Nikko Asset Management

Sustainability Report 2023

Invested in sustainability

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The covers and dividers show photographs of Nikko AM's employees across our global offices. This edition of our Sustainability Report showcases our diverse talent.
Cover: Shelley Roberts, Nikko AM Americas, Finance

Deeper roots, greater growth

A message from **Stefanie Drews**, President

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An albizia gummifera tree

The albizia gummifera — one of the main tree species in the Forest of Nikko AM in Tanzania — is an ideal metaphor for our sustainability activities at Nikko AM: these trees can reach great heights, they have roots that grow deep, and they grow quickly. Similarly, we are branching out into new territory, our sustainability teams are getting stronger, and we are quickly advancing towards achieving our goals.

The most significant way we branched out in our business activities in 2022 was to establish the Global Sustainable Investment team. The members of the team are ESG (environmental, social, and governance) specialists dedicated to helping us deepen integration of ESG into our investment processes. As they put their expertise to work, we are ensuring that we can provide our clients with innovative solutions rooted in sustainability and make significant strides towards achieving our global growth strategy.

Additionally, in September, Nikko AM became one of only a few firms headquartered in Asia to qualify as a signatory to the UK Stewardship Code. As we apply the code's 12 principles — which set detailed stewardship standards for asset managers globally — we are demonstrating our commitment to following the best market practices.

On the corporate sustainability front, we branched out by establishing two new sustainability groups in 2022, in response to requests from staff.

One new sustainability group we started is the International Women's Group, made up of staff members from each international office outside of Japan. It kicked off with 27 volunteers, immediately making it the largest sustainability group at Nikko AM. Through brainstorming and discussion, the group aims to propose changes and initiatives to further improve circumstances for women at our offices around the world, as well as in the communities where we work.

"we are branching out into new territory, our sustainability teams are getting stronger, and we are quickly advancing towards achieving our goals"

“One goal we are working quickly to achieve is #30by2030, where we aim to place women in 30% of our management roles by 2030”

The second is the Japan Philanthropy Group, a sustainability group for those who are passionate about making a difference in others’ lives through financial contributions and volunteering. It has held several events already and has supported a wide range of causes, including refugees, the homeless, and children in need of wheelchairs.

One important measure of our firm’s deepening commitment to sustainability is employee participation in our sustainability groups, which address our three sustainability pillars of diversity & inclusion, reducing inequalities, and climate & environment. We saw this number jump from 8% of total employees in 2021 to 11% in 2022. As we continue to develop a culture that prioritises sustainability, we are confident that by 2025 we will meet our goal of 15% of all employees involved in one of our sustainability groups.

In addition, each member of the Global Executive Committee has become an Executive Sponsor of our various sustainability groups, underscoring our commitment — at the highest levels of the firm — to our sustainability activities. Executive Sponsors are directly involved in sustainability groups.

With more involvement comes more progress. One goal we are working quickly to achieve is #30by2030, where we aim to place women in 30% of our management roles by 2030. By the start of 2023, we saw the number of women in leadership positions rise to 20.4%, a 2% increase over 2021. As our HR team and regional women’s groups offer increasing support regarding career progression, we are certain to continue at, or speed up, this pace.

Another one of our company-wide sustainability goals is cutting greenhouse gas emissions across the Nikko AM Group by 40% of 2019 levels by 2030. To move closer to achieving this, we revised our overseas business travel policy so that it would take our carbon footprint into consideration.

It is worth noting that another characteristic of albizia gummifera trees is that they are used to provide shade to protect other crops. As our sustainability activities take deeper root at Nikko AM, we can provide a better workplace for our employees to thrive, and can better support our clients and those in the communities where we live and work.

Stefanie Drews
President

A history of our sustainability activities

1999
- Launched Japan's first socially responsible investment fund

2007
- Became an early signatory of the UN PRI
- Became the first Japanese asset manager to disclose proxy voting results on our corporate website

2010
- Launched the world's first fund to invest only in World Bank Green Bonds
- Developed a corporate Environment Policy

2011
- Signed the Japan Ministry of Environment's Principles for Financial Action for the 21st Century
- Chaired the PRI-Japan Network (April 2011 – March 2014)

2013
- Developed Creating Shared Value (CSV) equity investment strategy (Japan)

2016
- Established Stewardship and Voting Rights Policy Oversight Committee
- Formed the Global ESG Steering Committee

2018
- Became the first Asian-headquartered asset manager to support all four areas under The Investor Agenda
- Adopted UN Women's Empowerment Principles
- Established the Corporate Sustainability Department
- Formed local sustainability groups in all offices

2019
- Published inaugural Task force on Climate-related Financial Disclosures (TCFD) Report
- Started measuring annual carbon footprint from operations
- Established three firm-wide focus areas: Diversity & Inclusion, Reducing Inequalities, and Environment & Climate

2020
- Published inaugural annual Sustainability Report for 2019
- Launched first global sustainability group: the Global Racial Equality Group

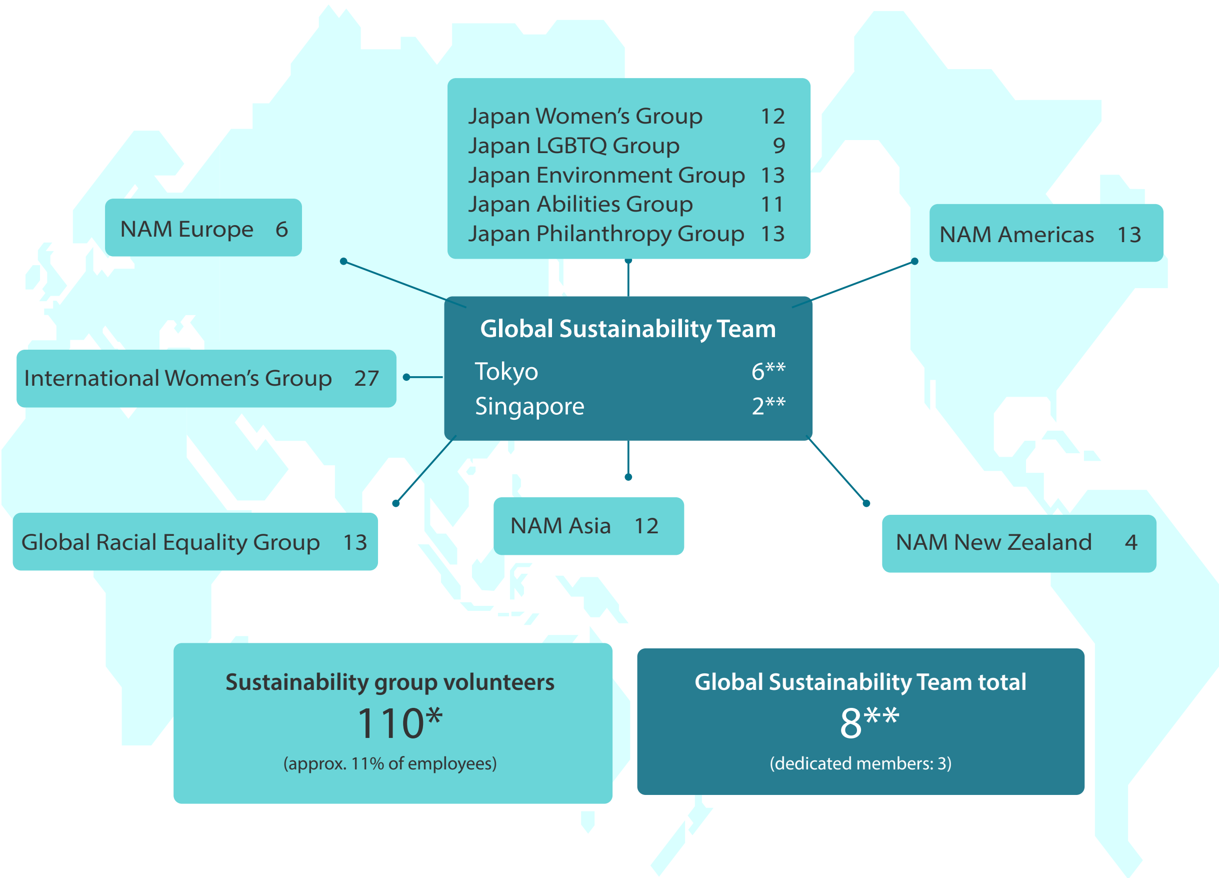
2021
- Joined the Net Zero Asset Managers initiative
- Revised group-wide environmental policy and set a greenhouse gas reduction target
- Established global Diversity & Inclusion policy

2022
- Developed Global Engagement and Stewardship Strategy
- Became signatory to the UK Stewardship Code (UKSC)
- Established the Global Sustainable Investment team
- Set 2030 interim target for 2050 net zero goal

Lisa Edmundson,
Nikko AM Europe,
Global Equity Fund Management Team

A snapshot of corporate sustainability in 2022

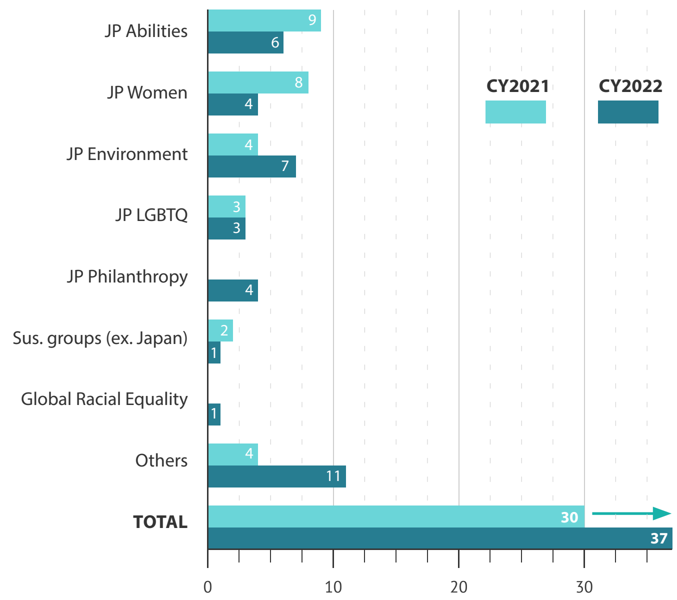
The Global Sustainability Team and 11 sustainability groups



*Excluding Global Corporate Sustainability Team. Eliminating double counting of dual members.
**Including members working concurrently in other departments. As of 31 Dec 2022

Increased internal participation

Number of internal events (by calendar year)



Percentage of female employees at Nikko AM

	Jan 2021	Jan 2023
Ratio of women in total workforce*	36.9% →	**38.6%**
Ratio of women in managerial roles**	18.4% →	**20.4%**
Ratio of women in the Board of Directors of Nikko AM	20.0% →	**33.3%**

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

Unwavering commitment to ESG integration

A message from **Yoichiro Iwama**, Outside Director and Chairman of the Board of Directors

ESG investment is facing a number of headwinds. One challenge is the energy crisis caused by the conflict in Ukraine, which has driven home just how difficult it is to "meet the needs of the present without compromising the ability of future generations to meet their own needs" — a core proposition of sustainable development, according to the United Nations (UN).

