies listed in the Philippines on ways to enhance sustainability reporting.

The Sustainable Finance 2023 Conference of the Association for Financial Markets in Europe: The former Global ESG Data and Reporting Lead, participated in a panel discussion looking at the role that financial institutions play in ensuring better outcomes for both our people and our planet through effective due diligence.

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

- The Asian Utilities Engagement Programme of the Asia Investment Group on Climate Change ("AIGCC", further details can be found under Principle 10);
- CDP;
- Climate Action 100+ ("CA100+", further details can be found under Principle 10);
- Global Investor Statement to Governments on the Climate Crisis;
- International Corporate Governance Network;
- Nature Action 100 ("NA100", further details can be found under Principle 10);
- Net Zero Asset Managers initiative;
- PRI;
- TCFD;
- The Investor Agenda;
- Women's Empowerment Principles;
- LGBT Great.

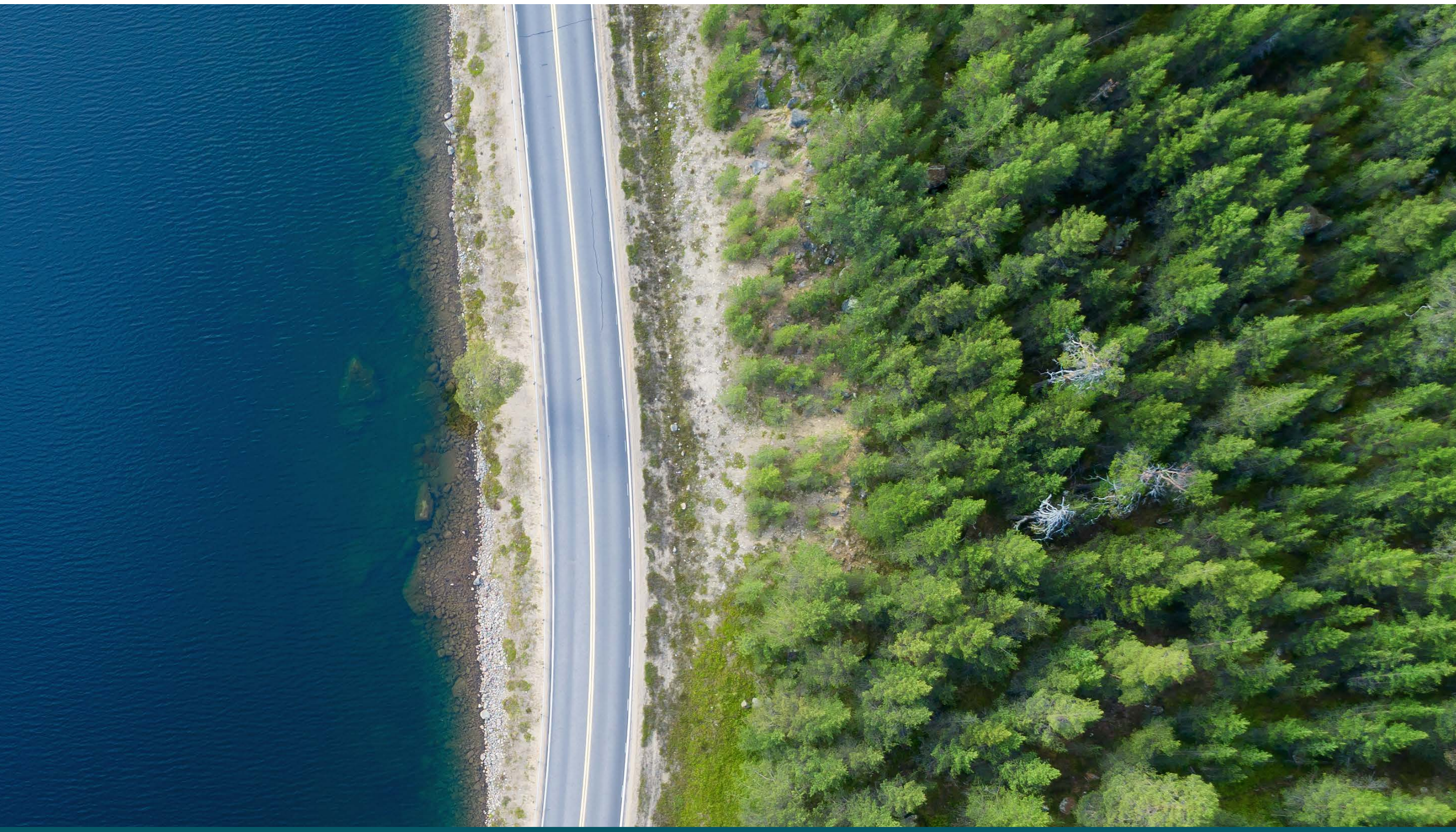
Outcome

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

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

On a wider front, one of the more useful ways of identifying new systemic risks and dealing with existing ones is to debate them with other industry participants. We have thoroughly involved ourselves in a wide range of industry initiatives, addressing a multitude of new threats and opportunities, from ESG investment developments and tightened regulation, to improving data and encouraging more use of digital technology to tackle ESG threats.

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



Principle 5

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

Activity

Risk governance and oversight

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

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

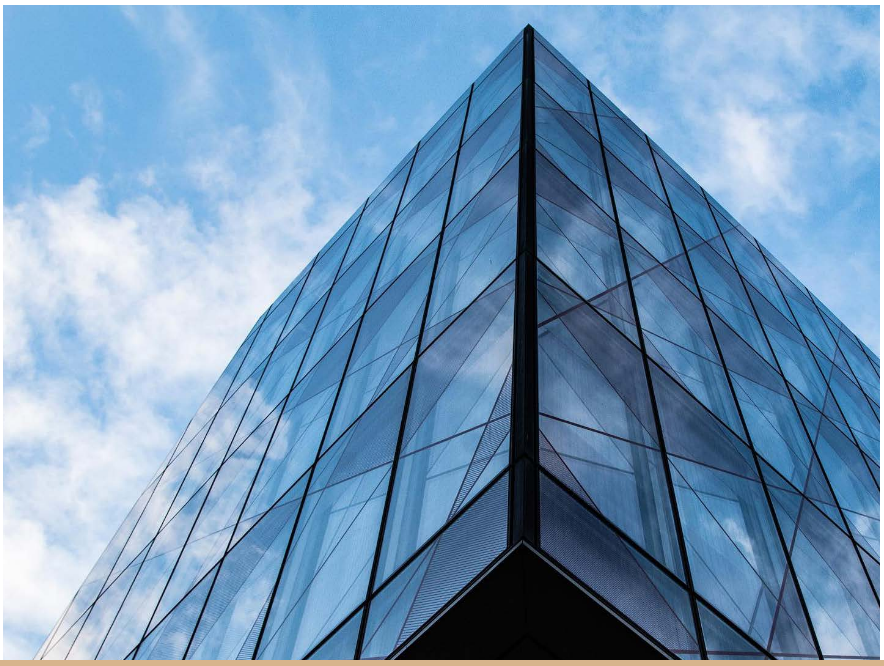
Policy and procedure review

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

To address the growing development of the global ESG regulatory landscape, frameworks and processes are continuously reviewed and improved. The key group policies that are applied to stewardship activities are listed below, with any changes made during 2023 detailed in the Outcome section. (We have not detailed policies less directly related to stewardship, but they follow the same review process described above.)

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

An illustration of our regular review process was the change we made in our internal guidelines on cross-shareholdings, which is explained in the case study below.



Case study:

Untying cross-shareholdings with tighter rules (equity)

Issue: Cross-shareholdings, where one public company holds a significant stake in another and vice versa, have been a controversial business custom for years in Japan, and to some extent in other countries such as Germany. The practice has been blamed in part for the slow pace of corporate governance reforms in these areas. Critics argue that investments in crossholdings are often an inefficient use of capital that could be used for the expansion of the business. Moreover, by reducing the number of shares traded in the public market, they help protect the firm from takeover and may induce managers to act more for their own benefit than for that of third-party shareholders.

Activity: For many years, our Japan Sustainable Investment department has been actively encouraging the phasing out of cross-shareholdings in Japan through engagement, a policy that has also been followed in our group-wide proxy voting guidelines. Implementing this policy change has been an operational challenge in the past due to the lag in disclosing cross-shareholdings. However, following consultation with clients and extensive internal discussion, we elected to strengthen our stance on this topic by applying a quantitative measure to our proxy voting policy. As a result, we now vote against the re-election of directors if the firm has cross- shareholdings (holdings in a separate entity) totalling 20% or more of its net assets, although this rule may be varied if appropriate plans for reducing the holding have been put in place.

Outcome: The change was made in the March 2023 revision of the voting criteria. In the remainder of 2023, our Japan Sustainable Investment team voted against the appointment of directors for 127 companies, where the on-balance amount of cross holding shares had exceeded 20% of their consolidated net assets without clear guidance for a reduction plan. An example of how we implemented this policy change can be seen in our case study "Shining a light on returns at a big Japanese ceramics to solar group" under Principle 7. The overall Japanese market has also observed significant progress towards the phasing out of cross-shareholding during the last calendar year, notably at Toyota group and in the construction sector, where companies have previously been resolute in maintaining the practice.

Internal and external assurance

In terms of audit and assurance, we have a number of internal checks and balances provided by, for instance, oversight committees that include independent non-executive directors, as well as our compliance department. Our policy is to audit each division every two years, with a follow-up to ensure implementation of any corrective action identified as a result of the audit. There were no substantial internal audit issues raised during 2023.

Various stewardship activities are audited by outside bodies. At the most basic level, they include our external financial auditors, who audit our annual accounts, but we are also assessed by a number of other independent auditors. For instance, under the auditing standards SSAE18 (for the US) and ISAE3402 (for the rest of the world), independent auditors assess our control procedures and their effectiveness, service delivery, information security and controls over data privacy. No substantial matters were raised during the 2023 external and independent audit.

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

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

Ensuring reporting is fair, balanced and understandable

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

Stewardship code(s)

To produce this year's response to the UK Stewardship Code, we have brought together a number of teams from across the firm, including our Global Sustainable Investment team, compliance, operations, members of our client services and investment teams. We have used both internal and external resources to make it as informative and accessible as possible. It has been reviewed by our local UK ESG and Stewardship Oversight Committee, as well as being reviewed and approved by the UK and Group Boards, the Global ESG Steering Committee and signed off by our Group President, Stefanie Drews.

At the moment, individual codes, such as those for the UK, Japan and New Zealand, are reviewed separately by the relevant group companies and applicable responses are either produced individually or this global report is utilised whilst not referring explicitly to other code's principles. We have changed the title of this year's report from "Nikko Asset Management Group Response to the UK Stewardship Code 2020" to "Nikko Asset Management Stewardship Report" to fully showcase the report's global coverage.

Outcome

We believe the combination of internal checks and balances, external assurance and audits and our widespread involvement in industry and regulatory bodies ensures that our policies, procedures and processes are subject to continuous and rigorous review. To be effective, such review has to result in action to ensure that our policies, procedures and processes are kept up to date and effective. Keeping that in mind, we have made a number of changes to key policies that apply to stewardship activities as a result of our review and assurance processes during the year:

- The Global Executive Committee Charter has been revised to reflect the inclusion of representatives of each of Nikko AM Group's regional offices, as explained under Principle 2.
- The ESG Global Steering Committee Charter has been revised to formally reflect the establishment of the Global Sustainable Investment team. The formation of this department was detailed in depth in last year's report and its current structure is described under Principle 2.
- The appendix of related group companies in the Group Conflict of Interest Control Regulations has been amended to reflect recent changes.
- Subsidiaries have added local policies and addendums to the Group Conflict of Interest Control Regulations, with the changes to local versions during 2023 explained in more detail under Principle 3.
- The Japan Stewardship and Proxy Voting Committee Rules have been extended to include the Head of the Fixed Income Fund Management department and the Co-Heads of the Japan Sustainable Investment department. The formal inclusion of fixed income management in the traditionally equity-focused Stewardship and Proxy Voting Committee reflects our progress in expanding stewardship considerations to all asset classes.
- Standards for Exercising Voting Rights on Japanese Stocks have been amended to revise the guidelines on voting against, including the re-election of directors if the firm has cross-shareholdings totalling 20% or more of its net assets (as outlined in the case study "Untying cross-shareholdings with tighter rules" above), and also to set out specific considerations such as emission reduction targets, TCFD disclosures and board independence assessments. Further, effective in April 2024, the Standards for Exercising Voting Rights on Japanese Stocks have been further amended to codify our approach to climate shareholder resolutions.

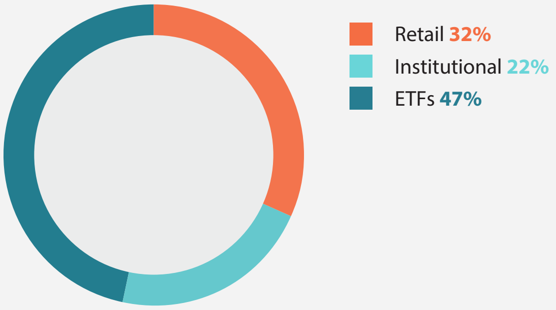
Principle 6

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

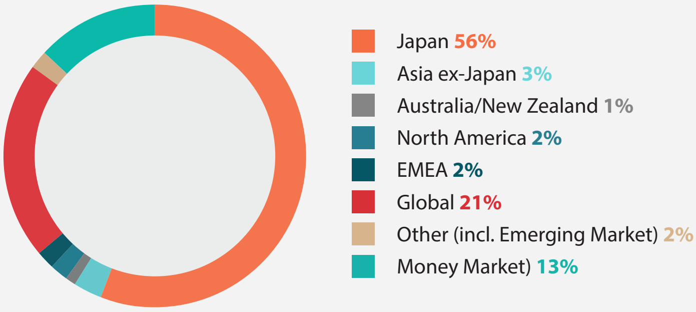
Context

A breakdown of our AUM (as at 31 December 2023) by asset class and client domicile is shown under Principle 1. Below we further present AUM by client segment[3] and by geography of the managed holdings.