There are also concerns over greenwashing, coming from markets and regulatory authorities. If greenwashing goes unchecked, ESG could become a passing fad or a meaningless formality. Therefore, asset managers are rightly facing scrutiny as to whether their ESG integration goes beyond a box-ticking exercise and an evaluation of the extent to which their investments can consistently generate alpha.

At Nikko AM, we believe that incorporating ESG factors in the investment management process is a fundamental part of our fiduciary responsibility. Effective ESG integration can only be achieved with a long-term perspective and continuous engagement.

In 2022, we launched our Global Sustainable Investment team to provide our firm with a source of deep ESG expertise. Although investment teams at different Nikko AM offices have been incorporating ESG factors in their investment management process for several years, we believe that this new framework will deepen their ESG capabilities because it will further strengthen our ability to coordinate our practices globally.

Also in 2022, Nikko AM became one of the first Asia-headquartered asset managers to become a signatory to the UK Stewardship Code. We are extremely proud that we are aligned with the principles of this global standard and, at the same time, we have a strong sense of the great responsibility this involves. Maintaining our status as a signatory to the Code will require an unwavering, company-wide commitment to our ESG initiatives.

It is often said that asset management should be a humble business. To generate investment results from ESG, we need to be patient in our efforts over the long term, be willing to constantly gain new knowledge, and maintain a sincere and ongoing commitment to ESG. I believe these are the keys to delivering long-term value to clients and contributing to society as an asset manager.

Yoichiro Iwama
Outside Director and
Chairman of the Board of Directors

"Effective ESG integration can only be achieved with a long-term perspective and continuous engagement"

Investment Management

Edward Ng,
Nikko AM Asia,
Asian Fixed Income Team

A milestone year for sustainability

A message from **Hiroshi Yoh**, Chief Investment Officer

Even before taking over as Nikko AM's Chief Investment Officer in October, I knew I had a hard act to follow. The company has established an enviable reputation over more than two decades as a Japanese leader in applying environmental, social, and governance (ESG) principles to its investment activities. But even against that background, 2022 was a milestone year, with Nikko AM making a major commitment to spreading sustainability to every part of its activities worldwide.

It was certainly a momentous year to make that commitment. The war in Ukraine and growing political tensions in Asia have tested the world's pledge to be more sustainable. Tightening energy supplies have tempted some to return to tried and trusted but environmentally unsound sources of energy. We believe this is not the time to turn the clock back, but rather to redouble our efforts to make our world economy greener, fairer, and better governed.

The key event of 2022 was the establishment of our new Global Sustainable Investment team and the appointment of a Global Head of Sustainable Investment, reporting directly to our group president and to me. For the first time, all our ESG resources come under one umbrella. The department now includes the Active Ownership Group — renamed as the Japan Sustainable Investment Department — which had been part of the Japan Equity Fund Management Department but joined the Global Sustainable Investment team in April 2023.

This new team significantly expands the resources we commit to sustainability. Indeed, we have already doubled the number of people devoted to sustainability in less than 18 months — and the expansion will continue.

Other milestones we passed in 2022 concerned our collaboration with others in the industry. As part of our membership of Net Zero Asset Managers (NZAMi), we set an initial greenhouse gas emission reduction target. We have committed to reducing greenhouse gas emissions by 50% by 2030, compared with 2019 levels, for 43% of total group-wide assets under management (as of the end December 2021).

We were also pleased to have met the high standards of reporting set by the UK Stewardship Code, allowing us to become a signatory. The code's 12 principles place a heavy emphasis on ESG and sustainability in how asset managers run their operations.

Our Global Equity team, for example, has been contacting investee companies to ensure they recognise our obligations as signatories to NZAMi, encouraging them to provide carbon emissions disclosures. We also want to ensure that we understand their emission reduction strategies and that their targets are in line with the Paris Agreement.

There were numerous other ways our investment teams helped raise the bar for sustainable investments at the firm in 2022. For instance, our Japan Sustainable Investment Department upgraded the platform it uses to engage with investee companies, strengthening collaboration and making it easier to track progress. Also in Japan, we changed our guidelines on proxy voting to allow us to vote against proposed board candidates at companies in our portfolio with relatively high emissions if they fail to set net-zero targets and a roadmap for achieving them. In Singapore, our Asian Fixed Income team added to the significant improvements it made to its ESG monitoring system in 2022 with a model to better understand the ESG risks of sovereign bonds.

We know that there is plenty more to do. Our to-do list includes continuing to grow our Global Sustainable Investment team, deepening our ESG expertise, advancing our ESG integration and stewardship activities, and providing enhanced ESG disclosures.

What we have achieved in 2022 has laid a firm foundation for a more sustainable future.

Hiroshi Yoh

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

ESG approach, philosophy, and governance

Our ESG approach and philosophy

Our statement of purpose says, "Nikko AM, as an asset management company, acts as a fiduciary on behalf of its clients and is firmly committed to putting its clients' best interests first. It places fiduciary and environmental, social, and governance (ESG) principles as the highest guiding themes of its corporate values and actions."

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

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

Governance

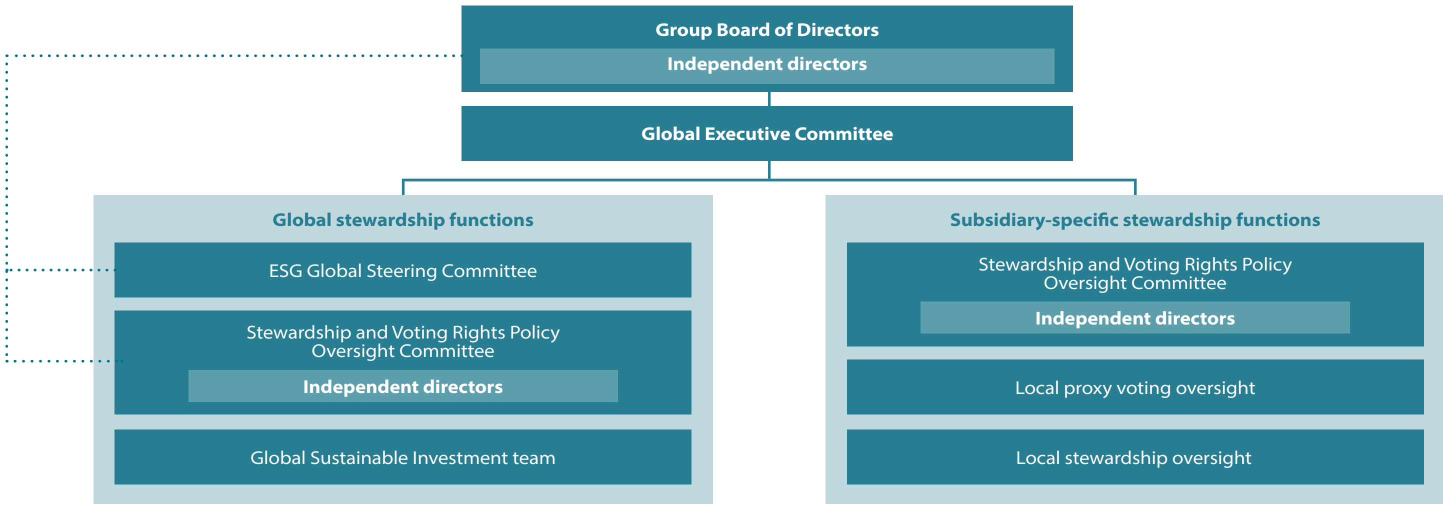
Responsibility for sustainability starts at the top. Both our President, Stefanie Drews, and our Executive Chairman, Yutaka Nishida, have been given specific key performance indicators to enhance the group's ESG activities in line with international standards. The immediate oversight of our ESG activities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

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

The committee is governed by the GEC but it reports directly to the Board of Directors. It is chaired by the Global Head of Investment, Hiroshi Yoh, and its members are the heads of our investment teams worldwide, who are in charge of stewardship implementation in their individual investment processes, including ESG integration, company engagement, and proxy voting, where applicable. It is further supported by the Global Sustainable Investment team, which provides dedicated expertise and administrative support. In addition to monitoring and guidance activities, the committee drives our implementation of the UN-supported Principles for Responsible Investment.

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 of Directors and GEC in line with local regulations and customs.

Stewardship governance structure



Implementing ESG principles in investments

Implementation is both global and local

For more than two decades, ESG has been an area of focus for Nikko AM, beginning in 1999 when we launched Japan's first socially responsible investment fund. In 2022, we set the goal of enhancing ESG in our investments across the group and, in August, we launched our Global Sustainable Investment team and appointed a new Global Head of Sustainable Investment, Natalia Rajewska. This has significantly expanded the number of people focused on ESG at the firm. We have added new ESG roles in the UK, Singapore, and Japan, and the Japan Sustainable Investment Department (formerly the Active Ownership Group) has come under the wing of the Global Sustainable Investment team.

Natalia Rajewska,
Global Head of Sustainable Investment

The Global Sustainable Investment team is divided into five functions:

— *Regional ESG specialists:* These versatile ESG experts work closely with the investment teams, supporting their ESG integration and stewardship efforts. They also work closely with our other departments to ensure that we deliver the best outcomes for our clients.

— *Research and integration:* This function, which is still being developed, is responsible for supporting our investment teams and ESG specialists with subject matter expertise. It will also include, for example, an environmental specialist to help us continuously enhance our integration efforts.

— *Stewardship:* This function coordinates and supports our firm-wide stewardship efforts. It aims to continuously improve our stewardship and sustainability activities, including engagement, proxy voting, and ESG research, as well as respective disclosures.

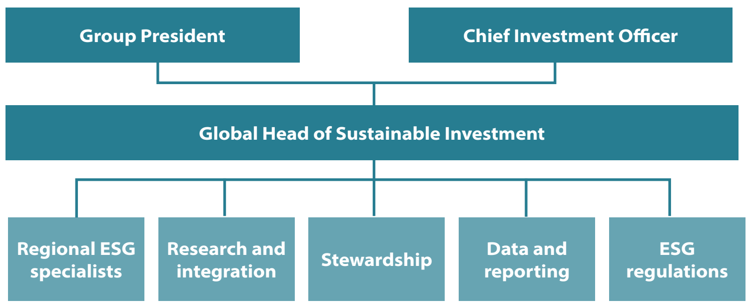
— *Data and reporting:* This function is dedicated to sourcing, storing, validating, and disseminating ESG data globally. It supports our investment teams with ESG data analytics and reporting (see case study).

— *ESG regulations:* 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.

Our global network of more than 200 investment professionals remain at the forefront of our stewardship and sustainability activities, aided by our Global Sustainable Investment team. Portfolio managers, analysts, and governance specialists all share our commitment to sustainable and responsible investing. They apply stewardship and sustainability and practise active ownership in all their day-to-day activities.

We will further build and develop our team of ESG specialists in 2023.

Global Sustainable Investment team governance structure



Case Study — Getting the numbers right

As part of the creation of our Global Sustainable Investment team in 2022, we established a centralised ESG Data Team to help provide consistency and accuracy, as well as improve the coverage of our ESG data and analytics. To begin this process, we hired our first specialised ESG data analyst. These internal changes go hand in hand with plans to expand our external ESG data sources. For example, we acquired advanced climate analytics tools in 2022.

The ESG Data Team has initially focused on analysing and integrating the data sets we acquire from our primary data provider. This work is enhancing our ability to identify and assess climate-related risks and opportunities, which links to our work for the Task force on Climate-Related Disclosures (TCFD), explained in more detail in our TCFD Report. The team also generates 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 analysing the broader data market to meet our evolving needs.

Our formula: sustainability = survival

Putting theory into practice

We believe that companies today must embrace sustainability if they are to survive and thrive in a world where a healthy environment, a fair society, and good governance are increasing priorities. That makes it incumbent on investment managers to have a robust stock selection process if they are to achieve excess returns for their clients.

The Japan Equity team's process combines both negative and positive screening, as well as optimisation procedures that incorporate thorough risk management.

Negative screening

We use negative screening to exclude companies from our investment universe that show up as having governance risk. Such firms include those that have been involved in criminal conduct, fraud, accounting malpractice, or that have caused environmental or social problems.

Positive screening

To find the most sustainable companies from the remaining list, we consider environmental, social, and governance (ESG) factors in our investment decisions through a selection process based on Creating Shared Value (CSV) evaluations. More detail about CSV and its application can be found in the following articles by members of the Japan Equity team.

It is not enough to build an initial portfolio with sustainable characteristics; just as important is to ensure that firms remain on a sustainable path. So, it is vital that investment managers engage constructively with company management and are active participants in the proxy voting process.

We have very detailed proxy voting guidelines. They include voting against director appointments when the firm is facing serious climate change or sustainability risks and where management initiatives to address them are deemed insufficient and the situation is not improving.

In 2017, we set up a team dedicated to undertaking these voting and engagement activities. Currently, the Japan Sustainable Investment Department (previously known as the Active Ownership Group) has a threefold remit: first, to promote cross asset class stewardship activities, including proxy voting; second, to further enhance ESG integration and promote systematic sustainable investment activities; third, to contribute to the Global Sustainable Investment team and share global best practices with Tokyo-based investment teams.

The stewardship specialists in the Japan Sustainable Investment Department are responsible for conducting the risk assessments we use to filter out companies from our investment universe that are at high risk of governance failings. In collaboration with our Equity Research Group, with whom they share responsibility for ESG-focused engagement, the team also provides the Japan-based investment teams with other relevant ESG-related information derived from their research and engagement activities.

In 2022, the AOG 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. We are now setting up a milestone management system to monitor progress towards the resolution of certain issues.

Key ESG themes

In May 2023, the Japan Sustainable Investment Department increased the number of its key ESG themes from three to six (see chart), as stakeholders and society at large are expecting us to do more in these areas. The decision to make this change was arrived at through discussions between our investment teams and the Global Sustainable Investment team about critical sustainability issues the world is facing.

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

These key ESG themes are primarily used as a framework to help us prioritise the companies that we need to focus on and to help us follow a specific engagement agenda when we meet with these firms. We are always building on our knowledge of identified issues to ensure we have constructive dialogue.

We aim to increase medium- and long-term investment returns, and address environmental and social issues, by making every effort to enhance the corporate value of our portfolio companies.

“The stewardship specialists in the Japan Sustainable Investment Department are responsible for conducting the risk assessments we use to filter out companies from our investment universe that are at high risk of governance failings”

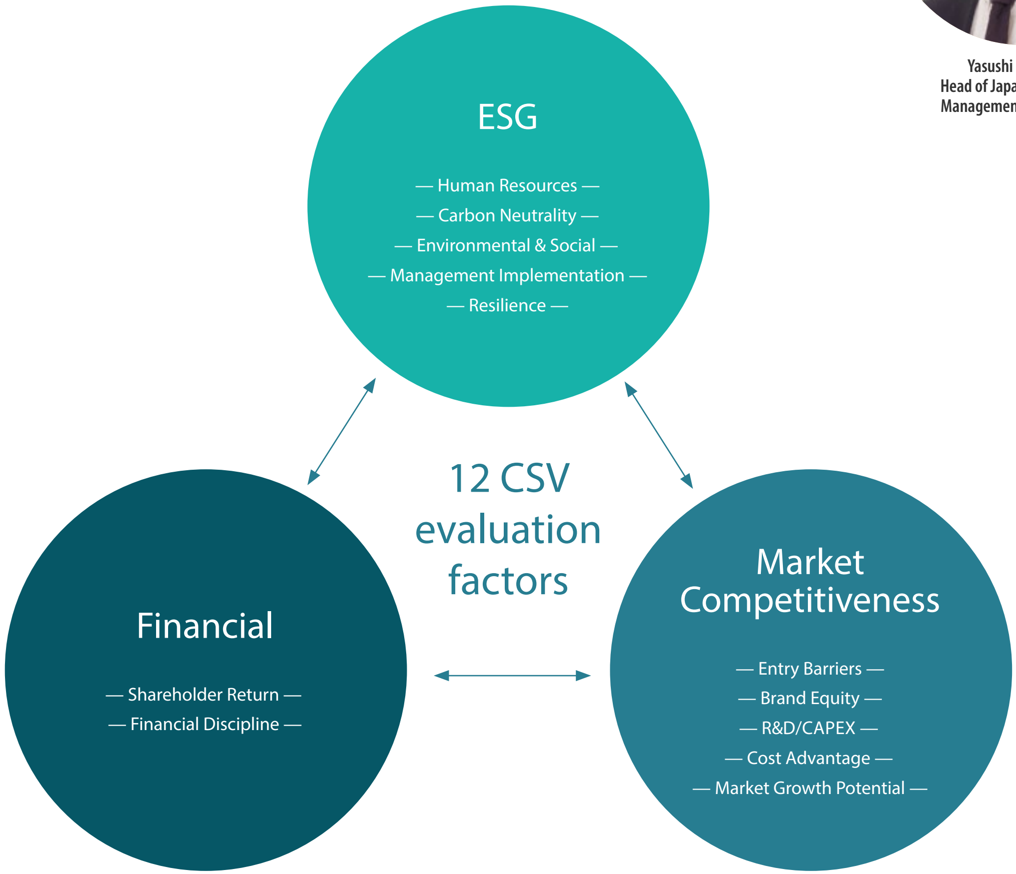
How we use CSV to identify sustainable value

Yasushi Ishikawa,
Head of Japan Equity Fund Management Department

Creating Shared Value

The Japan Equity Fund Management Department's assessments of the financial performance and sustainability of major Japanese companies are grounded in the concept of Creating Shared Value (CSV), a form of corporate management proposed by Professor Michael Porter of Harvard University in 2011.

Professor Porter proposed that companies should play a central role in solving social challenges and that the solutions they provide can result in innovation, thereby creating social as well as economic value. He also emphasised that companies performing these socially centred activities would exemplify a preferred form of capitalism. Nikko AM was an early supporter of CSV and started conducting CSV-based evaluations of major Japanese companies in August 2013. Professor Porter has stated that, to his knowledge, Nikko AM was the first asset manager to introduce CSV-based corporate evaluations.



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

Pricing in shared value

We started calculating CSV stock prices in 2021 to establish the appropriate price levels that would apply if CSV evaluations were fairly reflected in the market. The move was intended to strengthen our ability to integrate CSV evaluations into our investment process. The graph on the right shows how CSV scores have become increasingly important to stock price valuations in recent years.

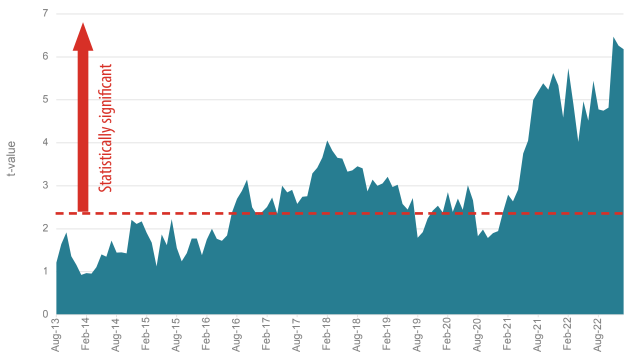
These scores started to become statistically significant in the Japanese market in the second half of 2017, when awareness of ESG investment began to rise, and have been particularly marked since 2021. This means that, in recent years, there is a greater tendency for companies with high CSV evaluations to trade at a premium and those with low evaluations to trade at a discount. We discuss the application of CSV evaluations in more detail in the article by Masanori Hoshino, Group Manager of the Japan Equity Research Group, on the next page.