Assets under Management by Segment*



Assets under Management by Geography of Assets*



*As of 31 December 2023

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

Investment time horizons

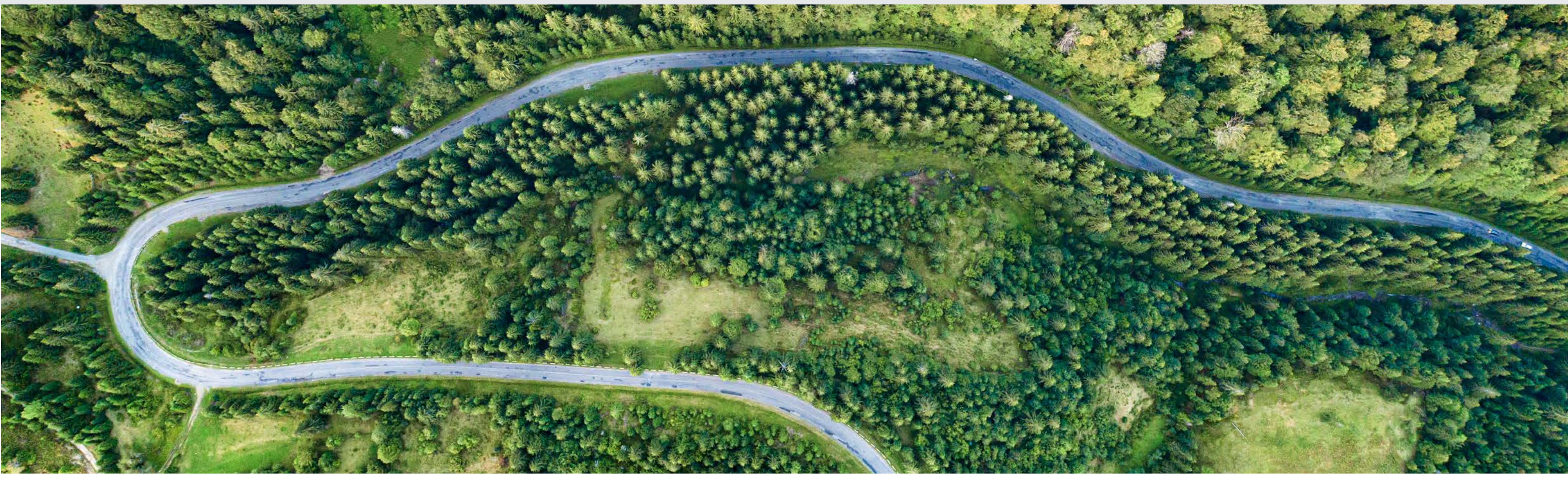
Whether they are retail or institutional, we believe most of our clients are best served taking a medium- to long-term view of their investments. We are not dogmatic about what this means in practice, but broadly view this as a holding period of three to five years for medium-term investing and ten years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

Of course, this overarching philosophy must be tempered by circumstances: political and economic events may require us to curtail our typical holding periods to reduce risks for clients. In contrast, as detailed in our TCFD report, referred to under Principle 7, we also have to look to much longer time horizons when we consider climate-related risks and opportunities, in particular those relating to 2030 and 2050 net zero carbon commitments. Finally, it should be noted that more than 13% of our groupwide AUM at the end of December 2023 was held in cash equivalents or money market funds, which typically have a shorter holding period of less than a year.

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

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

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



Activity

Accountability to our clients is at the heart of our fiduciary principles and communication is therefore crucial. For all clients, this means providing easy-to-understand materials that explain our investment approach, product risk characteristics and fees, as well as tools that help them understand their investments and the risks involved. For example, with the increased emergence and fragmentation of various ESG labelling standards and regulations across markets, we have undertaken an extensive internal project to develop our own ESG AUM classification framework. This framework helps us ensure we have a single method of classifying our AUM into different sustainable investment categories, ensuring further reporting consistency and alignment. Further, for any external communications, we have robust compliance review processes in place at each location to ensure any material is clear, fair and not misleading.

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

Retail investors

We run a large number of mutual funds[4] which are sold through banks and other distributors to retail as well as institutional investors in Japan. We therefore put a great deal of effort into timely, understandable and accessible communications with Japanese retail investors. As we do not sell directly to them, our communications efforts are primarily directed at our distributors: banks, brokers and, increasingly, internet-based groups.

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

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

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

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

4 **Comprehensive Risk Information on Mutual Funds**

Regular information material produced under the Nikko AM Fund Academy brand

Item	Frequency	Additional Information
Rakuyomi (easy 5-minute briefing)	2-3 times weekly	
Koyomi (quick soundbites)	Monthly	
Gokuyomi (deep dive)	Ad-hoc	4 in 2023
Market 5 Minutes	Monthly	
Weekly Market	Weekly	
Data Watch	Weekly	
Follow-up Memo	Ad-hoc	4 in 2023
Global REIT Weekly	Weekly	
Monthly Market	Monthly	
JAPAN in Motion	Quarterly	
Nikko AM Newsletter	Ad-hoc	3 in 2023
CHINA INSIGHT	Ad-hoc	16 in 2023
KAMIYAMA Reports (market update reports by our Chief Strategist Naoki Kamiyama)	Ad-hoc	15 in 2023
KAMIYAMA Seconds! (quick updates by Naoki Kamiyama)	Ad-hoc	47 in 2023

Seeking retail client views

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

A significant amount of effort in the Tokyo-based retail business is spent on an extensive programme of seminars conducted by around 40 dedicated personnel. These seminars are planned and organised for roughly 200 participants at a time. They can be divided into:

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

In both cases, speakers from Nikko AM Group visit the financial institution to give presentations which last typically for about 60 minutes. In the 2023 calendar year, we have held seminars both online and in person. The content of these seminars and investor feedback is subsequently reported to relevant managers by the in-house customer relationship management system, enabling them to stay abreast of recent developments and changes in investors' and distributors' views.

We organise regular events under the umbrella of the Nikko AM Product Strategy Academy targeting the product planning teams of our distributors. In addition to providing information on existing products, we also present ideas for new products that are expected to meet future investor needs. These are valuable opportunities for open communication with our distributors, enabling us to receive candid views directly from the teams responsible for fund marketing. For instance, we poll participants after the many presentations on new product ideas. Those that receive strong support in these votes are often then realised in new fund launches. In 2023, Nikko AM Group held two Product Strategy Academy gatherings which attracted 160 participants from 100 financial institutions in March and 140 participants from 90 financial institutions in November.

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

Institutional investors

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

With most of our institutional clients, we schedule investment reviews at least annually, but can arrange ad-hoc meetings as required on subjects such as proxy voting, company engagement and other stewardship activities. As well as the normal discussions and reports on performance, we provide explanations of a wide range of investment-related topics in answer to client queries.

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

To meet clients' ever-widening list of requirements, we are also able to provide reports on carbon intensity and other carbon-related disclosures, ESG scores and related information for the companies in which we invest. This is a two-way process, with clients often asking us to provide them with additional information or to present it in a certain format. Illustrating how we meet these needs are the two case studies that follow, "How client feedback improved their carbon intensity reporting" and "Streamlining our reporting of ESG issues to clients".

Case Study:

How client feedback improved their carbon intensity reporting (equity)

Issue: We were contacted by one of our clients seeking additional reporting on the carbon intensity of holdings in their portfolio managed by the Japan Equity team. Our client services and investment teams met the client and found out that the request came as a result of a carbon-related commitment it had itself made in respect of its investments.

Activity: To meet its requirements, we were able to provide the client with details of the current carbon intensity – as well as future likely reductions in intensity – for firms in the portfolio, in the strategy's investable universe in Japan. We also explained how this would compare for different asset classes and regions.

Having gained an understanding of the purpose of the reporting, we discussed with the client our reporting template for the portfolio, clarifying certain data points it required. In the light of this we pointed out some areas where interpretation of the data would need to be conducted with an awareness of the context, as different sources or calculation methodologies could affect the results.

Outcome: The result of this exercise was that we have introduced a new reporting provision for this client whereby we report data on the carbon intensity of the portfolio holdings. The new format enables the client to assess their carbon impact across their entire investment portfolio, monitor trends and identify areas requiring further analysis. For its part, the client told us they appreciated the information and insight we were able to provide.

Case Study:

Streamlining our reporting of ESG issues to clients (equity)

Issue: During one of our quarterly ESG reviews, a key UK institutional client told us they wanted more information on the engagements between our investment team and the companies held in the investment portfolio. In particular, they wanted to know the key objectives and outcomes of these meetings and to provide the information in a similar format to our stock case studies, of which we produce a couple every quarter. Their ultimate aim was to collate standardised information from all their asset managers. This would allow them to produce useful measures and data to fulfil their fiduciary responsibilities, while aligning with the requirements of the UK Stewardship Code.

Activity: Previously we had been providing clients with a summary of the meetings held with each company in the form of minutes. Following this feedback, the investment team worked with the Global Sustainable Investment team to enhance the way we drafted our quarterly ESG report for this particular strategy. The result was a more succinct, structured and user-friendly format for these engagement reports. They are now broken down by ESG topic, objective, status, engagement dates and activity.

Outcome: The client welcomed the new format and the way that each engagement is split into sections helped them in their aim of standardising reports. As a result of this exercise, we have adopted this approach across all quarterly ESG reports produced for institutional clients invested in this strategy.

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

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

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

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

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

Our non-Japanese investment teams maintain an active dialogue with our Japanese clients via our Tokyo-based Client Service team. We supply monthly investment positioning and performance reports, as well as market outlook updates. The Client Service team offers the first response to client requests about their portfolios and many of these are subsequently fed through to the teams on the ground for a further response. Portfolio managers typically visit Japan on a regular basis and, in addition to updating clients on their portfolios during investor meetings, they will also offer educational workshops. For example, our Global Fixed Income team offers seminars on European markets and the Danish mortgage bond market to clients and prospective clients. Some clients have also sent their representatives to London as a means of learning about the market and its day-to-day workings. These contacts strengthen our dialogue with clients and our understanding of their needs, with the latest seminar being held in October 2023.

Outcome

Given that our largest client base is in the intermediary segment, it is harder for us than some other asset managers to assess the effectiveness of our communications with the retail market. However, we take comfort from the high rankings we regularly receive in the three most influential independent industry surveys in Japan (see below). These third-party endorsements of our retail communications provide testimony to our success in getting our message across to retail clients.

We increasingly use retail client feedback to shape and drive our communications, for example by addressing specific points of concern in the reports that we produce. Both our distributor network and our call centre team are essential in garnering, understanding and making use of this feedback.

While we cannot know directly what our retail clients feel about our retail communications efforts, we regularly receive favourable endorsement from third parties. For instance, in 2023:

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

We were similarly ranked number one for the fifth year in last year's branding survey by Nikkin, the Japanese news agency.

We were also placed second in the latest asset manager branding survey by MaDo, a major financial publication in Japan.

We believe the results of these surveys represent a weighty vote of confidence from intermediaries and commentators in the quality of our customer support, as well as how and what we communicate to the market.

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

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

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

Principle 7

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

Context

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

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

Allowing for asset class and regional differences, our Global ESG Steering Committee via the Global Sustainable Investment team is responsible for monitoring and improving the investment teams' implementation of stewardship principles. Whilst the local approaches may differ, this global process ensures there is consistency across the firm. We believe that it results in a structure that enables us to serve the best interests of our clients.

ESG issues are rarely the only consideration when making investment decisions, but an understanding of them informs the investment process and gives our investment teams a more rounded view of companies. In applying ESG policies and procedures to their particular circumstances, our investment teams consider a number of factors, including the environment, climate change, human rights and labour standards, talent management, product safety, diversity, board structure and independence, alignment of remuneration, transparency of ownership and control, and accounting. An acceptable ESG standard is never the sole determinant for investment, however, where materially negative ESG issues are identified and we do not believe that corrective measures will be taken, the relevant investment team will take appropriate action which may include excluding the company from investment consideration. For existing holdings, an indication of material deterioration in ESG factors may lead to a rating downgrade and subsequent sale from the portfolio.

This is not a one-off exercise but rather a process of continuous assessment. ESG considerations are applied before investing, while holding an investment and before selling. In addition to our own policies and considerations, certain issues may be given priority because of feedback from our institutional clients, either at the inception of a mandate or as the mandate evolves over time.

Ensuring service providers have received clear and actionable criteria

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

Since the creation of the ESG data team, we have focused on improving the availability, as well as the quality, of the data being used by investment teams. A primary focus has been to ensure that our data are accurate, timely and consistent across all investments covered. One important service provider which we currently use for the provision of ESG data analysis is MSCI. As part of a continuing internal project, we have had several calls, teach-ins and email discussions with MSCI to ensure we both understand and know how to use the data it supplies. The results of these sessions then feed into discussions between the ESG data team and the investment teams to decide how to use the data in practice. We also engage with MSCI when we see errors and try to resolve them in a timely manner. We go into more detail about this under Principle 8.

In addition to liaising with MSCI, the ESG data team contacts our portfolio companies to verify the data being supplied by third parties, and to encourage climate-related disclosure and target setting in line with SBTi (the Science Based Targets Initiative), which is further discussed later in this report. We would view success here as being confirmation that the ESG data used in our analysis and client reporting accords with what we are receiving on the ground from companies and in the public domain. Further information on how we interact with and hold to account our service providers can be found in our responses to Principles 8 and 12.

Climate change

Amongst ESG issues, we recognise climate change as the greatest the global community faces. We therefore consider that addressing it is a fiduciary principle when managing our clients' assets. We reinforced our commitment to this principle and outlined our approach to climate change in 2019, when we published our Position Statement on Climate Change.

The current position statement contains the four building-blocks of our approach:

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

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

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

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

While we take account of our own climate change principles in our portfolios, we also work with clients to provide low-carbon investment solutions aligned with their specific investment beliefs. For example, our Global Green Bond Fund is a low-carbon collective investment that invests primarily in securities that finance climate change mitigation and adaptation projects. We also have a Hydrogen Fund, managed by our Global Equity team, which enables our clients to participate in the financing of the hydrogen economy and the transition away from fossil fuels.

Having signed up to implement the recommendations of the TCFD, we encourage our investee companies to take the following steps:

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

Activity

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

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

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

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

ESG specialists support the investment teams as part of our aim of having all investment professionals integrate ESG into their investment processes to the fullest extent. They also build relationships with various 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 Global ESG Global Steering Committee reports to the Group Board and in our UK subsidiary, the regional investment teams are required to present their ESG implementation activities to the local board.