Engaging for shared value

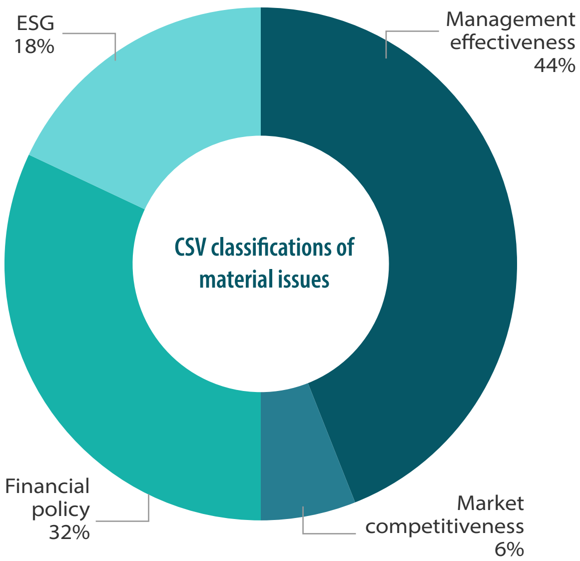
When engaging with investee companies, our analysts and fund managers coordinate with each other and the Japan Sustainable Investment Department as needed. In 2022, we streamlined our approach by building an engagement platform that provides a more comprehensive picture of our process and enhances organisational engagement to resolve issues.

The platform lists companies that have room to improve their enterprise value and that need to better manage their progress on addressing issues they are facing. As of the end of December 2022, we were managing 136 material issues for 117 companies through the new platform. The CSV-score classifications of these material issues are shown in the chart below. In many cases, the resolution of material issues through engagement is accompanied by an improvement in the evaluation of each item of the CSV score. We believe that this will lead to an increase in enterprise value through the granting of premiums and the elimination of discounts in stock price valuations.

Importance of CSV scores in stock valuations



Note: The level of statistical dominance indicated meets the 1% dominance level.
Analysis period is Aug 2013-Jan 2023.



Case Study — The fallout from a falling CSV score

This company is a major manufacturer of analytical and measuring instruments. As the global market leader in automotive engine emissions measurement equipment, its instruments were used to expose Volkswagen's emissions fraud. However, the Japan Equity team grew concerned that the firm's automotive measuring equipment business would lose money in 2022 as car manufacturers increasingly shift to electric vehicles. There is a clear threat that the business will shrink as economies move towards a low-carbon environment.

Our sector analysts cut our CSV score for the company in September 2021 from 20 to 13 (out of a possible 24), largely as a result of the risks facing its automotive instrument businesses. This followed a decision by MSCI to reduce the firm's ESG rating from A to BBB in August 2020, mainly due to the company's controversial sourcing and labour management policies. We continued to monitor the company through 2022, although there were no further changes to the CSV score or MSCI's ESG rating.

It turned out that the semiconductor-related market was strong in 2022, with income from measuring equipment for semiconductors boosting the firm's profits and more than offsetting automotive measuring equipment, which remained in the red, as in the previous year.

Despite the overall increase in profits, the share price valuation fell. Our analyst believed that there was little room for any upward re-rating due to the climate-related risks in the business and the automotive market. As a result of this evaluation and the fundamentals of the stock, our fund manager sold all the shares in 2022.

CSV scoring provides greater insight

Masanori Hoshino, Group Manager of the Japan Equity Research Group

Evaluating non-financial information

The most distinctive feature of our investment scoring process is the calculation of CSV (Creating Shared Value) scores. This is based on the key issues deemed most likely to materially impact the enterprise value of each stock.

As non-financial information can have a material impact, our framework provides a process for directly integrating such information in the scores we use to calculate theoretical stock prices. Indeed, non-financial criteria dominate the five items in the ESG fields of the CSV scoring process — human resources, carbon neutrality, environmental & social, management implementation, and resilience.

We calculate stock prices based on CSV scores and compare them with the target stock values that analysts set when making recommendations, based on more conventional investment criteria. This helps the team to judge whether valuations have been set too high or too low. In view of the challenges involved in applying non-financial information to earnings forecasts and stock valuations, the CSV evaluation process provides analysts with useful tools for considering investment opportunities and risks from different angles.

Valuation verification

In 2022, we started providing explanations for deviations between target stock values and CSV stock prices in the research reports issued by our analysts.

The target stock values set by our analysts are impacted by different factors, such as earnings momentum and the investment themes deemed applicable at the time they are set, so it is not unusual for gaps to occur between those values and CSV stock prices. When we take into consideration the reasons for such gaps, it can help to enhance the accuracy of analysts' stock recommendations.

We have seen several examples where a company's CSV valuation has exceeded its current stock price because our enterprise valuation has increased following an adjustment to the company's ESG evaluation. It is this kind of perspective that offers additional insights into earnings prospects and risks, and can also help our analysts to ensure that they do not overlook investment opportunities.

In the future, we expect to both extend the coverage of our CSV valuations and refine their application, further enhancing our investment scoring process and therefore our stock selection.

"non-financial criteria dominate the five items in the ESG fields of the CSV scoring process — human resources, carbon neutrality, environmental & social, management implementation, and resilience"

Lessons to be learned as sustainable finance flows into the mainstream

Tatsuhiko Ikeda,
Fund Manager, Research
Active Management team

Sustainability is an ever-more important factor in asset management.

There is a growing recognition that, as constraints on human and natural capital become more evident, companies have social responsibilities. Given the current slowdown in global economic growth and the emergence of universal owners — a few large shareholders that dominate capital markets — there is also an increasing need for investment management that extends beyond traditional financial measures to enhance companies' value by avoiding emerging "diseconomies", such as ESG risks.

At Nikko AM, we have been actively involved in these developments for more than two decades. Our Research Active Management team launched Japan's first socially responsible investment fund in 1999 and continues to manage it. As a primarily environment-themed product, the fund's main focus is on carbon neutrality, with an emphasis on decarbonisation, energy-saving technologies, and recycling, which we regard as particular strengths of Japanese companies. With this experience of managing sustainable investments, our team has learned to keep three points in mind:

<u>Tailor the approach to the company</u>
It is not beneficial to take a uniform approach. Given the variety of economic circumstances and rules in different countries, regions, and sectors, it is important to use engagement, working in close cooperation with each firm, to understand the different problems companies face and to consider the best approach for each one.

<u>Tailor the approach to the circumstances</u>
The nature of sustainability changes according to the era and the environment. One example is the current reconsideration of nuclear power and natural gas as sources of electric power in response to soaring fossil fuel prices and the growing need for energy security. This could just as easily change back, so it is important to be ready to update one's strategy to keep it in conformity with the latest thinking on ways to realise a sustainable society.

> "Japan faces many challenges … However, these challenges also provide a wealth of opportunities to create new businesses that can develop products, services, and approaches aimed at solving them"

<u>Avoid being dogmatic</u>
We should not impose a particular view on others. It is most effective to take a bottom-up approach to sustainability, accompanied by a regular exchange of information between a large range of people, including members of our investment management teams, investee company management, and external experts. It is important that these various parties share results and issues with each other.

Japan faces many challenges, including its low level of energy self-sufficiency and its rapidly ageing population. However, these challenges also provide a wealth of opportunities to create new businesses that can develop products, services, and approaches aimed at solving them. We will continue to build stock portfolios featuring companies that are working to realise a sustainable society, are seeing growth in their earnings, and are competitive in the market in order to provide attractive returns for our investors.

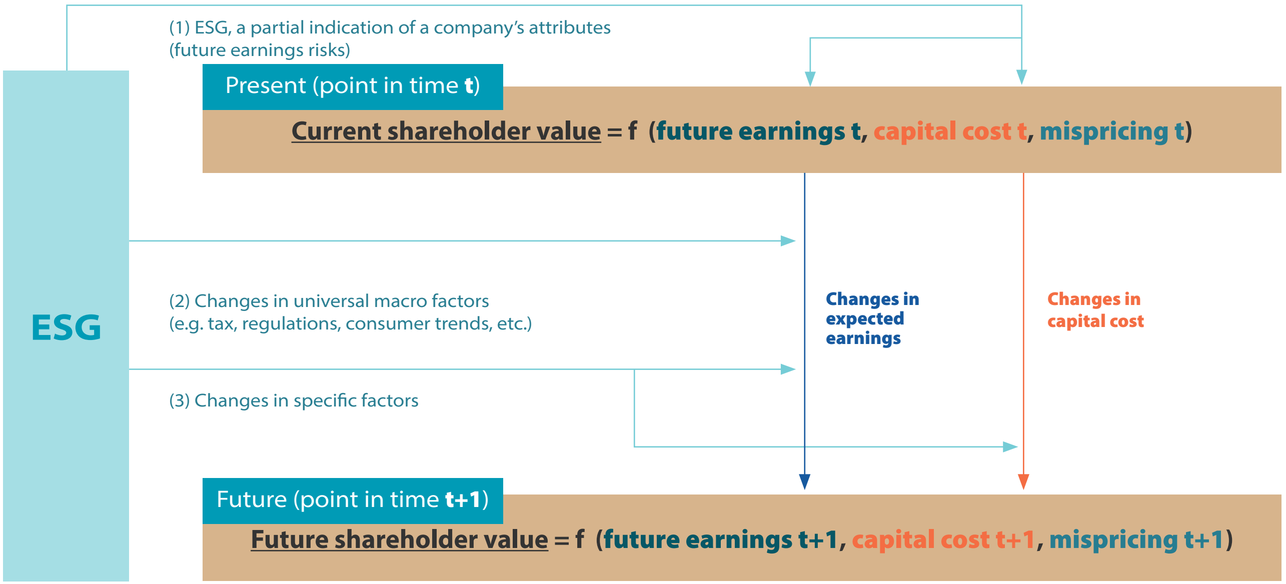
Fundamental research drives sustainable investments

Satoru Ikeda, Senior Fund Manager
Leader of Quantitative Investment Management & Development Team
Deputy Head of Investment Technology Fund Management Department

What we do

Our 20-strong 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, including fixed income, equities, real estate investment trusts (REITs), commodities, and multi-asset. The Quantitative Investment Management & Development team offers quantitative active strategies and smart beta strategies for domestic and international equities.