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

Asset Class	How we integrate ESG and stewardship responsibilities into the investment process
Japanese Equities	ESG is integrated into investment decisions through the use of a selection process based on "creating shared value" ("CSV") evaluations. The concept of CSV evaluations comes from the work of Harvard University professor Michael Porter, who found that the creation of social value leads to economic value. We have used our own CSV evaluation as part of our investment process since 2013 and introduced CSV stock price analysis in 2021. This latest addition to the process allows us to calculate a fair price for the stock based on CSV evaluation, further enhancing the investment process. The CSV evaluation currently comprises 12 factors grouped into three categories — ESG, competitiveness and financial strength.  In terms of ESG engagement with company managements, we have six key themes: **Environment:** Biodiversity and Action for a Decarbonised Society, **Social:** Diversity, Human Capital and Productivity and Human Rights, **Governance:** Effective Governance. See Principle 9 for more on our approach to engagement. A key part of our engagement with companies is the exercise of voting rights. We can and do use these rights to reinforce our views on any of the issues outlined above. That could mean, for instance, voting against board appointments where a company faces serious risks related to climate change or sustainability, and/or where management initiatives to address them are deemed insufficient and the situation is not improving. In terms of our wider stewardship responsibilities, we may also vote against management where we think a company is lagging in other areas, such as governance or financial performance. Respective examples of this can be found below in the following case studies: "Engagement leads to dividends and diversity at a Japanese media group" and "Shining a light on returns at a big Japanese ceramics to solar group".
Global Equities	ESG analysis is undertaken by each portfolio manager and fully integrated into the stock-picking process to ensure we can robustly evaluate the materiality of each factor and its potential impact in the future. Our four-pillar "Future Quality" analysis includes in-depth evaluations of ESG factors to determine their effect on the company's risks and returns. Research includes an analysis of a company's corporate governance, social practices, the environmental sustainability of its products or services and its capacity to fund its growth and ESG commitments. Our investment team engages with investee companies to help promote better ESG practices if we believe there is room for standards to improve. This includes ESG controversies identified by the Global Equity team. Proxy voting is executed in the interests of our clients in line with our proxy voting guidelines.

Asset Class	How we integrate ESG and stewardship responsibilities into the investment process
Asia ex-Japan Equities and China Equities	ESG analysis is incorporated into company research, security selection and portfolio construction. Our ESG "materiality map" focuses on the material ESG issues and opportunities for each of the companies we cover. The materiality matrix is based on ESG factors defined by the International Sustainability Standards Board ("ISSB") (formerly known as Sustainability Accounting Standards Board ("SASB") and MSCI. As part of our in-house proprietary ESG-scoring methodology, individual companies are rated against a number of ESG pillars and the results aggregated with fundamental analysis to provide a company-level score. ESG-focused research is also used to identify areas for company engagement and improvement. For how this applies in practice, see our case study "Raising sustainability standards at a major palm oil producer".
New Zealand Equities	The team seeks to understand how industry and company ESG factors may affect investments and, ultimately, client portfolios. ESG factors are considered as one aspect of the overall analysis to build a picture of the risks and opportunities faced by a company. Portfolio companies with low ESG scores are targeted for engagement in an effort to improve their performance in weak areas or where it would be beneficial for stakeholders. We are also proactive in finding and addressing wider issues affecting New Zealand companies, such as regular and severe weather events (see our case study "Anticipating the ramifications of climate change in New Zealand" under Principle 4). As part of this effort, we have launched the Nikko AM Freedom Fund, which donates all fees and returns to the Tearfund charity. Tearfund works through partnerships in some of the poorest parts of the world. Together with these partners, it helps to combat human trafficking and slavery, while tackling poverty and injustice through sustainable development. More generally, we engage with companies where we think managements are not acting in the best interests of shareholders, who are ultimately our clients. A case in point is described in our case study "Loss of conviction after strong board and company engagement".
Japan Fixed Income	In the Japan Fixed Income team, we believe ESG considerations are key factors when analysing qualitative risks that cannot be covered exhaustively by financial analysis. Our credit analysts consider ESG factors in addition to the fundamentals of each issuer. ESG factors are integrated into investment decisions for the industries and issuers we cover. Our Japan Sustainable Investment department also provide support on items such as ESG engagements.
Global Fixed Income	The majority of fixed income assets managed by the investment team are in investment grade bonds from issuers ranging from international bodies like the World Bank, to governments and large companies. The scale of these organisations and the limited rights of bondholders restricts our influence over their ESG policies. However, particularly in the case of corporate credit, ESG factors are considered to the extent that they are deemed material to the investment case and in line with our clients' risk appetite and perspectives on ESG investing. In relation to our holdings in sovereign entities and major banks, we maintain an active dialogue with issuers on ESG themes as a means of building our insight and market intelligence. We use a proprietary ESG platform to aggregate ESG data in order to enhance our ESG evaluation of sovereign, supranational, agency and corporate issuers. This tool allows us to compute ESG rankings based on the variables we think are the most relevant for each fixed income field or sector and gives us full control over the data sources we use, allowing for multiple data feeds. In particular, we use our proprietary assessment process for measuring the sustainability of issuers in our Global Green Bond Fund. This bottom-up review process is framed around three key elements: the issuer's sustainability strategy; the pre-issuance bond framework; and the post-issuance allocation and impact report. We illustrate the exhaustive due diligence we undertake before selecting candidates for the Green Bond Fund in the case study in Principle 9 "Keeping it bright green at Iberdrola*".

* 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.

Asset Class	How we integrate ESG and stewardship responsibilities into the investment process
Asia Fixed Income	ESG analysis is incorporated into all company research as part of our bottom-up fundamental analysis and portfolio construction. This research is based on our ESG Materiality Map which analyses companies using ESG factors based on those defined by the ISSB and MSCI, but adapted to reflect conditions in Asia. ESG-focused research is also used to identify areas for issuer engagement and improvement. We have also developed a proprietary ESG sovereign-rating model that uses public data from sources such as the World Bank, the United Nations, and the European Commission Emissions Database for Global Atmospheric Research. In this sovereign-rating model, we use 21 indicators that broadly cover all three areas of ESG. These include GHG emissions (per capita and proportional to GDP), an index of human development, and a measure of government effectiveness.
New Zealand Fixed Income	The team seeks to understand how industry and company ESG factors may affect investments and, ultimately, client portfolios. ESG factors are incorporated into the due diligence process to provide an overall picture of the risks and opportunities faced by issuers. Following investment, the team engages with portfolio companies with low ESG scores in an effort to seek improvements that would be beneficial to stakeholders.
Multi Asset	ESG integration is conducted from both a top-down and bottom-up perspective. The bottom-up approach relies on our teams of ESG specialists and research analysts, whose processes form part of the fundamental research process. The top-down approach entails the use of norms-based screening methods to identify companies that breach ESG safeguards, such as the United Nations Global Compact principles, or OECD Guidelines. For existing holdings, where a company is involved in controversy, or is identified to have breached a social safeguard, further due diligence is conducted before deciding whether the position should be sold.
Passive and Quantitative	Our Japan-based Investment Technology Fund Management team consists of the Passive Fund Management team and the Quantitative Investment Management & Development team. The Passive Fund Management team provides passive management products for a wide range of asset classes while The Quantitative Investment Management & Development team offers quantitative active strategies and smart beta strategies for domestic Japanese and international equities. The team believes that since ESG factors can impact shareholder value over time and in a wide variety of ways, it is important to understand them both theoretically and empirically. They therefore conduct in-depth research on individual environmental, social and governance components of ESG investment using a quantitative approach and also drawing on the expertise of our Global Sustainable Investment team. The findings of this research are used to integrate ESG considerations into existing products as well as to develop new products.
Money Markets	ESG and stewardship considerations are taken into account as part of the issuer selection process to the extent that they are deemed material to the investment case and in line with our clients' risk appetites.

Outcome

Further demonstrations of the practical outcomes of our integration of stewardship – and particularly ESG considerations – into our investment activities is through some examples. We have therefore included additional case studies in this section as well as throughout this submission.

Case Study:

Engagement leads to dividends and diversity at a Japanese media group (equity)

This large Japanese media group focuses on a wide range of content businesses.

Issue: We were dissatisfied with the absence of women on the board and the low level of dividends.

Activity: To register our disapproval of the company's policies, we voted against the directors at the AGM in June 2022. We then engaged with the company in October of the same year, encouraging it to increase the pay-out ratio and to appoint a female director. We gave warning that we would again oppose the company proposals to elect directors at the next AGM if there was no action.

Outcome: At the shareholders' meeting in June 2023 we voted in favour of the proposal for the election of directors as the total payout ratio now met our requirements and a female director had been newly appointed to the board. The vote passed with 88% in favour.

Case Study:

Shining a light on returns at a big Japanese ceramics to solar group (equity)

This large Japanese group produces a wide range of products, from industrial ceramics and semiconductor devices to solar energy and medical equipment.

Issue: The company's financial results have been sluggish for some years. A new president has overseen an aggressive investment in growth and a multi-year organisational restructuring programme since the early 2020s. Sales growth has picked up in recent years, but a point of contention with us has remained the company's poor return on equity.

We proposed several improvements in discussions with the chairman, including the introduction of return on invested capital as a key performance indicator for management. He agreed to take this back to the board for consideration. But a major factor in the poor capital efficiency at the group has been a stake in a large telecommunications company co-founded by the firm that has grown over time. This accounted for 46% of shareholder equity at the end of March 2022.

Action: The large holding is classified by us as a strategic shareholding, which is an area where we have recently tightened our standards (see Principle 5). Between March 2022 and March 2023, we held eight meeting with the group, including three with the president, where we explained that we were changing our voting policy. In future, we would vote against directors if cross shareholdings or strategic holdings in their company exceeded 20% of net assets.

In March 2023, we told the president that if a suitable plan to reduce the dominant holding was presented it would be taken into consideration when casting our votes. Unfortunately, the proposal unveiled in May was disappointing, with a planned reduction in the stake of only just over 5% of book value by March 2026.

While we generally favoured the president's positive impact on the company, we made the difficult decision to vote against both him and the chairman at the AGM. We believed that a more aggressive approach to reducing the dominant shareholding was necessary in order to improve capital efficiency and would be in the best interests of shareholders.

Outcome: At the AGM, both the chairman and the president were reappointed but with low approval ratings of 66% and 65% respectively. At the briefing in November 2023 for the second-quarter results, the president announced that the company would be reviewing its policy for the large shareholding. The president ascribed the decision to the lower-than-expected shareholder approval ratings received by the two senior directors at the AGM, which we consider a positive outcome. Nonetheless, we will continue to follow up and engage as part of our continuing efforts to monitor the company.

Case Study:

Raising sustainability standards at a major palm oil producer (equity)

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

Issue: First Resources is no stranger to contention, having gained bad publicity for its approach to biodiversity and deforestation. In the light of this, part of our enhanced due diligence process was to engage with First Resources in order to hear its side of the story and how it is seeking to improve in both areas.

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

- Primary Risks: Issues which can put a company out of business.
- Secondary Risks: Issues which can have a material impact on shareholder returns.
- Opportunities: Issues which can lead to a material enhancement in shareholder returns.
- Pre-Defined General Secondary Risks: Climate Change and ESG-Governance

Carbon Footprint	Company	Benchmark
Carbon/Market Cap (Ton/m USD)	283.0	160.0
Carbon/Total Sales (Ton/m USD)	377.3	241.9
Impact on per mil Investment (USD)	-4,566.5	

Activity: Our Asia Equity team met First Resources in March 2023 to discuss, amongst other things, a recent sustainability/ESG report from MSCI. The meeting reaffirmed our understanding of the company's sustainability policies and processes, particularly concerning biodiversity. We discussed this and other matters which had been resolved in 2020 but whose resolution had not been recorded by MSCI, although it continues to be the subject of conversations with the company. We also learned that the company would shortly be publishing its sustainability report for 2022, focusing on climate change strategy and progress towards full certification by the Roundtable on Sustainable Palm Oil ("RSPO") lobby group.

From our point of view, First Resources' own operations are on track in terms of its sustainability commitments and it has also been responsive in addressing past controversies. We noted that 34% of its operations received RSPO certification in 2022, more than double the 15% achieved in 2020. While this is still a long way short of the 77% coverage achieved by rivals Wilmar International*, we think First Resources will be able to meet Wilmar's standard in the next year. We also believe that the company's MSCI sustainability score should improve over the next two years. Overall, although far from perfect, we do not believe First Resources is worse than average and, in terms of its own processes, it is on track to further its sustainability performance.

We further engaged with the company in December. We learned that they are looking to expand into downstream businesses such as using waste cooking oil to produce fuel. This would be a substantial investment of USD 300 million over the period 2025-2026. Aside from the strong investment case, the investment would help reduce the palm oil and cooking oil waste that the company generates, amounting to around 40,000 tonnes a year, while improving the company's sustainability credentials. A decision will be made by the end of 2024.

Outcome: We will continue to monitor and engage with the company on its progress towards greater biodiversity and more sustainable land use, as well as the project to develop biofuels.

* 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:

Loss of conviction after strong board and company engagement (equity)

This company, formerly held in our New Zealand Equity strategy, develops and sells specialist software and equipment and had strong growth aspirations in the North American market.

Issue: In February and April 2022, first the company's chief finance officer and then its chief executive resigned. These departures came soon after an equity capital issue in which we had participated the previous year to acquire a firm that offered, according to the investee company, complementary technology and synergy gains in the North American market. However, the resignations were a clear sign to us that the integration was not progressing as smoothly as expected.

Our concerns deepened when full-year results for 2022 revealed a 16% drop in earnings, continued cash burn, increased cost inflation and struggles in the North American market. These factors, together with the resignations and the lack of progress with the North American growth strategy, raised enough concerns for the NZ equity team to engage with the company.

Activity: The board had communicated to us that the process for replacing the CEO was well advanced, and a preferred candidate had been identified. When the company then decided to appoint an internal candidate, we felt that our faith in the communications from the company about the CEO recruitment was misplaced. We are still not confident as to the reason why the preferred external candidate was not appointed.

Our engagement with the board culminated in a letter expressing our concern, but ultimately we were not satisfied with the response.

Outcome: Our engagement resulted in a loss of confidence in the company and its board, notably in relation to the North American growth strategy, the possible need for further capital and uncertainty over the level and the timing of financial outcomes for the company. As a result, in June 2023 we sold our holding.

Principle 8

Signatories monitor and hold to account service providers.