How ESG issues impact stock prices



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Our approach

ESG factors can impact shareholder value over time and in a wide variety of ways (such as the impact on future profits and cost of capital), so we believe it is important to understand them both theoretically and empirically (see chart). To this end, we continue to conduct in-depth research on the environmental (E), social (S), and governance (G) components of ESG investment using a quantitative approach, which also draws on the expertise of our Global Sustainable Investment team. The findings of this research are used to integrate ESG considerations into existing products and to develop new ESG products.

Masayuki Teraguchi
Head of the Investment Technology Fund Management Department

We also contribute to academia by submitting research papers and giving lectures at universities. For example, Masayuki Teraguchi, Head of the Investment Technology Management Department, has given lectures to working adult students at Waseda University on its accounting and ESG course for financial management teams.

"in December 2022, we established our Climate Change Solutions – Japan Equity Strategy, which aims to achieve a portfolio with 50% reduction in GHG emissions versus the TOPIX index average while minimising tracking errors against the index"

Environmental research

Our environmental research focuses on the relationship between a company's greenhouse gas (GHG) emissions and shareholder value. We believe that Scope 1 emissions (direct emissions from the company's operations) and Scope 2 emissions (indirect emissions, such as those from electricity providers) are not sufficient to evaluate the full effect of GHG emissions on shareholder value. It will therefore become increasingly important to evaluate shareholder value by considering Scope 3 emissions, those indirect emissions that occur across the entire value chain of a firm, such as suppliers' emissions. However, companies that disclose Scope 3 emissions are extremely rare, and there is still room for improvement in the reliability of these figures.

Because of this, we decided to develop our own in-house model to estimate all three types of emissions. Based on this model, in December 2022, we established our Climate Change Solutions – Japan Equity Strategy, which aims to achieve a portfolio with 50% reduction in GHG emissions versus the TOPIX index average while minimising tracking errors against the index (read more about this on the next page).

Social research

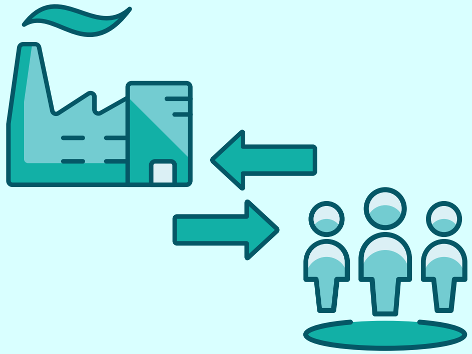
Our social research focuses on the relationship between the efficient use of human resources and shareholder value. To conduct this research, first, we defined human resource investment efficiency at Japanese companies as the sensitivity of labour productivity change to the total employee growth rate. Then, we examined the impact of human resource investment efficiency on shareholder value, mainly stock returns. We found that stock returns are relatively high for companies with high human resource investment efficiency and that this trend is stronger for companies with a high labour share ratio, which is a measure of the amount of value added that a firm allocates for employee compensation. The labour share ratio can also provide insight into a company's labour practices and the extent to which it prioritises the well-being of its workers[1]. This research formed the basis of our Japan equity human resources strategy, which invests in stocks of companies that excel in human resources investment.

Governance research

It is difficult to objectively measure corporate governance, as individual factors generally have a large impact on how well companies are governed. The result is that the ratings among ESG data providers vary widely[2]. While it is undisputed that directors play a major role in corporate governance, the team believes that it is important to evaluate the appropriateness of the composition of the board of directors, taking into account the attributes and size of the company, as well as the status of directors serving concurrently on the board. Specifically, we analyse the relationship between variables related to effective governance, such as shareholder and board composition, and subsequent corporate performance. We have presented some of our findings to pension sponsors and other institutional investors in Japan and abroad[3]. Furthermore, we are developing a Japan equity stable growth ESG strategy that reflects this knowledge.

[Notes]
1. Ishikawa, Y., and K. Hasegawa, 2019, "Efficiency of Japanese Corporate Investment in Human Capital and Shareholder Value", *Securities Analysts Journal*, 57(6), 67-79. (FY2019 Securities Analysts Journal Prize)
2. Gibson, R., P. Krueger, and P. S. Schmidt, 2021, "ESG Rating Disagreement and Stock Returns", *Financial Analysts Journal*, 77(4), 104-127
3. Teraguchi, M., 2021, "ESG Investment for Pension Funds: Discussion Points and Practical Solutions to Challenges", Pensions & Investments' 15th Global Pension Symposium

Climate Change Solutions – Japan Equity Strategy



Carbon dioxide and other greenhouse gas emissions have risen significantly with industrialisation and population growth. These emissions contribute to global warming and have various effects on our living environment. Against this backdrop, the Paris Agreement was adopted at the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in 2015 as a new international framework for reducing greenhouse gas emissions, which entered into force in 2016. Many countries, including major emitting countries, have joined in pursuing efforts to reduce GHG emissions in order to combat climate change.

Like many other countries, Japan has set an ambitious goal of net zero GHG emissions and carbon neutrality by 2050, and Japanese companies are now required to make various changes to achieve net zero emissions. Nikko AM also believes that companies need to play an active role in addressing climate change. To that end, we established our Climate Change Solutions – Japan Equity Strategy.

There are three key points to this strategy:

1. The portfolio will aim for 50% reduction in GHG emissions versus the average for the TOPIX, the stock market index that includes Japan's largest companies.
2. Investors are able to track the main index closely as the portfolio aims to reduce tracking errors compared with the TOPIX.
3. The fund will address climate change by supporting Japanese companies in their efforts to decarbonise.

This climate change strategy is a response to our investors who want to invest in funds and assets with lower GHG emissions. It is a distinctive strategy because it is tied to a commitment that we will engage with investee companies specifically on the issue of GHG emissions. In addition to providing relatively low GHG emissions compared with the market average, the portfolio aims to encourage Japanese companies to work towards the realisation of a decarbonised society.

"This climate change strategy ... is tied to a commitment that we will engage with investee companies specifically on the issue of GHG emissions"

An illustration of the Climate Change Solutions – Japan Equity Strategy

Investors
- Wish to invest in funds and assets with lower GHG emissions
- Keen to support companies' efforts to realise a decarbonised society

A simple and easy-to-execute strategy

Climate change-focused Japanese equity strategy

Covers all sectors with construction of **low-GHG portfolio**

Lower GHG emissions than TOPIX (benchmark) with reduced tracking error

+

Urging Japanese companies to realise a decarbonised society

Engagement
Leveraging data and analyses, etc. used in strategy

Messaging to investee companies
Promoting emissions reduction and information disclosure

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy.

Key criteria for strong investment decisions

Akihiko Yoshino,
Group Manager of Credit Research

The focus of our ESG analysis

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. We focus on eight ESG items, displayed in the diagram below: two of these are related to the environment, three are related to society, and three are related to governance.

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

We began this type of analysis in 2009, and we periodically review and update these focus areas based on case studies we conduct.

Integrating ESG 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.

ESG integration: An investment case study

Over the years, we have been engaging with a credit card company to better understand their sustainability strategy and its materiality. The issuer has set six key topics in their sustainability policy, including contributing to the development of sustainable communities and contributing to the realisation of a highly convenient cashless society that offers safety and security.

The analyst in charge has focused on analysing the firm's sustainability strategy as well as how it can contribute to improving corporate value. In our opinion, the issuer's unique quality assurance system is the most important factor in its overseas business development.

In terms of social impact, the company — with its highly established credit management capability — can play an important role in enabling car ownership and, therefore, improve mobility in its overseas market, particularly in Southeast Asia.

In some Southeast Asian countries, car ownership is not an option for many people due to financial constraints. These factors can lead to a demand for auto loans. However, in some instances, local banks are not willing to provide financing for used cars. At the same time, the poor quality of used cars is hindering the expansion of the secondary car market, and there is also a lack of vehicle inspection systems with equivalent standards as those in Japan. Under these circumstances, the credit provider can create social value in emerging markets: it aims to differentiate itself from other companies in the industry by independently guaranteeing the quality of used cars when providing loans to people in these markets.

Another key initiative for the issuer is supporting local medium-sized companies by guaranteeing accounts receivable settlements.

Engagement has helped us gain further insights into the issuer's sustainability strategy as well as value creation. We have also shared with the firm that we expect its sustainability activities to be extended to other parts of the business. We will continue monitoring and engaging with the issuer on these important topics.

A nuanced approach to ESG

Our approach to ESG

The consideration of ESG factors is a core part of our Asian equity investment process and they are integrated throughout. This is linked to our fundamental belief that companies with strong or improving ESG will perform better financially in the long term. ESG analysis is incorporated into company research, security selection, and portfolio construction.

Our ESG Materiality Map focuses on the material issues and opportunities for each of the companies we cover, based on ESG factors from the Sustainability Accounting Standards Board and MSCI.

As part of our in-house proprietary ESG scoring methodology, individual companies are scored on ESG pillars, alongside fundamental analysis, which is aggregated to provide a company-level score. ESG-focused research is also used to identify areas for company engagement and improvement.

While Asian companies have been improving on ESG data disclosures, there is still an overall lack of consistent and verifiable data in much of the region. This means we need to focus on the most material ESG factors that impact a company and, therefore, shareholder returns. As a result, we rely on our research analysts and their engagement with companies to research and identify material ESG risks and opportunities.

Additionally, with the many complex, diverse, and fast-changing economies and societies that make up Asia, we believe ESG is more nuanced in the region and cannot be viewed with a one-size-fits-all approach. We assess materiality through a uniquely Asian lens, being cognisant of the differences in ownership, culture, and stages of development when compared with developed markets.

In 2022, we continued to enhance our ESG-integrated investment framework, which involved conducting more in-depth research on various ESG topics and calibrating our research to ensure consistency. This enhancement process also helped us keep up to date with the ever-evolving global regulations to better understand if there is potential material impact on shareholder returns. We conduct this research in close collaboration with a dedicated ESG Asia (ex. Japan) analyst and the broader Global Sustainable Investment team.

Engagement

A key aspect of our ESG-integrated investment framework is engagement. Throughout 2022, we continued to engage with companies not only to better understand their ESG risks and opportunities, but also to educate and encourage them to improve their ESG-related disclosures and performance. In addition to direct engagement, we have expanded our participation in collaborative engagements as part of investor coalitions such as Climate Action 100+, "we are collaboratively engaging with UltraTech Cement, India's biggest cement company"

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an investor-led initiative aimed at getting the world's largest greenhouse gas emitters to reduce emissions.

For example, we are collaboratively engaging with UltraTech Cement, India's biggest cement company. The investor coalition continues to enhance our engagement approach, helping us to ask more in-depth questions in relation to topics such as energy transition, decarbonisation strategies, and biodiversity preservation.

While ESG disclosures in Asia still lag those of developed countries, we have seen improvements. In our interactions, we notice that companies are not only more aware of their ESG-related risks and opportunities, but some have implemented mitigation efforts in response to the risks.

Engagement case study

We aim to identify companies where ESG factors are improving and there is scope for an uplift in valuation as these improvements become evident to the market. Additionally, when we see opportunities a company can capture in the global transition towards a lower carbon economy, we communicate that as part of our ongoing discussions. An example is our investment in Linklogis. It is the first and largest cloud-based and blockchain-backed supply chain financing (SCF) technology solution provider, with a 21% market share. Its operations span China, with overseas operations in Hong Kong, Southeast Asia, and India. When we first evaluated them, they were just starting on their sustainability journey and were light on their ESG-related disclosures.

Engagement with Linklogis has been conducted directly with the company's CEO/Co-Founder and CFO. Our discussions thus far have focused on improving their ESG disclosures, the opportunities we felt that they could capture in the transition towards a lower carbon economy, and their board structure.

Improving ESG disclosures

- In 2022, Linklogis published their first sustainability/ ESG report for FY2021
- This was a good first step for the firm, but we would like to encourage the team to continuously improve their ESG-related disclosures. Given that their first report primarily focused on environmental and social factors, we are specifically looking for them to improve their disclosures around governance

Capturing opportunities in the energy transition

Given Linklogis' data collecting capabilities and its exposure to small and medium-sized enterprises (SMEs), we believe that it has the ability to explore further growth opportunities with regard to supply chain transparency.

- In 2022, the firm started trialling a new product, CarbonZeroChain, to facilitate green loan origination for financial institutions
- Financial institutions are incentivised to offer green loans to SMEs and, to provide a green loan, they require the SMEs to submit a set of pre-defined ESG disclosures, which are collected by Linklogis' CarbonZeroChain
- The CarbonZeroChain platform aligns well with the regulatory push for financial institutions to provide more green loans and with the launch of China's own carbon trading system

Improving its board structure

Linklogis' current board includes three independent directors, and one board member is a woman. As the firm is looking to increase its presence in overseas markets, we encouraged the leadership team to introduce overseas and/or independent experts to the board.

- The company's executives understand there is a need to improve the current board structure. They noted that in the future, when there is an opportunity for them to increase board seats, their preference is to ask another woman to join to improve gender diversity.

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

The value of collaboration

ESG approach

The integration of ESG analysis in our credit research process supplements our bottom-up fundamental analysis and provides us with a stronger, more holistic Internal Credit Rating. We believe that material ESG factors can impact a company's financial performance, and companies with strong and/or improving ESG performance financially outperform over the long term.

Our ESG Materiality Map focuses on the material issues and opportunities for each of the companies we cover, based on ESG factors from the Sustainability Accounting Standards Board and MSCI. The material ESG issues are taken into consideration as part of our credit research process, alongside fundamental analysis.

Our credit research analysts conduct their own ESG analysis, as there are sectoral and regional nuances that need to be taken into account when looking at the materiality of various ESG factors. When an analyst covering specific sectors can understand and interpret relevant materiality factors, it allows for a more informed differentiation between the industry's ESG leaders and laggards.

In 2022, we embarked on a project to improve how we assess sovereign bond issuers' exposure to, and management of, ESG risk factors. To that end, we reviewed existing market practices, guidance, and available data, in close collaboration with the Global Sustainable Investment team. Following this review, we developed a proprietary ESG sovereign rating model using public data from sources such as the World Bank, the United Nations, and the European Commission Emissions Database for Global Atmospheric Research.

Going forward, we will continue to enhance our ESG-integrated investment framework, diving more deeply into research on various ESG topics and keeping up to date with the ever-evolving global regulations. Doing this will help us to better understand if there is potential material impact on us or the companies we invest in. We conduct this research in close collaboration with a dedicated ESG analyst on the Asian Fixed Income (Ex. Japan) team and the broader Global Sustainable Investment team.

Engagement

Engagement has always been an important aspect of our credit research process. Throughout 2022, we engaged with companies not only to better understand their ESG risks and opportunities, but also to educate them on how to improve their disclosures and encourage them to improve their ESG performance.

We have enhanced our engagement approach, asking more in-depth questions to better understand how issuers have identified and incorporated ESG risks and opportunities into their strategy, as well as the mitigation efforts they have considered. Our engagement has also evolved to include topics such as biodiversity and energy transition.

From our engagement, we have seen a marked improvement in companies' understanding of their own material ESG risks and opportunities. We will continue to work on enhancing our engagement approach and educating our investee companies on the impact of ESG risks and opportunities as part of our stewardship activities.

Case study on engagement

In addition to direct engagement, we have expanded our participation in collaborative engagement as part of investor coalitions. In 2022, we joined the Asian Utilities Engagement Programme (AUEP) on a collaborative engagement with PT Perusahaan Listrik Negara (PLN). This programme is organised by the Asian Investor Group on Climate Change (AIGCC), an industry body creating awareness and encouraging action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and net-zero investing.

PLN is the only vertically integrated electricity utility in Indonesia and is 100% owned by the Indonesian government. It is the dominant power generation, transmission, and distribution firm in the country, accounting for more than 70% of electricity power production. PLN is also the sole buyer for Indonesia's independent power producers. With a total installed capacity of around 45.9GW, PLN has close to 90% of its production powered by thermal sources, exposing it to high risk in the transition to zero carbon. Not surprisingly, the company scores poorly among APAC utilities for both absolute and relative carbon emissions. In addition, PLN's governance lags its global peers in certain areas. The Indonesian government appoints half the directors of the board, limiting its independence.

As part of our collaborative engagement, we are engaging with PLN's senior management and its board to encourage them to commit to several measures:

- Strengthen their governance framework to ensure the board's accountability and oversight for climate change risks and ESG opportunities — specifically, to clarify the role and responsibility of the Sustainability Committee in the implementation of PLN's decarbonisation strategies
- Draft action plans to reduce greenhouse gas emissions in line with the Paris Agreement, which requires that less-developed economies follow a timetable to phase out coal-based emissions at the latest by 2040, with similar commitments for natural gas
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-Related Financial Disclosures
- Outline the physical risks the company faces from climate change and what strategies it is adopting to mitigate these risks
- Engage with public policy makers and other stakeholders to support cost-effective policy measures to mitigate climate-related risks and facilitate low carbon investments in line with achieving net zero emissions by 2050 or sooner

In September 2022, we participated in our first collaborative engagement call with PLN's Climate Change team, together with other members of the AIGCC. The team presented five possible routes that the company's decarbonisation pathways might follow. The accelerated scenario outlined in detail the company's roadmap to net zero by 2060, which would see its emissions peak in 2030, in line with Indonesia's national target. As part of these plans, the company has committed itself to building no new unabated coal-, oil-, or gas-based power plants after 2030, making hydropower the dominant energy source in its renewables mix.

> "From our engagement, we have seen a marked improvement in companies' understanding of their own material ESG risks and opportunities"

PLN responded by noting four key issues that need to be addressed to accelerate its net zero target. These are:

- ensuring supportive electricity pricing
- maintaining favourable finance channels
- deploying new technologies, such as carbon capture, utilisation, and storage, as well as hydrogen power, on a large scale in Indonesia
- increasing support from public policy, such as incentives for electric vehicle adoption

We understand that in this part of the world, with a majority of the countries still reliant on fossil fuels, the energy transition will take place gradually and require policy support. However, our role as investors is to encourage companies to accelerate their energy transition. As such, we will continue our ongoing collaborative engagements with PLN through AIGCC and actively monitor PLN's progress.

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Multiplying opportunities to integrate ESG

In the Multi-Asset team, we are constantly seeking ways to enhance our integration of ESG factors in our investment process. We believe this is vital to create the sort of sustainable portfolios that are needed both to mitigate the risks from emerging threats like climate change and to generate alpha from the opportunities presented by the changing investment landscape.

Multi-asset investing, by definition, involves a wide range of assets, including equities, fixed income securities, and real estate investment trusts (REITs), and we often use collective investment vehicles such as exchange-traded funds or mutual funds. This makes it difficult for us to have the same leverage over the direction of our portfolio as some other investors. For instance, collective investment vehicles do not generally give us access to the underlying investments or their management.

Nonetheless, using the tools at our disposal, we can construct multi-asset portfolios that take into consideration ESG factors. We do this at a sub-asset class level for risk mitigation purposes, adopting both a bottom-up and a top-down approach. When we invest in Nikko AM's own funds, we rely on our in-house bottom-up ESG analysis conducted by our underlying specialist teams.

Our top-down analysis involves our third-party data provider, which uses ESG screens to identify companies that breach social safeguards such as the United Nations Global Compact, the Organisation for Economic Co-operation and Development (OECD) Guidelines, and international treaties on controversial weapons. Companies that have been flagged as being in breach of social safeguards will be further assessed, which might entail engagement to clarify areas of concern before we divest as a last resort.

ESG screenings flag companies in breach of social safeguards

In 2022, we identified several companies found to be in breach of our social safeguards. This led us to conduct further due diligence to better understand the controversies or rationale behind the breach. As part of our evaluation, we assessed the controversy, the steps taken by the companies to remedy the issue, and their mitigation efforts to prevent such events happening again.

Well equipped

ESG integration

Nikko AM New Zealand's equity and bond teams have a united voice on ESG issues. We are primarily medium- to long-term investors with a fundamentally driven bottom-up approach. We seek to understand how industry and company ESG factors may impact investments and, ultimately, client portfolios. The ESG risks and opportunities faced by a company form an important element in understanding investments but cannot be managed in isolation. The quality of a management team, for example, must also be carefully assessed.