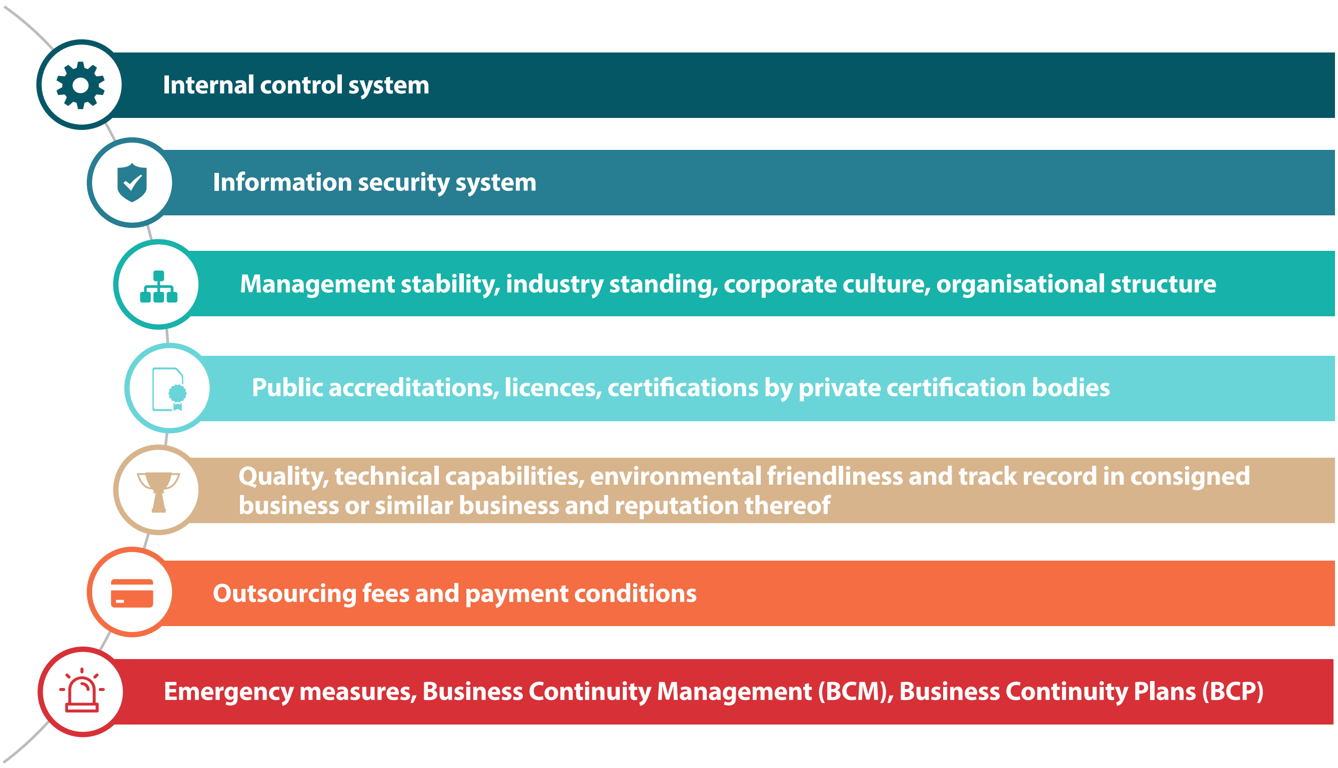
Activity

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

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

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

How we monitor service providers



Monitoring our main ESG data vendor

The ESG data team focuses on improving both the quality and availability of ESG data being used by investment teams. Our primary focus has been to ensure that our data is accurate, timely and consistent across all investments covered by us.

As we rely on one large data provider, MSCI, for a significant portion of our data, we engage with it as required to improve the accuracy and usability of the data. These engagements may be general queries about data sets or they may concern specific data quality issues. Although data quality issues did continue to arise in 2023, there has been an overall improvement in data quality and this, combined with strategies already in place to allow us to by-pass data points that our ESG data team felt were inaccurate, has led to a marked decrease in the number of individual enquiries to the data vendor.

Overriding MSCI to improve reported emissions data

An MSCI update to the greenhouse gas emissions data reported for a company held in one of our Japanese Equity portfolios increased by approximately 300% in September 2023. This jump caused a 6-7% rise in the fund's Weighted Average Carbon Intensity, a standardised measure of emissions. On investigation, we discovered that MSCI had switched from using published data for the company's emissions to an estimated number. To resolve the issue, our ESG data team corrected the figures from data published by the company and data from Bloomberg and Factset. The team then overrode the estimated numbers with this data, which it considered to be more accurate. When MSCI corrected its estimate in December 2023, our ESG data team removed the override.

The majority of queries raised are now in relation to ad-hoc methodology issues. For instance, we got in touch with the data provider to ensure that it had become a signatory to the **Code of Conduct for ESG Ratings and Data Products** launched last year by two industry bodies, the International Regulatory Strategy Group and the International Capital Markets Association. The Code aims to foster a trusted, efficient and transparent market by introducing clear standards for ESG ratings and data products providers and clarifying how such providers can interact with wider market participants. On another occasion, members of our Global Sustainable Investment team participated in the MSCI ESG Ratings Consultation Roundtable in Singapore, where we and other industry participants provided feedback on proposed ratings methodology changes.

Case Study:

Correcting faulty MSCI analysis at a Singapore conglomerate (equity)

Sembcorp Industries* is a Singapore-based conglomerate with businesses in energy and urban development.

Issue: In July 2023, MSCI reported a rise to 45% in the proportion of Sembcorp Industries' revenue coming from thermal coal power generation. This was in spite of Sembcorp selling off its last two thermal coal assets in India ("SEIL") in Jan 2023 as part of its transition strategy to zero carbon energy and writing down its Chongqing Songzao coal plant in China.

Activity: The Asia Equity team contacted Sembcorp after the MSCI report to clarify the revenue contribution from thermal coal power generation, given its importance to the energy transition both for the firm as a whole and our clients. The company told us that the number reported by MSCI was wrong. It said that the percentage revenue from thermal coal should be zero after writing down the Chongqing Songzao assets, which now make no contribution to earnings, and the sale of SEIL in January 2023.

We then approached MSCI to clarify its methodology and how it derived the figure of 45% revenue from thermal coal power generation. MSCI said that, according to its "Treatment of Discontinued Operations – Power" methodology, it still included SEIL as a contributor to revenue from thermal coal power generation. As Sembcorp did not break out revenue from thermal coal power generation separately, MSCI's methodology sought to estimate such revenue by comparing it with the installed coal-fired capacity in the annual report, which included both the Chongqing Songzao plants and SEIL.

However, we pointed out that their approach was faulty as:

1) Sembcorp had taken a full write-down on Chongqing Songzao in 2021 so it should have been clear that there would be no revenue contribution in 2023;

2) MSCI had already included SEIL in its previous calculations using the "Treatment of Discontinued Operations – Power" methodology and therefore the contribution from SEIL had been included twice.

After discussions and a review, MSCI agreed with our points and revised Sembcorp's percentage revenue from thermal coal power generation to just under 17%, but only taking into consideration the sale of SEIL as per their discontinued operations methodology.

Outcome: We communicated the outcome to both an interested client and Sembcorp. We will continue to engage our data providers where we deem that further clarification is required to improve the overall quality of data.

Monitoring our proxy voting service provider

An example of a service provider we use extensively for our stewardship activities is ISS, which we use to carry out proxy voting on our behalf. For the majority of resolutions, upon receipt of voting recommendations from ISS, the portfolio manager or analyst responsible for the security in question looks at the report and conducts further research where any issues have been flagged.

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

Some examples of how we use the advice we receive from ISS can be found in the case studies below and throughout this document (notably under Principle 12).

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

Case Study:

Trying to keep the lid on pay at Macquarie Group* (equity)

This Australian group is the world's largest investor in infrastructure and is also involved in businesses ranging from energy to telecoms.

Issue: Best practice for shareholder-friendly remuneration formulas at large, global, financial institutions should include pre-set and transparent thresholds, target and maximum goals. In Macquarie's case, however, individual profit share awards – which comprise the vast majority of key executive management remuneration – are discretionary. Moreover, the process for determining profit shares lacks important investor-friendly features and disclosures and continues to rely on vague financial and non-financial factors. As a result, it remains unclear how rigorous the individual performance hurdles and associated outcomes are.

The Australian Corporations Act requires listed companies to include an audited remuneration report in the annual report, and to put the remuneration report to a shareholder vote at the AGM. In this instance, previously-identified concerns about remuneration have continued into 2023. The remuneration of the chief executive and, notably, the Head of Commodities and Global Markets Group increased significantly last year, despite a mixed performance from the business, with one-year total shareholder return going backwards.

Activity: In light of these factors, there was a misalignment between pay and performance, which meant we did not feel it was appropriate to support the remuneration report. The Global Equity team therefore voted against, which was in line with the ISS recommendation.

Outcome: Despite our vote and the ISS recommendation, the vote carried with 80.2% voting for the proposal.

Case Study:

We vote against advice and for experience at an Indian drugs maker (equity)

This Indian company, Sun Pharmaceuticals*, is one of the world's biggest producers of generic pharmaceuticals.

Issue: The board's proposal to appoint Sanjay Asher as a non-executive director was opposed by ISS on the grounds that he already serves on at least six company boards and would therefore not have enough time to devote to his role at the company.

Activity: The Asia Equity team disagreed with the ISS analysis on a number of grounds:

- Firstly, we believed there was "inherent bias" in the claim that he would not have enough time. He is extremely well equipped as senior partner at Crawford Bayley & Co., India's oldest law firm, where he specialises in corporate and commercial law, mergers & acquisitions, joint ventures, private equity and capital markets. He is also a qualified chartered accountant.
- His experience on other boards will bring outside expertise in several areas which would overcome any concerns about his being overburdened with responsibilities.
- His appointment to the board can be seen as a positive change since audit and tax transparency have not been strong points of Sun Pharmaceuticals in the past.

We concluded that, given his career credentials, appointing Asher to the board did not compromise us as a shareholder and we therefore voted against the ISS recommendation. Mr Asher was subsequently appointed to the board with 80.3% of votes cast in favour of this appointment.

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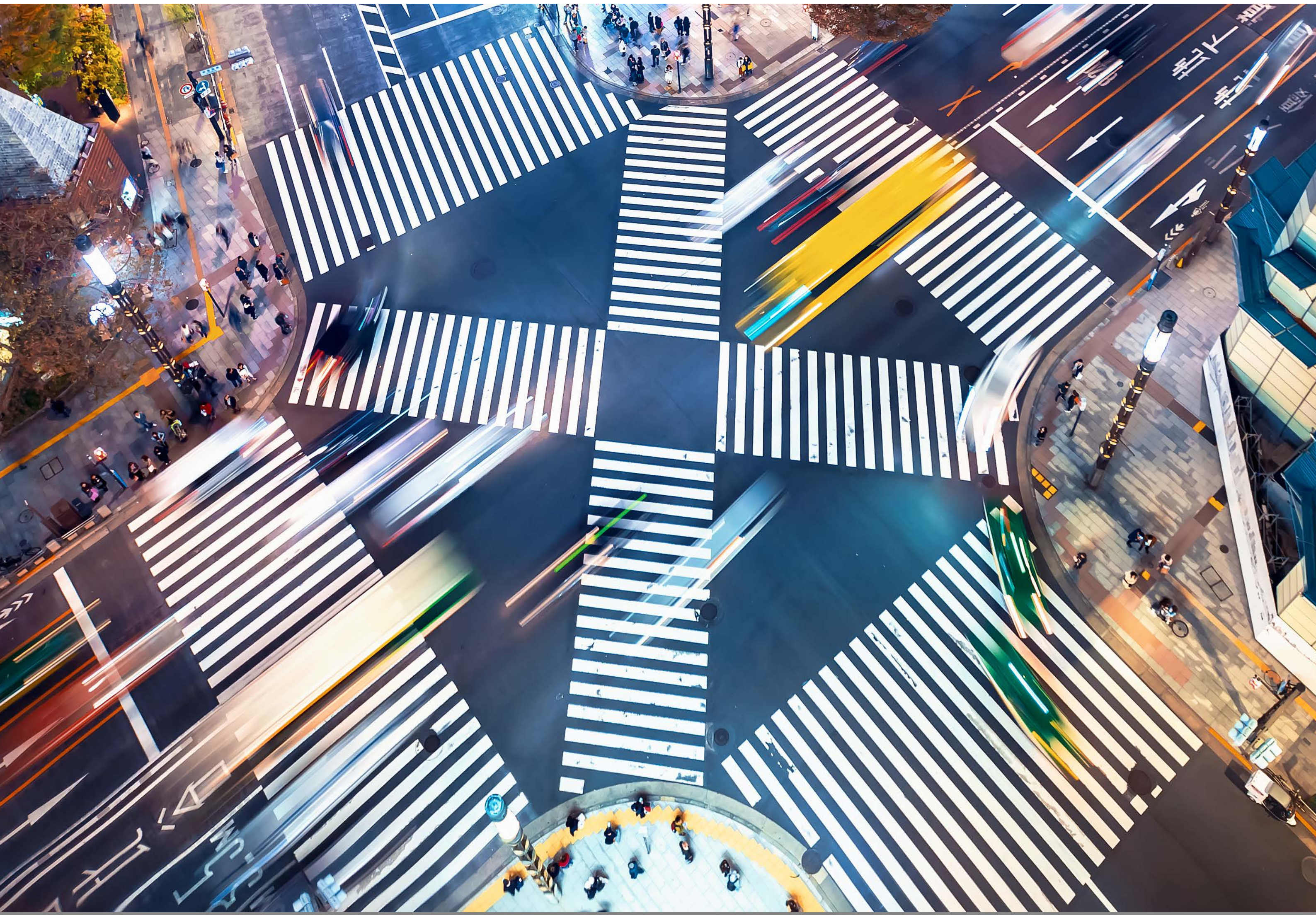
Outcome

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

In line with our commitment to transparency, we continue to point out these limitations in our external communications. For example, our latest TCFD report, which heavily relies on third party data for climate scenario analysis, details the limitations and challenges we found applying third-party data.

Where data fails to meet our minimum standards as evaluated by our ESG data team (which is independent from our investment teams), we feed our concerns back to the relevant service provider as part of our day-to-day operations. Unfortunately, this does not always result in records being updated. To cope with these deficiencies, we have developed internal processes to override data received from the vendor. In the main, though, we continue to rely on our close knowledge of the companies in which we invest to correct erroneous data to ensure that our investment theses and reports are as up to date as possible.