We use our extensive experience to help us understand and evaluate the materiality of ESG factors. While on some occasions ESG factors may not be material enough to alter our conclusions, a specific understanding of ESG analysis can help us build a picture of the risks and opportunities faced by a company. There is no set formula for quantifying the importance of each ESG factor or adjusting how we value each company. We rely on the experience of team members to understand ESG impacts and document them in our investment research reports.

Engagement and proxy voting

On a quarterly basis, we screen the investments we hold across all portfolios — together with investments on watch or under active assessment — using the MSCI ESG Research tool. This process assists the team by adding another layer of scrutiny to our knowledge of companies. Many debt issuers are also listed on the NZX and, therefore, also captured during this screening.

The outcome of this process is that companies are rated on a scale from AAA to CCC relative to the standards and performance of their industry peers. We engage with companies in an effort to raise the bar in relatively weak areas or areas where ongoing improvement is beneficial to stakeholders. These areas could be identified by MSCI research or our own research. A rating of BB or less does not necessarily make a company un-investable from our perspective but does necessitate active company engagement on the main issues underlying the relatively poor rating.

A higher MSCI rating does not alone dictate a higher investment weight. The primary driver of a company's weight in our portfolios will still be determined by the relevant portfolio manager, given a range of both quantitative and qualitative factors. The current MSCI rating is explicitly assessed as a quantitative factor

consistent with our established investment process. Companies that have higher ratings or are actively improving their ESG standards will ultimately be recognised by market participants, so our process is likely to highlight these opportunities.

We also monitor the carbon footprint and weighted average carbon intensity of our portfolios. This information helps to form a baseline for monitoring trends. We use this baseline to find opportunities in areas that we can invest in and then influence these firms to move towards a lower carbon future.

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

Case Study — Taking a stance against modern slavery in New Zealand

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Issue

Unfortunately, slavery in New Zealand, and globally, is much more widespread than is generally acknowledged or understood. In light of this, in April 2022, the New Zealand government launched a consultation on planned legislation addressing slavery and worker exploitation. As proposed, the legislation would create due diligence and disclosure obligations for many companies operating in the country, with additional responsibilities for larger organisations. This will affect a big part of our portfolio and investible universe.

Activity

Our New Zealand office decided to get ahead of the issue by engaging an ex-detective who is now a consultant helping private and public companies map their exposure risk to modern slavery, as well as uncovering and addressing slavery and people trafficking in their supply chains. He has provided training and information to our analysts, equipping them to better interrogate company management and boards about the issue and help them with ways to deal with it. Typically, this involves looking closely at contractors and sub-contractors.

Outcome

By working with companies, raising awareness, and facing the problem rather than ignoring it, we hope to see more change, both legislatively and practically, at companies and in their supply chains, here and abroad. On the back of our training and information sessions, we have regularly discussed the modern slavery environment in New Zealand with management teams, especially those in riskier industries like agriculture and construction. These insights are generally well received. In one instance, as a direct response of our engagement, a listed healthcare provider has shared the information we provided to help inform their own teams of the risk assessment process.

Looking for sustainable collaboration

ESG integration

The US Investment Team has increasingly focused on ESG considerations in its investment process. We do this through our sub-advisers who provide us with investment advice for managing our different equity mandates. They help us to understand the short- and long-term risks of the business environment for each strategy, helping us to make informed strategic decisions.

Each sub-adviser has their own dedicated approach to analysing companies in relation to ESG. We hold monthly and ad hoc conversations with them, where we discuss the potential risks to the investment strategies as well as the opportunities that may arise from the changing environment. We use various tools and metrics to assess ESG risks and opportunities, including ESG ratings from third-party providers.

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

Each sub-adviser has a slightly different approach to incorporating ESG considerations into the investment framework. However, they all integrate ESG into their investment process by considering a broadly similar range of factors, such as environmental impact, labour standards, and business ethics. In practice, some advisers place more focus on these factors than others. An important part of the process is engagement. Both our sub-advisers and our investment team engage with companies to encourage them to adopt sustainable business practices.

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

Making every vote count

The area where we believe we can have a significant impact in implementing our ESG philosophy is through proxy voting. We take our proxy voting responsibility seriously and work as a team to review all ballots before voting. We also use a proxy adviser who recommends how we should vote, and their recommendations are based on our group voting policy. Several new and evolving trends were apparent during the 2022 proxy voting season, including increased scrutiny of ESG matters.

When assessing proxy ballots, we find it useful to engage with companies to complement the proxy adviser's recommendations. We have seen an increase in "say on pay" and "say on pay frequency" proposals and find executive compensation one of the most important areas for engagement. Executive compensation plans vary by company and often have different goals, depending on the size of the company, the business sector, or the stage of the company's development (whether, for instance, it is still founder-led, has recently launched on the stock market, or is a more mature and established business). Additionally, as ESG metrics are increasingly used in incentive compensation, we believe it is important for investors and proxy advisers to question companies on the use of such metrics and whether they have achieved any related goals.

> "Both our sub-advisers and our investment team engage with companies to encourage them to adopt sustainable business practices"

Engaging for enlightenment

Engagement can be vital in gaining a proper understanding of the issues underlying a company's policies. One example relates to an engagement meeting we had with a biotech company that has an unusual business structure — it has its headquarters in Europe but is listed in the US. Such a company structure does not fit perfectly under either US or European policy guidelines. We found this led to confusion over both pay and benchmarking.

The proxy adviser was using European biotech companies as the peer group for assessing executive compensation plans, although the company itself based its compensation philosophies and practices on those of US-based biotech companies. There are slight differences between how US companies structure payment plans compared to their European peers, which resulted in the proxy adviser recommending voting against the management's plan. However, following the meeting with the company, we had a better understanding of the compensation plan and agreed that it was appropriate to vote for the management's proposals.

Seeking sustainable quality

From floods in Pakistan and heatwaves in China to drought in Ethiopia and hurricanes in the US, the devastating extreme weather events of 2022 underscored the need for all investors to focus on sustainability.

Our Future Quality investment approach helps us to identify those companies we think are well positioned to sustain high returns into the future while creating value for all stakeholders and our planet. Our underlying belief is that the market will increasingly recognise that these companies will not only weather future challenges but be able to deliver solutions to the problems that we face.

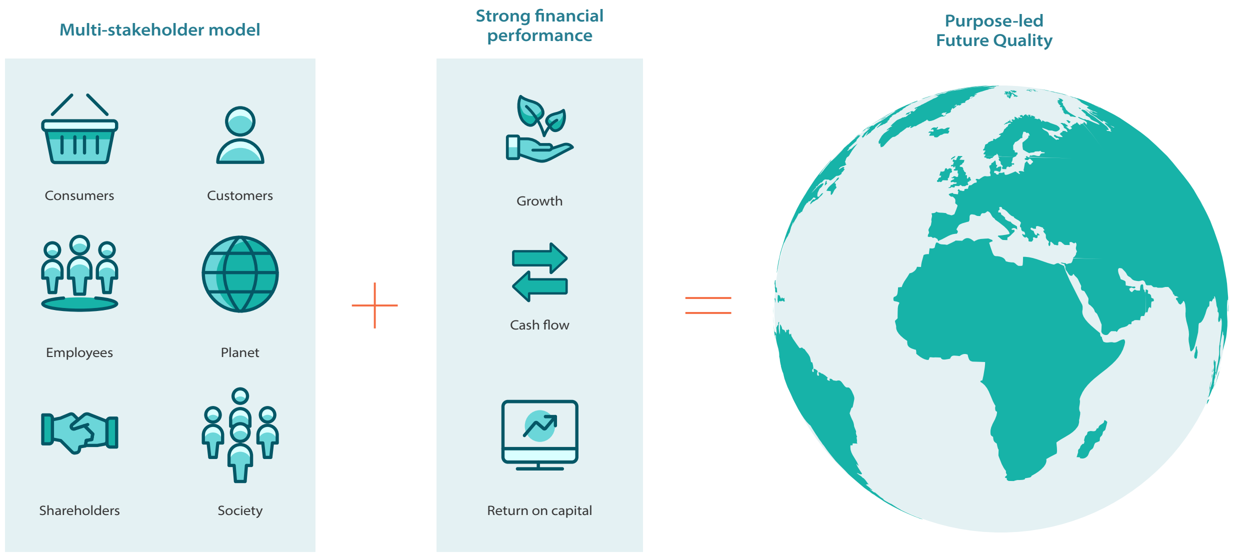
ESG analysis is undertaken by each portfolio manager and analyst, and it is fully integrated into the stock-selection process. This ensures that we can robustly evaluate the materiality of each factor and its potential impact. We rely on our four-pillar Future Quality analysis, which includes in-depth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

Engaging across the board

In creating a sustainable portfolio, picking the right stocks is only part of the job. It is also crucial to make sure the chosen companies remain committed to pursuing sustainable practices. Our investment team engages with investee companies to help promote better ESG practices if we believe there is room for standards to improve (see our case study below). These meetings can occur at any point in the investment process — from initial research through to portfolio inclusion and beyond — and can involve the whole portfolio.

An example of significant engagement in 2022 was when our team contacted all our investee companies to discuss the issue of climate change. There were several specific objectives:

— to ensure that investee companies understood Nikko AM's commitment to supporting the transition to a low carbon future, as well as our stewardship priorities and those of our clients
— to ensure that the investee companies were aware of our obligations and expectations as signatories of industry initiatives such as Climate Action 100+ and the Net Zero Asset Managers initiative
— to ensure our team had a baseline understanding of the strategies being employed by each of the investee companies during the transition to a lower carbon environment
— to verify greenhouse gas emissions under Scope 1 (direct emissions), Scope 2 (indirect emissions), and, where possible, Scope 3 (indirect emissions



from a company's value chain, such as suppliers) that have been reported by our primary third-party ESG data vendor, as well as to learn about any associated reduction targets

— to establish whether management had performed assessments of the physical and transition risks associated with climate change and/or the effect of carbon pricing, were it to be introduced

The team received good responses from many investee companies. As expected, some are further along this journey than others. Overall, our portfolio has a significantly lower carbon footprint than the benchmark. Given the importance of climate change, this is an issue the team will continue to raise with investee companies in the years to come.