Principle 9

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

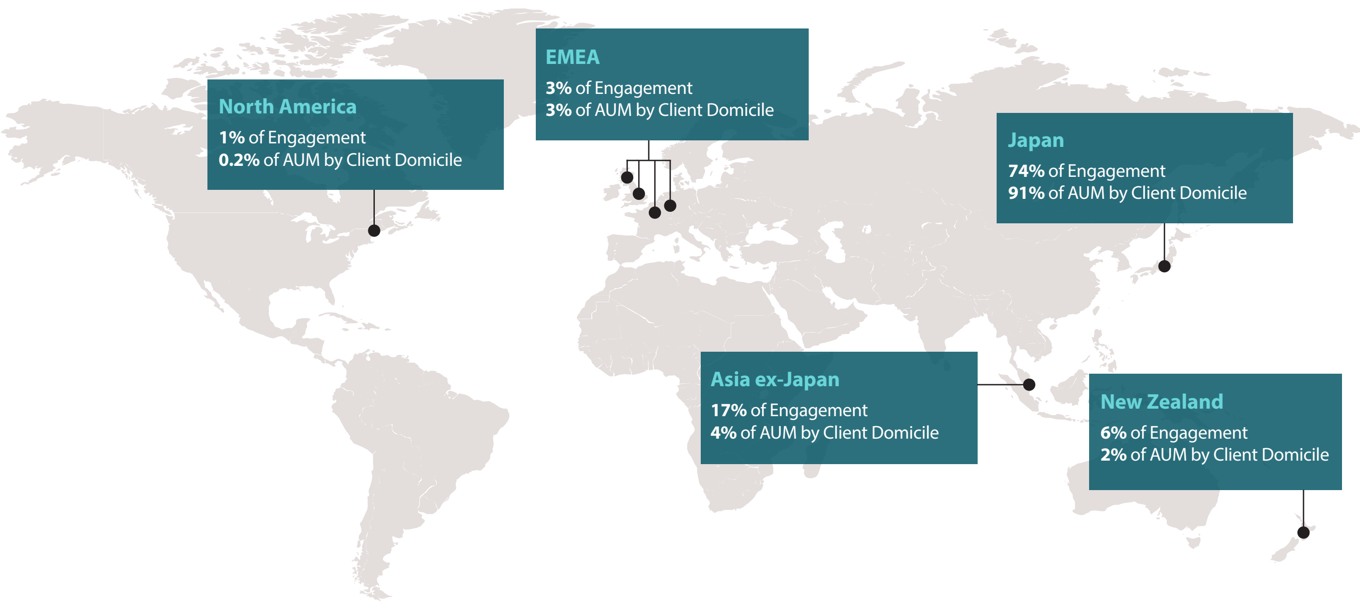
Activity

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

While the general approach outlined here applies to all discretionary accounts, it will be adapted to circumstances. For example, Japanese culture approaches engagement from a different perspective to Western societies, since public engagement to influence change is viewed as discordant and can disrupt relationships built up over many years. Furthermore, our influence is limited by the significant portion of our Japanese equity AUM held in passive portfolios (as shown in the pie charts under Principle 6) as we do not have the same ability to divest these assets. That said, our Japan Sustainable Investment department is working actively to influence positive change at target companies on core ESG themes, even where they are held only in passive portfolios[5]. This is a multi-year project.

We have also made further progress in Japan on our engagement activities in 2023 beyond equities. The Japan Sustainable Investment department now works with investment teams across all of our asset classes in Japan, which has translated into closer collaboration with our Japan Fixed Income and Japan Investment Technology teams on stewardship activities.

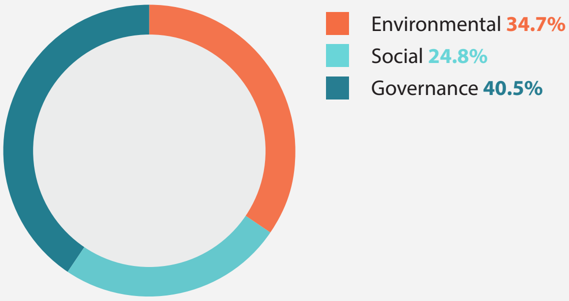
The map below gives the proportion of the firm's total ESG engagements undertaken across our different regions in 2023[6]. We compare this to the relevant proportion of total AUM in each client domicile. The charts that follow provide a further breakdown of ESG engagement by theme and investment team respectively.



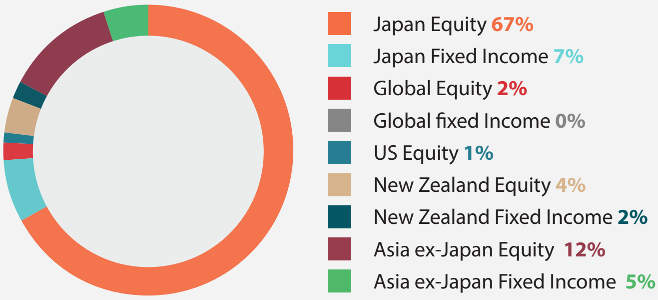
Totals may not sum due to rounding of data at source

5 Our passive portfolios are managed by the Passive Fund Management team, which is part of the Japan Investment Technology team, providing passive management products for a wide range of asset classes.
6 The breadth of total number of engagements (as at 31 December 2023) is greater than the ESG engagements reflected here.

Firmwide ESG Engagement by Theme



ESG Engagement by Investment Team



Engagement objectives

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

Three overarching principles guide our engagements:

- **Materiality:** our engagements are driven by material factors, especially ESG factors.
- **Intentionality:** we establish clear objectives and expectations for our engagements.
- **Effectiveness:** we engage in a constructive, positive and pragmatic manner.

Engagement methods and execution

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

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

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

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

As we have described elsewhere in this report, ESG is fully integrated into our investment process, with investment teams engaging with companies on relevant ESG issues both before and during the period of investment (and sometimes afterwards: see our case study "Sustained investor pressure continues to pay off at major Asian property group").

Our regional ESG specialists also perform engagements under the banner of collective action on a particular theme, for example, climate change in relation to our responsibilities under the Net Zero Asset Managers initiative and Climate Action 100+. However, ultimately, it is the analysts and portfolio managers in our investment teams who are responsible for assessing the ESG risks and opportunities that inform portfolio buy and sell decisions and engaging with the companies they cover.

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

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

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

Engagement by asset class

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

Japan Equity

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

A key focus of the Japan Sustainable Investment department is to work with portfolio managers and analysts in our research teams to engage with large and mid-sized firms specifically on ESG issues. The priorities when deciding which firms to engage with are based on several stewardship considerations, including, amongst other things, key ESG themes (such as climate change, DE&I and corporate governance), corporate earnings, asset efficiency and shareholder return.

Our ESG priorities for Japanese companies

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

Environment – Action for a decarbonised society

The shift toward a decarbonised society is creating growth opportunities for companies with environmentally-friendly technologies. At the same time, decarbonisation and other such changes put companies at risk of potential cost rises, while their brand power may be damaged if they fail to take sufficient action. This is making decarbonisation increasingly important as a driving force behind future corporate value. We use our engagement to urge firms to address these changes, for example by allocating business resources to related fields and preparing for the associated risks. Our analyses of companies' actions in this area are pivotal to our assessments of their corporate value.

Social – Human capital and productivity

The way companies use human capital is clearly important for their medium- to long-term earnings and corporate value, and it will become increasingly crucial as populations age further and birth rates continue to fall. Following the Covid-19 pandemic, changes to work regimes and the need for flexible responses to similar environmental changes have also driven improvements in corporate sustainability. Deepening our engagement with and analysis of companies, focusing on personnel strategies and systems, as well as labour productivity, are other ways in which we are helping to enhance corporate value.

Governance – Effective governance

Thanks in part to the Corporate Governance Code, Japanese companies have made great strides in developing their governance frameworks. We continue to urge companies to increase their corporate value even further through sustained development and enhancement of their governance frameworks. Our engagement covers the appropriateness of their long-term vision and management strategies, their ability to put these plans into practice, and the effectiveness of their oversight and advisory functions.

In 2023, we have further expanded these three ESG themes by adding the following additional topics:

- **Environment:** Biodiversity
- **Social:** Diversity
- **Social:** Human rights

The revised list is published and maintained on our website as Nikko AM's Key ESG Themes.

In 2022, the Japan Sustainable Investment department established an engagement platform for information sharing to enable the wider Equity Fund Management department to carry out engagement in a systematic and effective manner and encourage collaboration between fund managers and sector analysts. At the end of 2022, the department had identified 187 Japanese companies that they wish to engage on material issues. During the 2023 calendar year, meetings took place with 94% of these companies, of which 25% took place with senior management and 14.5% have progressed beyond the initial stages of engagement.

Also during 2023 – and following client feedback and extensive discussions between subject matter experts within the team – we introduced mid- to long-term key performance indicators for our ESG priority areas. Combined with a systematic stage-by-stage monitoring process, this, we believe, will enhance the way we monitor and measure the effects of our engagements. After each engagement, a report is created to track progress and is shared internally. Feedback is also provided to active investment portfolio managers. Some illustrations of how we engage with our Japanese portfolio companies can be found in our case studies that follow and throughout this document.

Global Equity

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

Case Study:

Keeping clear of conflict minerals at an IT company (equity)

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

Issue: The company had previously been highlighted by MSCI as having below-average disclosures and procedures for auditing suppliers which might be involved in sourcing raw materials from controversial parts of the world. Following our engagement, we reported steady improvement at the company in last year's response and this is an update.

Activity: The Global Equities team started involving itself in the company in 2021 and 2022, when we discussed the problems associated with sourcing minerals from countries where there is fighting or human rights abuses, so-called "conflict minerals". Subsequently, MSCI raised its ESG rating for the company and we were pleased to see that the company was making progress with its audit of suppliers.

Our engagement continued into 2023 to ensure the company was maintaining its commitment to supplier audits. In April, the company published its Sustainability Report, with an update. The company had previously set a target of auditing 100% of suppliers in risk countries by 2023 (75 in total). At the end of 2022, the number of risk suppliers had reduced to 56 and 11 of those audits were completed. The report confirmed that the company stood by its goal of auditing all suppliers by the end 2023. In August, we held a regular company call with Hexagon's CEO and investor relations team, with further updates promised later in the year.

Outcome: At a presentation in December, Hexagon's Head of Sustainability gave an update on the company's sustainability efforts. During this, she reiterated the commitment of auditing 100% of suppliers by the year end and confirmed they were "almost finishing on ticking that one off". Subsequently, at Hexagon's full year results presentation in January 2024, it was confirmed that the commitment had been fulfilled.

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

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Global Fixed Income

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

With respect to corporate credit, our Global Fixed Income portfolio managers and research analysts engage with the companies in which we invest. These discussions cover the firms' corporate earnings and financial strategies, as well as other non-financial information, including their management policies, business strategies and material ESG matters, as part of an assessment of corporate value that ultimately informs our investment decisions. Where we have identified company-specific or systemic risks, we may raise these concerns through meetings, site visits, conference calls or correspondence in order to gain assurance that risks are being managed.

We prioritise engagements based on our holding and the bond issue in question. The level of engagement depends on the asset class and the geographical region. Given our relatively small exposure to corporate bonds and emerging markets, we are realistic about the practical limits to our influence and we avoid situations where we might end up in corporate actions which would tie-up disproportionate resources and time. However in our Green Bond Fund (which was relaunched in October of 2023 and now has the ability to invest in corporate issues as well as sovereign, supranational and agency bonds, or SSAs), engagement is a key feature. We use it to resolve issues that may have arisen as part of the due diligence process, particularly in regards to any potential harm that may arise as a result of the investment, both in relation to the issuer or the use of the proceeds. An example of one such engagement is the case study opposite.

Case Study:

Keeping it bright green at Iberdrola* (fixed income)

This is a multinational electric utility company based in Spain. It is one of the largest electricity companies in the world and one of the world's largest producers of wind power.

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

The Teles Pires Dam is no longer held by Iberdrola and during its ownership it had reportedly undertaken mitigation measures to compensate for the damage done to the surrounding environment and indigenous people. Nonetheless, we wished to ensure that lessons had been learned, that suitable processes were being followed to ensure no breaches of the principles of the UN Global Compact, and that our investment would not be funding projects that did significant harm to other environmental or social objectives.[7] We therefore decided that the investment would require enhanced due diligence and contacted the company in December of 2023 to arrange a call to discuss the situation with members of their investor relations team in early January 2024.

Activity: The company was very transparent with us about the controversies it had faced and also the work it has done to address the social and environmental aspects of its Brazilian dam projects. The company has put in place a systematic stakeholder engagement project and has conducted its own major in-depth assessments rather than relying on the state to reduce similar risks in the future. It also confirmed that remedial measures in relation to the dam were carried over to the new owner when the project was acquired by another company. Furthermore, we were told that Iberdrola is not planning any major new hydro-electric projects in South America and it provided us with a detailed and timely report on the social and environmental impacts and mitigation activities related to those of dam projects in Brazil that remain active.

Outcome: Following our dialogue with the company, we are comfortable with the measures it has taken in terms of reducing the environmental and social risks associated with its hydro projects. We have therefore downgraded the status of our investment from "Enhanced Due Diligence Required" to "Monitor". No further action is required at this stage.

7 The principle of "do no significant harm" is a key element in the European Union's sustainable finance legislation.

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Asia ex-Japan Equity

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

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

We believe our investment analysts are best placed to assess what is most material to investment returns in terms of risks and opportunities for their sectors, and it is they who conduct ESG research on the companies. The team uses engagement with the management teams of companies to carry out thorough ESG analysis, as well as to express the team's opinion in its capacity as investment manager acting on behalf of clients. Governance and labour rights are two problems that have been highlighted at several Asian companies. The case study that follows shows how we are attempting to tackle these issues with our engagements.

Case Study:

Improving clarity at a Korean pharmaceutical group (equity)

This is a South Korean company that engages in the development, manufacture and distribution of biopharmaceuticals.

Issue: The Asia Equity team have noted a number of poor governance practices at the company over several years:

- there have been a large number of transactions with a related company controlled by the chairman and founder;
- the accounts are characterised by aggressive accounting for inventories, questionable revenue recognition, and problematic capitalisation of research and development expenditure;
- generally, the company is poor at disclosing information.

We engaged with the company to better understand their governance practices, provide feedback and push for improvements.

Activity: Our initial engagements in 2022 focused on the long-running investigation by the Financial Supervisory Service, South Korea's financial regulator, and the proposed merger of three related companies. This followed disquiet over the high levels of related-party transactions with a sister company and alleged accounting irregularities, including the overestimation of development costs and the failure to reflect inventory valuation losses.

As a shareholder, we supported the merger as it would remove related-party transactions and improve transparency. We provided feedback and recommendations to the company as part of the engagement process. We noted a big improvement in its communications with investors about immediate plans and future strategy. We hope this will make investors less hesitant to take a longer-term view of the company. We also impressed on the company the importance of ESG to us and other investors and clients.

Korean companies do not generally score well on ESG. We showed the company MSCI's ESG reports, which it seemed unaware of. There were two areas where it had been marked down:

- **Governance**. The high level of related-party transactions was an immediate red flag. The merger should solve the problem, improving transparency and governance.
- **Human capital**. The public perception of the company is not high in terms of how it treats its workforce and builds and retains talent. It needs to do more in explaining its policies and approach towards nurturing and advancing its staff, including management development, training, grievance reporting, and engagement surveys.

Outcome: The long-awaited merger finally took place at the turn of the year. We believe that will go a long way in clearing up some of the accounting and transparency issues. However, we will continue to engage with the company on its governance practices and continue to provide feedback on the steps it can take to improve.

Asia ex-Japan Fixed Income

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

When meeting companies, the team engages the management to understand its ESG position and likely changes in the future. Most of the team's engagement is centred on understanding what the management's view is of ESG, as well as encouraging the companies to consider ESG best practice. For those lagging in terms of ESG (for example, on greenhouse gas emissions targets), the team will attempt to engage on a deeper level. Where possible, if a particular company is held (or is a prospective investment) in both equity and fixed income portfolios, representatives from both teams (as well as the ESG Specialist) will jointly engage in order to increase the impact of the engagement. This is well illustrated by our case study "Elevating nature at a major Korean steel maker". As active stewards of our clients' capital, we also occasionally throw the net beyond our portfolios to engage with companies whose securities we might buy in the future. A case in point is our engagement over several years with the company highlighted in the case study: "Sustained investor pressure continues to pay off at major Asian property group".

Case Study:

Elevating nature at a major Korean steel maker (fixed income and equity)

POSCO Holdings* is a South Korean holding company that owns several businesses and listed companies involved in steel, trading and electric vehicle battery materials, amongst other activities. It is held in both fixed income portfolios. The image below illustrated the ESG themes considered by the investment team to be material to the company analysis.

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

Issue: The group's listed subsidiary POSCO International has been criticized for contributing to deforestation in New Guinea. It has since announced a policy of "no deforestation, no peatland, no exploitation", but has not committed itself to the disclosures recommended by the Taskforce on Nature-related Financial Disclosures ("TNFD"), a corporate initiative to promote more nature-friendly business. This despite the rest of the POSCO group joining TNFD and the fact that POSCO International's business has significant importance to biodiversity.

The POSCO group has laid out a carbon reduction roadmap to reach net zero in 2050. Nonetheless, the group's short-term targets fail to match the ambitions of the SBTi, a UN-backed group pushing companies to adopt a clearly-defined path towards reducing emissions in line with the Paris Agreement goals. We wanted to engage with POSCO to better understand its carbon-reduction strategy and to push it to sign up to international sustainability targets.

Activity: Representatives of our Asia Fixed Income team met POSCO in September 2023 and discussed several key ESG issues. We highlighted our concerns about POSCO International's biodiversity management practices and asked if it would be signing up to TNFD. We also touched on POSCO's overall sustainability practices and its intentions in respect of SBTi, the opportunities in green steel, and its efforts to mitigate physical risks and adapt to climate change.

During the meeting, the POSCO representatives indicated that they understood the incongruity of POSCO International not being a signatory to TNFD while the group was. The group itself has a biodiversity policy and during our meeting we learned that POSCO International would be reporting over the course of 2023 and 2024 on how its operations are adhering to best practice on safeguarding biodiversity. The subsidiary has taken on an expert to look at biodiversity and will start reporting on this on an annual basis.

* 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.

We noted that only one of POSCO's subsidiaries was aligned with the SBTi and asked if POSCO was looking to extend that across the group. The company representatives blamed its limited adherence to the SBTi on a lack of government subsidies to reduce the cost of decarbonisation.

We followed up this meeting with queries about how the group was aiming to mitigate physical risk in the wake of Typhoon Hinnamnor in September that resulted in $330 million of damage. The company said it was assessing coastal flooding risk at nine of its existing steel manufacturing sites, while designs for new sites will incorporate plans to elevate factories above the projected sea-level for 2100.

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

Outcome: We will continue to monitor the group to review its progress in signing up for TNFD disclosures or findings other ways to reduce its biodiversity risks. We will also continue to monitor POSCO's* carbon reduction strategy. It is early days, but we believe that having both equity and fixed income representatives involved in engagement makes the company more responsive to our requests.

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Case Study:

Sustained investor pressure continues to pay off at major Asian property group (fixed income)

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

Issue: As we discussed in our 2022 response to the Stewardship Code, the company has traditionally had minimal green building targets, with only a small portion of its portfolio classified as sustainable. Given its private status, the company is subject to a significantly lower standard of governance than publicly-listed rivals, with fewer restrictions on related-party transactions and controls over dividend policy. It also has minimal reporting requirements.

Activity: Although we are no longer bondholders, we are keen to see the company improve its green credentials to allow us to invest in the future. We therefore wanted to engage with management to see if it would increase green building representation in its portfolio. We also wanted it to improve disclosures and transparency, especially regarding significant transactions and related-party transactions.

In May 2021, during a green bond group investor call, we pointed out that the existing green building assets was a low proportion of its overall portfolio. When asked by us, the company said it had no specific targets for the portfolio's sustainability. We also argued that a proposal to introduce limits on equity dividends to protect bondholders was ineffective given that, as a private company, it could easily pass cash around the group in the form of inter-company loans.

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

Despite no longer being an investor, we continued to engage with the company in 2023 via emails and group calls. This included giving support for the new related-party transactions committee that was set up in October 2022 in response to pressure from investors, although we continued to push for stronger controls on related-party transactions.

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

We will continue to monitor the company for further progress on disclosures and related-party transactions protections to determine whether we want to invest again in the future.

Outcome

The engagement process is a marathon, not a sprint. And, as discussed earlier, we tend to be a smaller institutional investor outside Japan, with correspondingly less influence over companies. However, we think that the last year has shown marked progress in our engagement with the management of companies, both within and beyond our portfolios. This is well illustrated by the case studies throughout this year's report. Several have shown that our persistence and willingness to take a stand have paid off, with managements and boards that had been reluctant to adopt sustainable practices or good governance changing their ways following intervention by investors. We are also seeing good results where our equity and fixed income teams can collaborate to effect change for the better.

We realise that we have been helped in our engagements by being one amongst a number of investors who have brought pressure to bear on companies. Nonetheless, we think we are providing very effective support and, on occasion, leading the way in getting the corporate world to do the right thing. Actions speak louder than words, and we believe our engagement activity in 2023 is some of the best proof we can show of our commitment to stewardship.

Principle 10

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

Activity

In our view there are some instances where one-to-one company engagements deliver insufficient progress, collaborative initiatives with like-minded investors can increase shareholders' influence on companies' corporate behaviour and ESG performance. Whilst we are seeing increasing investor collaboration efforts in many regions, this engagement method is still in relatively uncharted territory in some parts of the world. For example, in parts of Asia, one-to-one engagements can be viewed as more constructive and culturally appropriate to build trust. In Japan (which accounts for the majority of our equity assets under management) we are mindful that collaborative engagements can be more difficult due to local regulations concerning joint and large shareholdings, whereby severe sanctions may be imposed if reporting requirements have not been met. We therefore participate in such engagements only after taking into careful consideration any potential ramifications. However, as stated under Principle 4, we have been engaging under the Japan Stewardship Forum and shared our feedback on the current state of regulation with regards to stewardship in Japan, its limitations and how alternative approaches would help to advance stewardship activities in the Japanese market. With anticipated changes ahead, we hope that market participants, including ourselves, will be able to engage with companies more freely.

Our involvement in collaborative engagements, often working with other stakeholders such as industry partners and academics, allows us to deepen our understanding of particular ESG topics, issuers' ESG performance and industry best practice. To date, most of our engagements have been restricted to a single asset class as there has been limited cross-over of equity and fixed income holdings and our engagements are typically conducted by asset-specific portfolio managers and analysts. However, in some regions we have been starting to combine engagements to increase our leverage at companies where we have equity and fixed income holdings in the same company. Examples included engagements we led during the year with a couple of companies as part of an initiative launched by CDP that aims to improve companies' climate-related disclosures. In both cases, both our equity and fixed income teams were involved. (For more on this, see our case study under Principle 4, "Helping to lift the veil on corporate emissions"). For an example where our equity and fixed income teams internally collaborated, see the case study "Elevating nature at a major Korean steel maker" in Principle 9, as well as "Joining forces to force change at a Japanese automation group" under Principle 11.

Our regional investment offices select the most suitable and effective methods for their collaborative engagement. Generally speaking, however, we use the following criteria to determine whether to join common cause with other shareholders:

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

Outcome

We have made significant progress and dialled up our active participation in various collaborative engagements in 2023. We continued our collaborative engagements under industry initiatives such as CA100+ and the AIGCC, became an investor participant in NA100 and publicly supported an initiative led by the Dutch Association of Investors for Sustainable Development ("VBDO"), all of which are illustrated in the case studies below. In addition, under the banner of CA100+, we took the active lead role in a long-term engagement with a Japanese machinery manufacturer, with multiple company engagements having taken place in 2023. As this engagement is scheduled to continue in multiple phases until 2030, we look forward to reporting on its progress in greater detail in future reports. Beyond these examples, we continue to be an active member of a number of industry groups pushing for better stewardship, notably on climate change, whose purpose and origins were outlined in last year's response.

Case Study:

Paving the way to lower emissions at India's biggest cement company (equity and fixed income)

Our 2022 response to the Stewardship Code highlighted our collaborative engagement with UltraTech Cement* to illustrate our support for CA100+, an investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change. Last year saw further positive developments in this engagement.

Issue: UltraTech Cement is one of the 170 companies that is being targeted by CA100+. The Indian company is one of the world's largest cement producers outside China, with business operations across Asia. It is also one of the world's biggest emitters of greenhouse gases and is operating in a sector – cement – where emissions are hard to abate.

The company has been proactive in addressing the transition to zero carbon. For instance, it is a founding member of the Global Cement and Concrete Association ("GCCA"), a signatory to the GCCA Climate Ambition 2050 and is committed to the Net Zero Concrete Roadmap announced by GCCA. It has also had its near-term targets verified as in line with global warming of well below 2°C by 2032 by SBTi. The company also has commitments to EP100 and RE100, two lobby groups promoting the move to zero carbon.

Activity: UltraTech Cement has been part of CA100+'s focus list since 2020 and we started participating in UltraTech's engagement group in 2022 as a supporting investor. Since our last response to the Stewardship Code in 2022, we had another collaborative engagement call with UltraTech in November 2023. The call centred on the company's decarbonisation efforts in 2023. Analysts from both our Asia Equity and our Asia Fixed Income team have been participating in the collaborative engagement.

The investor group questioned UltraTech why its 2050 net zero carbon target is not validated by the SBTi. The company's response was that its target is based on a two-degree pathway whereas SBTi only validates pathways that are aligned with a cut of 1.5 degrees. UltraTech said it would be looking at aligning with the SBTi but was conscious that it needed to balance the more demanding emissions target against the cement requirements of customers. It is looking at three ways to reduce emissions:

- investing in renewable energy;
- improving resource efficiency;
- substituting traditional fuel with biomass to reduce emissions.

As part of the GCCA, the company has embarked on multiple pilot projects to determine what technologies would be suitable to support its decarbonisation goals.

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

The company said that, at the time of our meeting, its power consumption from renewables was closer to 30%. By 2026, the aim is to raise that to 50-60%, using both renewables and heat recovery. However, the company noted that wind is not a readily available source of power generation in India, although it has tried to acquire some wind power in coastal areas.

UltraTech's decarbonisation roadmap extends beyond renewables in part because various regions of India face implementation problems caused by the limited availability of renewable power. The company's decarbonisation strategy therefore covers four strands:

- improving operational efficiency, notably in clinker processes;
- diversifying the business;
- reducing dependency on thermal fuel, which amounts to 30% of company emissions;
- moving towards zero carbon.

Outcome: Our call was well received by the company, which asked for our feedback on its progress and areas where we think it can improve. As well as our input, the company has been looking at what global peers are doing in terms of decarbonisation. We will continue to engage UltraTech and review the development of its decarbonisation strategy.

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Case Study:

Powering change at Indonesia's dominant electricity supplier (fixed income)

In 2022, Nikko AM Group joined the Asian Utilities Engagement Programme ("AUEP") of the AIGCC, an industry body trying to raise awareness among investors about global warming. An example of our collaboration with the AIGCC under this engagement programme concerned Perusahaan Listrik Negara ("PLN")*, whose bonds we own in our Asia Fixed Income portfolios. The state-owned company is the dominant power generation, transmission and distribution provider in Indonesia, accounting for close to 70% of electricity power production. PLN is also the sole buyer for Indonesia's independent power producers.

Issue: With a total installed capacity of around 45.9GW, close to 90% of PLN's production is powered by thermal sources, exposing PLN to high risk in the transition to zero carbon. Not surprisingly, the company scores poorly among Asia-Pacific utilities for both absolute and relative carbon emissions. In addition, PLN's governance continues to lag global peers. The Indonesian government appoints half the directors of the board, severely limiting its independence.

In the light of these environmental and governance issues, the AUEP is engaging with the board and senior management to secure several commitments which we outlined in detail in our 2022 Stewardship Code response. Broadly these cover greenhouse gas emissions, corporate disclosure, physical risks, engaging with policy makers and corporate governance.

Activity: The early phase-out of coal in its power generation capacity has been a heavily discussed topic with PLN during our engagements. It requires support on an international scale, such as that provided by the Asian Development Bank's public-private Energy Transition Mechanism ("ETM") framework.

Since our participation in AIGCC's AUEP engagements, which we reported in the 2022 response, we have had two further collaborative meetings with PLN in 2023:

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

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

Currently, Indonesia meets more than 80% of its energy needs with fossil fuels, according to the IEA. Its aim to achieve net zero carbon emissions by 2060 is therefore an ambitious goal. The government is looking to boost the use of renewable energy to 65% of its primary energy mix by 2030 and to 85% by 2060, with the remaining 15% covered by nuclear power.

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

Outcome: PLN has made strides in its efforts to decarbonise. Since the start of our collaborative engagements in 2022, the company has publicly announced the cancellation of 13.3 Gigawatts ("GW") of planned coal-fired power plant and terminated a power purchase agreement of 1.3 GW of coal-fired production. The company has also agreed to halt new coal-fired developments.

The latest evidence of the company's commitment came in the recent announcement of Indonesia's first early shut-down of a coal-fired power plant. A conditional agreement signed at December's COP28 climate conference between PLN, the independent owner of the plant, the Asian Development Bank and the Indonesia Investment Authority will end the power station's obligation to provide electricity in December 2035 instead of the original date of July 2042.

The ETM framework agreement for the early shut-down is still subject to due diligence, plus a number of reviews and studies. Nonetheless, taken together, we view these efforts as signifying PLN's commitment to clean energy and exemplifying the collaborative action it is taking to accelerate energy transition to zero carbon in Indonesia. We remain committed to our engagement efforts with fellow investors to monitor and support these efforts.

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Case Study:

Flexing our muscles with Nestlé* and Coca-Cola* to address plastic pollution (equity)

Issue: Food and drinks giants Nestlé and Coca-Cola have both been accused of being amongst the largest plastic polluters in the world by the Ellen MacArthur foundation, a pressure group promoting the "circular economy". This is in spite of both companies being strategic partners of the foundation and signatories of the Business Coalition for a Global Plastics Treaty, a coalition seeking a UN treaty on plastics. Both Nestlé and Coca-Cola have developed industry-leading plastic pollution policies but still have a long way to go to address the problem.

Activity: The Global Equity team wanted to follow up on particular issues affecting each company:

- **Coca-Cola:** In May 2023, a report from Oceana, a lobby group dedicated to protecting the oceans, pointed out that Coca-Cola was not going to meet its target of having 25% of its products sold in reusable packaging by 2030. Indeed, the share had actually fallen from 16% to 14% in 2022.
- **Nestlé:** MSCI moved its rating on plastic packaging pollution at the company from "moderate" to "severe" in early 2023 due to a change in its rating methodology. In July it moved a controversy related to the company's activities in palm oil sourcing and deforestation in Indonesia from "moderate" to "very severe". This followed an accusation in 2017 that Nestle was involved in sourcing palm oil from suppliers involved in deforestation.

We see the impact on biodiversity of both Coca-Cola and Nestlé as a material risk. We sent a letter to Coca-Cola in June 2023 asking it to comment on its progress regarding reusable packaging targets and other commitments. We did not get a response, despite following up with the company's investor relations department.

We did meet Nestlé at the end of June to discuss progress and problems with its plastic pollution policy. We had a constructive discussion about the company's plastics targets and concerns over the lack of regulation and infrastructure in most countries to support progress in this area. We also probed the company on what measures it has taken over the last few years to monitor its supply-chain and address deforestation.

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

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

- To publicly support a call by investors for urgent action to reduce plastics from intensive users of plastic packaging coordinated by VBDO, a Dutch sustainable investor network. It set out clear expectations for companies such as Coca-Cola and Nestlé, one of which was to encourage the implementation of absolute reduction targets for single-use plastic. The collaboration also gave us access to a new engagement channel with Coca-Cola and Nestlé.
- We became an investor participant in NA100, a new investor-led initiative to support nature and combat biodiversity loss. We asked to participate in the direct engagement group with Nestle, however, given our expertise in Asia, we were instead allocated companies in that region (and Coca-Cola is not amongst NA100's target companies).

Outcome: It is early days yet in our efforts to drive improvements in biodiversity and plastic pollution policies at Coca-Cola and Nestlé. Our influence is limited by being a relatively small investor in both companies. However, we hope that by joining the two new investor-led coalitions we will gain better access to management and increased leverage to effect change. We will monitor progress against biodiversity targets for both companies to ensure they stay on track. We will also consider using our voting rights to escalate any concerns at the companies' next annual general meetings.

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Principle 11

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

Activity

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

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

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

When an incident raises concerns about the ESG performance of a portfolio company, we take a dual approach. On the one hand, we may put the company through our evaluation frameworks to determine whether we should continue to hold it in the portfolio. On the other hand, we may engage with company management to urge change, as illustrated in our case studies. In some cases, we may join with other investors to escalate the issue. A good example is CA100+, a collective engagement group referred to under Principle 10 and highlighted there in our case study "Paving the way to lower emissions at India's biggest cement company".

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

With our Japanese Equity holdings, the initial assessment will be made by our analysts in the Japan Sustainable Investment department, who are responsible for proxy voting and engagement. An analyst will work with the relevant portfolio manager and sector analyst to engage with the company according to priorities based on the gravity of the issue, the company's response and the weight of the holding in the portfolio. They will open a dialogue with management with the initial aim of trying to avoid any loss of shareholder value.

In serious cases where no improvement is observable and it is determined that there is a high likelihood of long-term damage to the company, the analyst has the power to remove the stock and such evaluation may be made independently of any investment decision by the portfolio manager. In addition, when governance issues are revealed by this evaluation process, we may seek to express our opinion through our proxy voting activity.

Another form of escalation where we have reinforced our stance in 2023 are climate shareholder resolutions in Japan. Whilst climate shareholder resolutions in Japan are not new, we find that the relevance of such resolutions is increasing. With our commitment to decarbonising our portfolios (including our NZAMi membership and a 2030 GHG emissions reduction target), we have further increased our support of climate shareholder resolutions in Japan. Following engagements with the target companies, proposing parties and internal discussions, we have supported around 50% of the climate shareholder resolutions in Japan, which is a significant increase from previous years. Based on public data, we are one of a handful of domestic investors who have supported climate shareholder resolutions in 2023. For the remaining 50% of Japanese companies, we intend to send letters to share our expectations in more detail on climate change and our voting rationale. In December 2023 we also updated the Standards for Exercising Voting Rights on Japanese stocks to detail how we will treat climate shareholder resolutions going forwards (effective April 2024). Further detail on this is published on our website.

Outcome

As we have suggested under earlier principles, our general policy in our Asian businesses is to rely, where possible, on one-to-one engagements. Particularly in Japan, escalation involving a group of investors is rare, given the complications associated with large and joint shareholdings and the cultural aversion to public challenge or conflict. Having said that, we are not afraid to be robust with companies where we think there are failings, both in financial performance and stewardship, and our advancements on climate shareholder resolutions in Japan in 2023 are a case in point. Furthermore, we will escalate where we think that we can improve the outcome for our investors. The case studies that follow give a flavour of how we escalate issues when they occur, sometimes by voting against management at shareholder meetings or by selling the shares when engagement has failed. Other examples can be found throughout this document.

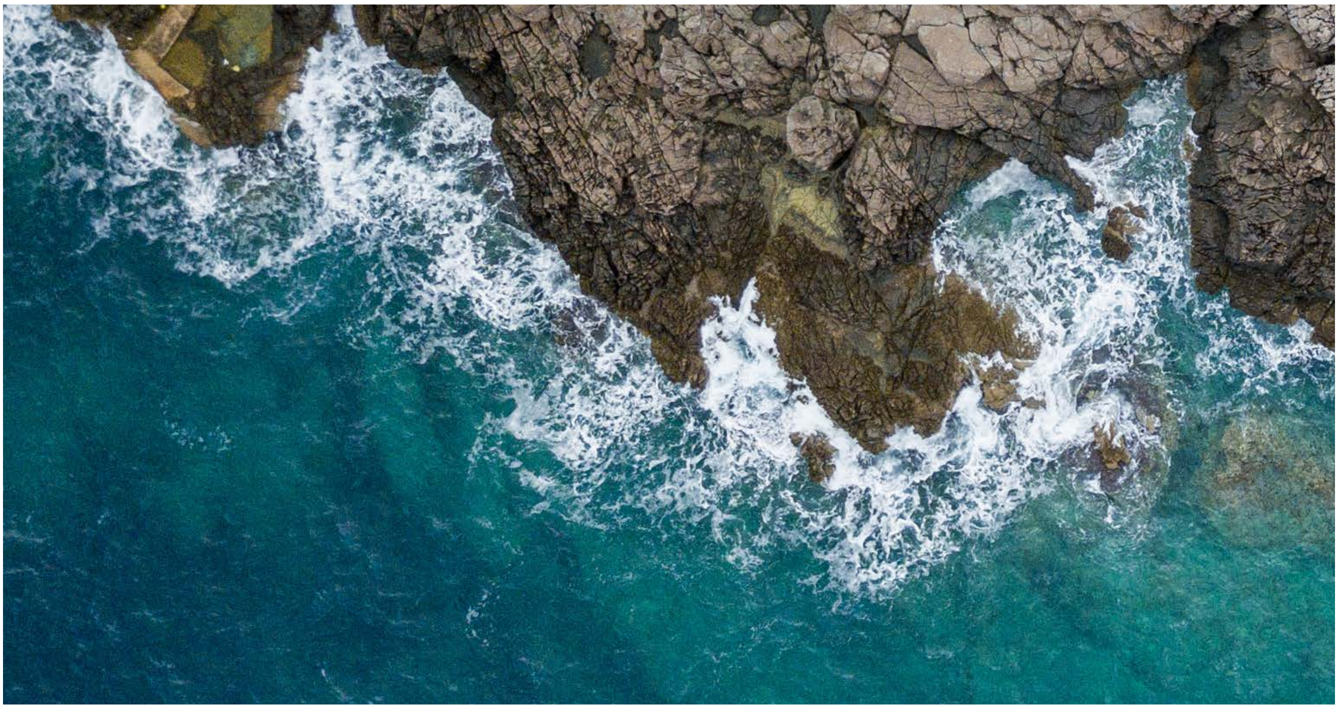
Case Study:

Joining forces to force change at a Japanese automation group (equity)

This company and its subsidiaries engage in the development, manufacture and sale of factory automation systems. It was held in both our Japanese Equity portfolios and in some of our Global Equity portfolios.

Issue: The group was sitting on a significant amount of excess cash amounting to 35% of total assets, while we judged the proposed dividend payout ratio for the year of 20% as too low. In May 2023, members of our Japan Sustainable Investment team engaged with company management to encourage it to allocate capital more efficiently, but were given no comfort that the situation would change.

We believed that the incumbent directors had had ample time to rectify the excess cash issue. The two Nikko investment teams holding the stock therefore decided to combine their votes against a company proposal requesting approval for the dividend payout at the company AGM in June. We also co-ordinated our votes to oppose the entire incumbent board, supporting only the one new appointment being proposed. This was a good example of where we were able to increase our leverage with a portfolio company by joining the forces of two Nikko AM investment teams.



Case Study:

Never mind the quality, feel the risk at a major Japanese construction firm (equity)

Issue: A major Japanese construction company in which we owned shares discovered quality control failings at a building project after responding to inquiries from a client. The company found that the grade of steel being used did not meet the standards set by the client, while the thickness of concrete slabs differed from that in the specifications.

Activity: We contacted the general affairs department of the company after the reports of faults surfaced. In our discussions, the company claimed that the problem was isolated to the particular branch in question and did not go further up the organisation, while the quality control system at branch level had been strengthened to address the issue. It claimed that the irregularities would have been detected by inspections at the Sapporo branch involved in the construction, scheduled to take place soon after they came to light. In the event, the faults prompted an immediate investigation into all projects under construction by the company, which found no other problems.

Nonetheless, the company announced the resignation of a director and senior managing executive officer who headed the company's construction operations, as well as a director and managing executive officer who managed the company's Sapporo branch. This seemed to clarify where the responsibility lay, as far as the company was concerned.

Outcome: Our governance risk rating scale grades companies from A (best) to C (worst), with a B ranking applied to companies with problems sufficiently serious to oppose directors' re-election but not enough to warrant the sale of the position. Accordingly, we initially applied a B rating to the construction company, since it appeared that it had no involvement at the organisational level in these construction faults and a functioning quality control system was in place.

The likely effect on earnings is unclear at present, but analysts estimate that costs could amount to JPY 30 billion, given that the project under construction needs to be dismantled and compensation to be paid to both tenants and the client.

The company has said that it will organise a separate, fully independent and transparent investigation into the causes of the Sapporo incident, develop preventive measures as soon as possible and disclose appropriate information. In our view, although the situation does not warrant a C grade on our governance risk rating scale – which is reserved for more extreme cases – the incident was a manifestation of major governance risk and we therefore decided to sell our position.

Case Study:

Sickly governance at AdaptHealth* (equity)

AdaptHealth, held in our Global Equity portfolios, provides home medical equipment, medical supplies and related services in the United States.

Issue: We discussed governance failings at AdaptHealth in our 2022 response to the Stewardship Code. They related to several charter or bylaw provisions (rules established at the time a company is started to govern how it is governed and run) adopted when it became a public company after the acquisition of AdaptHealth Holdings by DFB Healthcare Acquisitions in 2019. In our view, these provisions fell short of what might be considered best governance practice. They included a "classified board", a US arrangement that can entrench management and deter takeovers and proxy contests. In our opinion it is a structure that impedes shareholder rights.

As a result of the classified board structure, at the AGM in June 2022, three directors on the governance committee ran unopposed for re-election. Given the board's failure to change the board structure or subject it to a "sunset" requirement, we withheld our votes in line with our views on board effectiveness. (Where a director stands for election unopposed, a vote against the appointment is not possible and he or she needs only one vote to be elected. In such cases, a withheld vote is seen as a public statement of disagreement, whereas an abstention could merely be seen as the shareholder being undecided.)

Our discussions with the company also highlighted a shortfall between its strategic vision and financial reality. Sales results were good, but the company underperformed on margins. Subsequent results led us to believe management was failing to deliver on promised improvements recommended by KPMG consultants. It seems that investment spending had been increased, but management had lost sight of costs, leading to lower expectations for profitability.

Activity: While we felt that the company's strategic vision was strong, we were keen to see a commitment to ending the classified board arrangement and better financial controls.

We met the chief finance officer in March 2023 but there were few signs of any rapid improvement thereafter. A meeting with the chairman in May did little to reassure us. There then followed a further round of sub-optimal corporate results, with more questions being raised about governance and management accountability after the company dismissed the chief executive but retained other senior management who we deemed more culpable for the failures.

At the 2023 AGM, we withheld support for the chairman. Although the company remained well placed strategically, we had become increasingly concerned about its ability to come good on its promises, with management having consistently over-promised on improved financial performance. Although the chief executive had paid for this with his job, we felt that this would merely create additional uncertainty and as a result we sold the stock.

* 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:

Pushing for more pay for shareholders at a New Zealand payments provider (equity)

Pushpay* is a cloud-based online payment system that helps organisations like schools, churches and education providers centralise donation data and manage payment operations.

Issue: Our New Zealand Equity team had been building a position in Pushpay shares during the course of 2022. In October of that year, the management announced that it had agreed a bid from a consortium, with the board unanimously recommending the price of NZ$1.34 a share. This was much lower than the fair valuation indicated by our internal valuation models. We decided to engage with the management and the board to get them to raise the offer to a level that reflected a fair valuation of the company, which would be in the best interests of both management and shareholders

Activity: Our investment team initially met the management and board in November 2022 to convey our view that the offer undervalued the company. This view was supported by an independent valuation report released by Pushpay in February 2023, which showed that the offer price was at the bottom of a wide potential valuation range from NZD 1.33 to NZD 1.53. Our investment team again met the board to discuss our concerns and relay our intention to vote against the board recommendation and the offer. Our team then issued a press release expressing our dissatisfaction with the scheme and announcing our intention to vote against both the board and our proxy advisor's recommendations. This was followed up by comments we made to specific publications in the New Zealand financial press. In March 2023 we voted with the majority against the scheme, which failed to pass the shareholders' meeting.

Outcome: A new offer was subsequently made and in April 2023 we and a majority of shareholders voted to accept a revised offer of NZD 1.42. We feel that this engagement extracted substantially more value for our clients and is a good example of stewardship in practice.

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Principle 12

Signatories actively exercise their rights and responsibilities.

Context

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

In our fixed income investments, we do not have the voting rights that are available to shareholders, however we aim to be active owners of assets by using other stewardship tools, such as issuer engagement. We hold a small allocation (just under 0.8% of AUM) in infrastructure investments via sub-advised managers who are subject to an annual ESG evaluation. We do not currently manage either private equity or private debt.

Policy

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

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

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

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

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

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

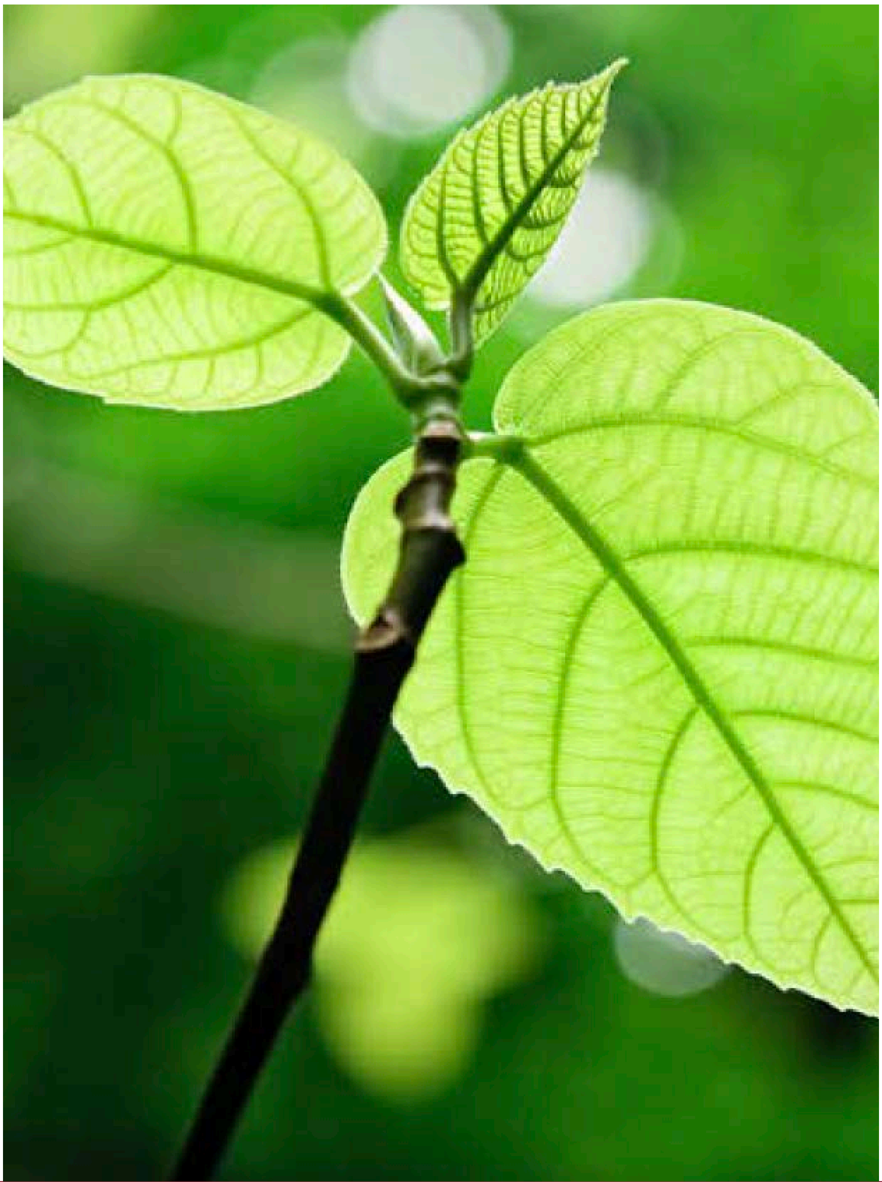
Execution

For Japanese Equities (which accounted for over three-quarters of group equity AUM as at December 2023), our Standards for Exercising Voting Rights on Japanese Stocks establish detailed decision criteria. The Japan Sustainable Investment department is responsible for directing all voting proposals for holdings in both actively-managed and passive portfolios. It decides whether to vote for or against after taking into account past engagements with investee companies. Advice from ISS based on our proxy voting guidelines is one of the inputs in the decision-making process, but this advice is used for reference only.

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

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

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



Recalling lent stock

We lend stock in accordance with our internal controls on lending practices. In some instances, we may recall stock from borrowers in order to vote in line with our proxy voting policies. These are cases where exercising voting rights is more desirable from the perspective of responsible stewardship than earning an income from share lending. For example, in our Japanese Equity operations, if our voting guidelines signal a governance concern that would result in a vote against management or the re-election of directors, we would recall the stock in order to ensure that we are able to vote and therefore satisfy our stewardship responsibilities.

Activity

A summary of our firmwide voting records is listed in the table that follows (this information will also be published in our annual Sustainability Report). During the year we analysed 7,216 shareholder meetings and voted on 74,471 resolutions.

We cast votes for all shares where there are no legal, client or technical constraints. Examples of where we may not be able to vote include those where power of attorney has not been granted by a client, or in markets where share blocking is applied. These include bearer shares in the Swiss market, some stocks in the Norwegian and German markets and Egyptian market stocks. Such instances accounted for less than 1% of all resolutions in 2023.

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

Overall, across all regions, we voted against management in 12.3% of resolutions. The most common reason for voting against management was in relation to the election of directors. A lack of independence amongst non-executive directors, or dissatisfaction with direction often prompts us to oppose management's wishes in these votes.

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

Fixed income

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

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

Outcome

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

As has been already noted, our fixed income holdings do not confer voting rights, while our relatively small presence in most fixed income markets and our investment in sovereign bonds limits our influence. Even so, we are steadily increasing our engagement activity with issuers and combining with our equity investment colleagues to effect change where possible. Examples include the case studies "Helping to lift the veil on corporate emissions" in Principle 4 and "Elevating nature at a major Korean steel maker" in Principle 9, and "Joining forces to force change at a Japanese automation group" in Principle 11. As described in these case studies and also when our individual Fixed Income investment teams work alone, such as was the case in the "Iberdrola"* example, we aim to use the influence we do have to promote the best outcomes for stakeholders.

The following case studies are examples of resolutions that we voted on during 2023.

Case Study:

Guarding shareholder interests at a major Japanese security company (equity)

This company provides security services such as guarding and fire protection to prisons in Japan and internationally.

Issue and activity: We contacted the company in March 2023 because we believed that the 5% equity ceiling imposed by the company on directors' remuneration was too low to align with the interests of shareholders. Since the founder's son-in-law is the president of the company, we also urged it to improve the effectiveness and transparency of the nomination process and increase the board's awareness of the importance of shareholder return. At the AGM in June, we voted for a shareholder proposal that the company develop equity compensation guidelines in the hope that this would address the issue of directors' remuneration.

Outcome: The vote was lost with only 24% shareholder support. However, in spite of opposing the proposal, the company changed the nomination committee chairman from a company insider to an outsider director. It also raised the proportion of equity in directors' compensation from 5% to 20%. We believe that the company's change of heart on both the issues we had lobbied for was the result of investors' encouragement through dialogue and the support shown for the shareholder proposal. We will now be closely monitoring the performance of the board in the wake of the changes.

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Case Study:

Banking on better green targets at a large Japanese finance group (equity)

This is a large Japanese banking and financial services group.

Issue: A shareholder resolution on climate change was proposed by three environmental non-governmental organisations: Kiko Network, Market Forces, and Rainforest Action Network. It stated that the group's significant involvement in carbon-intensive sectors exposed it to substantial financial risk and it had not made sufficient efforts to reduce its exposure sufficiently to reach zero emissions by 2050. It called on the group to set suitable zero-emission targets, such as those of the International Energy Agency.

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

- In 2021, committing itself to achieving net zero carbon emissions across the group by 2030 and in its loan and investment portfolio by 2050.
- In 2022, setting reduction targets for 2030 in its lending to the power, oil and gas and coal sectors, aimed at achieving the Paris climate agreement's 1.5°C reduction goal.

It felt it had therefore made the commitments required by the shareholder proposal. It also laid out the group's plans for further measures:

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

In its report to the Japan Equity department, ISS suggested that some of the criticisms levelled at the group in the shareholder proposal were fair. However, they suggested these failings were more than offset by the actions the group had taken. For instance, the fact that it had set a number of targets in line with International Energy Agency projections for its lending activity and planned to extend them in due course. It also reports in line with the recommendations of the Taskforce on Climate-related Disclosures and has joined multiple industry initiatives. In the light of all this, ISS did not recommend supporting the shareholder proposal.

Outcome: We agreed with ISS and voted against the shareholder resolution. We acknowledged the merits of the proponents' case, but noted that the group had set targets for three different areas of its lending activity and had committed itself to enhancing disclosure by next year and releasing new carbon reduction targets for its lending. We believed the company's activities were in line with global frameworks and in our opinion already satisfied the demands made in the shareholder proposal. In the vote, the resolution was lost with only 27% shareholder support.

Although we opposed this proposal and a similar one in 2022, we have continued to impress on the company the key role of financial institutions in controlling Scope 3 emissions. We have emphasised the importance of its further engagement with companies in this area. We intend to continue the applying pressure on the company to support the transition to a decarbonised society.

Case Study:

Joining the rebellion to improve governance at a big construction group (equity)

This company is engaged in a range of businesses, including marine and civil engineering, building construction and real estate, both in Japan and internationally.

Issue: The company had been involved in discussions with one of its investors since May 2022, following an industry rival's takeover bid in March of that year. The bid had been supported by the company's board but opposed by the investor on the basis that it undervalued the company. The investor had then itself made a counter-offer in May at a price almost 30% greater than that of the original tender, which the company resisted. Following months of discussion between the two parties, in January 2023 the investor launched a campaign asserting that the company's board and executive team lacked the drive and strategy to increase shareholder value to a level that would counter its higher offer and takeover proposals.

The investor pointed to the company's poor stock price performance under the current management, claiming that the company had been destroying value over many years. It alleged significant corporate governance failures, which the current board and management had refused to acknowledge and address, and that all efforts to improve stock price performance had been given up before the investor's offer. It suggested that the lack of effective board oversight over management would harm both shareholders and the company, notably in the board's failure to consider the bid, which would deprive shareholders of the opportunity to realise substantial value.

To fix the company's corporate governance failures, the shareholder said it would oppose the reappointment of three company directors, including the president, and would instead be nominating its own slate of directors well versed in the business at the June 2023 annual general meeting as part of its plans to refresh management.

Activity: The Japan Equity team held meetings with both the company's management and the investor. It proved hard to disentangle the truth amongst the divergent claims made by both parties but, ultimately, our assessment found the performance of the management to be lacking, while there were problems with the governance of the company. We therefore voted in favour of all nine of the shareholder-proposed directors at the June AGM.

Outcome: Seven of the nine shareholder-proposed directors were approved at the meeting. Subsequently, in December, the new board announced measures to strengthen governance, further separating management supervision and execution, and improvements in the supervisory function. Although the investor subsequently withdrew the bid, the shares stand higher than before the offer was made and we believe the more experienced board will continue to drive corporate value. This was therefore a good outcome for shareholders and we look forward to further enhancements of both the supervisory function and corporate value. It also represented progress for shareholder effectiveness in holding the boards of Japanese companies to account.

Case Study:

Taking a poison pill to protect sustainable returns at a Japanese energy group (equity)

This is a Japanese energy group with businesses spanning oil exploration, production and refining and renewable energy.

Issue: An activist investor had acquired nearly 20% of the shares in the company and indicated that it would take the stake to 25-30% if certain demands were not met. These included appointing a director chosen by the investor, share buy-backs to hand at least ¥500 billion to shareholders and spinning-off and floating the group's renewable energy business. The company opposed these demands on the grounds that its long-term plan already involved building the renewable energy business to a level where it was a driver of growth and that the investor's track record showed that it had no interest in the company's medium- to long-term future, either in terms of strategy or plans for value improvement. It also noted that that the proposed director had close ties with the activist, citing reports that she had served as its legal representative and also an outside director at companies where it had stakes.

Ownership of more than 20% in a Japanese company can often give the shareholder a de facto veto over certain decisions which require a vote by more than two-thirds of shareholders. The company therefore announced a resolution to adopt a takeover defence – or poison pill – to prevent further stake-building, to be put to shareholders at the AGM in June.

Activity: We are generally against poison pill proposals however in this instance we voted with the company as we retained confidence in management's mid- to long-term business strategy and didn't believe the proposal by the activist shareholder would lead to an increase in corporate value over the long term.

Outcome: The management proposal passed with just short of 60% shareholder support. Subsequently, in December 2023, the activist investor sold its stake to an energy rival with whom the company had already established a joint venture in the hydrogen-related project engineering business, effectively ending the conflict with the activist. We will continue to monitor events at the company, particularly how the new management's plans to increase corporate value are progressing.

Case Study:

Hardening human rights policy at Microsoft* (equity)

This is one of the world's largest software groups.

Issue: In May last year, plans by Microsoft to open data centres in countries with questionable human rights records provoked a backlash from a number of human rights groups. As a result, certain shareholders submitted a proposal to the 2023 AGM requesting that the company prepare a report on its human rights due diligence process for high-risk countries.

The proponents expressed particular concern over the plans to expand data centres in locations reported by the US State Department's Country Reports on Human Rights Practices. They noted, for instance, that certain countries' cloud computing laws and regulations are not aligned with international human rights standards, undermine the right to privacy and allow state surveillance. They stated that the company has not provided evidence of any human rights impact assessment, engaged with interested parties, or disclosed any assessment or mitigation plan.

Activity: The Global Equity team agreed with ISS that the proponents of the resolution had raised legitimate concerns over possible complicity in human rights violations in high-risk countries, which could increase reputational, legal, and workforce risks for the company. The ISS analysis added that, as the company builds more data centres, additional disclosures about its human rights due diligence process would improve shareholders' evaluation of the company's management of these risks.

Outcome: Given our general agreement with these arguments, we felt that shareholder support for this proposal was warranted and we voted in line with the ISS recommendation, however the resolution failed to pass with 33.6% of votes for the proposal.

Case Study:

Cleaning up deforestation policy at Procter & Gamble* (equity)

Procter & Gamble is one of the world's biggest purveyors of global personal care to home cleaning products, which are sold under a number of well-known brand names.

Issue: In May 2023, the company generated controversy by changing its forest commodities policy to remove a 2020 pledge not to buy wood pulp from "degraded" forests. As one of the biggest buyers of wood pulp for consumer products, this drew widespread criticism from green lobby groups, investors and others.

The move followed a resolution on deforestation passed at the 2020 AGM with the support of more than two-thirds of shareholders. The proposal noted the lack of a "comprehensive plan to mitigate exposure to deforestation and forest degradation throughout [the company's] operations". It requested that P&G issue a report assessing "if and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains". While these failings were addressed by company policies in 2021, the removal of the forest degradation reference last year looked like a clear set-back.

Outcome: To show our displeasure, at the AGM we voted against the re-election of the chair of the Governance & Public Responsibility Committee, to hold her accountable for overseeing the removal of the pledge from the company's deforestation policy. This was counter to the ISS recommendation. Unfortunately, the vote passed with 89.4% of shares voting for the re-election.

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