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

Case Study — Helping to build a more sustainable future

Carlisle Companies is a US building products group held in some of our Global Equity portfolios. It has been divesting non-core segments of its business and allocating capital to higher-return products that aim to meet customers' environmental and energy requirements.

We believe this new direction for the group could benefit all stakeholders and lead to strong share price appreciation over time. It also makes sense from an ESG perspective, as buildings account for about 28% of greenhouse gas emissions globally and Carlisle's products help reduce heat and energy loss.

We engaged with management towards the end of 2021, highlighting a number of ESG improvements the company could make. We followed this up in June 2022 when we met the Head of Investor Relations and the Vice President of Sustainability. It was evident that Carlisle had progressed on its ESG journey. The company had committed itself to adopting Science Based Targets, a UN-backed initiative to get companies to reduce their greenhouse gas emissions to prevent the worst effects of climate change. It now has a 2030 goal of reducing scope 1 and 2 emissions by 70% and an ambition to set further targets for 2050, including those that fall under Scope 3.

We reiterated our previous recommendations and discussed disclosure requirements from European investors in relation to the EU's Sustainable Finance Disclosure Regulation. The Vice President of Sustainability responded that our requests would be explored further.

Although progress has been made, it is clear that the firm will need to make more changes to reach net zero. Carlisle is partnering with universities and technology leaders to undertake carbon sequestration and develop new bio-based and recyclable products. We will continue to engage with the company to help it adopt best practices in 2023 and beyond.

Extending ESG in fixed income

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

Therefore, it is incumbent on us — for the benefit of both our clients and the planet — to incorporate ESG principles into our investment process. We have always believed in employing a consistent process that relies on quantitative and qualitative inputs to generate ideas and construct high conviction portfolios, which should reward us suitably for the risk we undertake. In 2022, we continued our efforts to direct capital towards issuers that are implementing a sustainable transition programme to a zero-carbon future.

ESG implementation is driven by clients

ESG factors are considered across all our products at the research and screening stage of the investment process. Our assessment of corporate governance focuses mainly on general management quality, while environmental and social analyses tend to capture risks and opportunities linked to a specific industry or region.

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

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

In 2023, we will be expanding the investable universe for our Global Green Bond fund to include corporate credit issuance in order to support the growing desire of our clients to help fund the transition to a net-zero future.

Getting the message across

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. Even so, it is important to engage with management to encourage positive changes when we see areas that can be improved. Our fixed income teams have been active in extending

"Where we have identified company-specific or systemic risks, we may raise these concerns through meetings, conference calls, or email to gain assurance that risks are being managed"

our stewardship and sustainability activities in a number of areas during the year, particularly ESG. In 2022, we engaged with several finance ministries and municipalities in relation to their green bond issuance programmes. For example, we spoke to issuers in Canada and New Zealand about the growing importance of biodiversity to the wider market as well as to our own clients. We also spoke of the growing importance of the social component of ESG and the concept of a just transition to a zero-carbon society. We will continue this dialogue.

With respect to corporate credit, our Global Fixed Income portfolio managers and research analysts work alongside our ESG analysts to engage with the companies in which we invest. These discussions cover the firms' corporate earnings and financial strategies, as well as other non-financial information, including their management policies, business strategies, and material ESG matters, as part of an assessment of corporate value that ultimately informs our investment decisions.

Where we have identified company-specific or systemic risks, we may raise these concerns through meetings, conference calls, or email to gain assurance that risks are being managed. The priority and level of engagement depends on our holding and the geographic 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 that would disproportionately tie up resources and time.

Sharpening our tools

In 2022, the team continued the development of our proprietary ESG monitoring tools. We are increasingly taking ESG considerations into account at a bond selection level, regardless of whether they are explicitly outlined in investment mandates. Our rationale is that we want to avoid situations where the market moves in favour of issuers with superior ESG scores, causing client portfolios to be left holding underperforming bonds. As a result, if there is a choice of issuance that would fulfil a specific need in terms of duration positioning and risk profile, we will opt for the higher ESG scoring bond.

Overseeing external managers' ESG integration

Philosophy and policy

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

We have had most external managers sign letters of intent affirming their commitment to integrating ESG in their investment management. They are expected to implement a process for assessing and observing current and future ESG-related investments. At the same time, our team continues to regularly monitor whether external managers are fully integrating ESG factors in their investment management process and, if necessary, encourage them to step up their ESG integration. Given our process to conduct periodic assessments of external managers' ESG initiatives — in terms of their companies, personnel, research, and investment processes — ESG already plays a key role in our manager selections.

The Portfolio Solutions Group operates an inter-regional ESG Working Group — specifically for managing external managers — which comprises members from our Tokyo, Singapore, and New York offices. This working group is led by Naoyuki Murota of the Portfolio Solutions Group in Tokyo. In view of the rapid changes occurring in ESG investment in the asset management industry, the ESG Working Group conducts research into the changes that are taking place and keeps up to date with the ongoing evolution of ESG investment requirements.

Based on this research, we regularly review our ESG evaluation framework to properly reflect ESG requirements for the asset management industry. We include those considerations in our assessments of external managers and work with them to ensure that ESG is integrated effectively into their investment activities.

Updating our ESG evaluation framework

In the asset management industry, attention to ESG factors is increasing year by year, especially around climate change. There is an urgent need to accelerate the transition towards global net zero emissions and we firmly believe asset managers need to be at the forefront in driving that change. In order to better evaluate how external managers are supporting the transition to net zero emissions, we revised our ESG Evaluation Framework and ESG Due Diligence Questionnaire (DDQ) in 2022. We will continue to review and update these documents every year to improve our ESG evaluation methodologies of external managers.

> "our team continues to regularly monitor whether external managers are fully integrating ESG factors in their investment management process"

"In 2022, Nikko AM exercised voting rights on issues at more than 1,000 companies held by funds managed by external managers"

Engagement

We believe that engaging with investee companies and exercising voting rights are powerful tools for us to fulfil our stewardship obligations. For funds managed under discretionary investment contracts, we exercise voting rights in line with Nikko AM's proxy voting policy rather than delegating proxy voting to external managers. When exercising our voting rights, we refer to recommendations from Institutional Shareholder Services Inc. (ISS), a major proxy voting advisor, and conduct stringent checks on proposals relating to matters including investee companies' remuneration of officers, the composition of their boards, and officer reappointments. In 2022, Nikko AM exercised voting rights on issues at more than 1,000 companies held by funds managed by external managers, and the Portfolio Solutions Group supported the firm with these activities.

Improving external managers' ESG integration

Each external manager integrates ESG factors into their investment process to differing degrees. If we find a lack of integration, we encourage them to improve in this area.

For example, there was one external manager who did not sufficiently consider ESG factors in their process when investing in fast-growing small cap companies. These firms tend not to disclose much ESG-related information, especially environmental data. As a result of our repeated engagement and advice with the external manager about their ESG processes, they developed a deeper understanding of ESG and improved ESG research in their stock selection process by creating a proprietary ESG checklist.

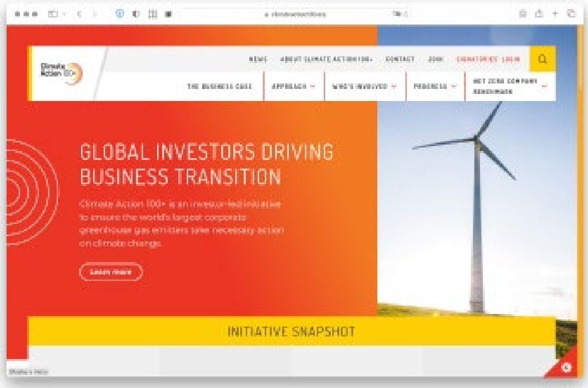
We will continue to encourage external managers to further enhance their ESG integration as part of their investment processes.

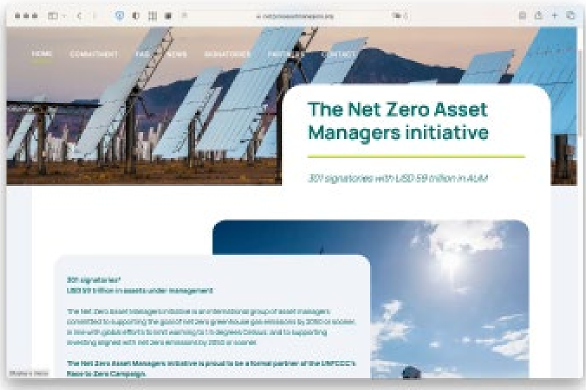
Steering companies towards sustainability

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

We engage with our investee companies on their strategy, operations, and financial decisions, as well as their performance and management with respect to material ESG issues. Through these meetings, we wish to shape corporate behaviour and influence positive change.

Investment teams engage with companies on relevant ESG issues, both before and during the period of investment. Our Global Sustainable Investment team also conducts thematic engagement, for example, in relation to our responsibilities under the Net Zero Asset Managers initiative and Climate Action 100+. However, the analysts and portfolio managers in our investment teams are ultimately responsible for assessing the ESG risks and opportunities that inform portfolio buy and sell decisions and for engaging with the companies they cover.





Several key factors decide how we prioritise companies for engagement, which can differ by region and asset class. The factors considered include:

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

Details about our engagement — including engagement objectives, methods, execution, prioritisation, documentation, monitoring, collaborative engagement approach, and escalation processes — are outlined in our *Group Engagement and Stewardship Strategy*. This global strategy was developed in 2021 then reviewed and approved by the ESG Steering Committee in 2022. It formalises our engagement and stewardship activities, ensures unity across regions, and allows us to share with the market our global engagement commitments.

CASE STUDY 1

Improving ESG disclosures at a large Singaporean agribusiness (Asian Equity)

We aim to identify companies where ESG factors are improving, as there is then scope for an uplift in valuation once the improvements become evident to the market. An example is the history of our investment in Wilmar International, a Singapore-based agribusiness, which we hold in our ASEAN and Singapore portfolios. Wilmar International is an integrated agribusiness encompassing the entire value chain of agricultural commodities, from cultivation to the processing and distribution of agriproducts. Its products range from food to industrial chemicals, such as oleochemicals and biodiesels.

Issue

As a leading palm oil plantation owner, refiner, and distributor, Wilmar International operates in a highly controversial sector. It deals with a number of material ESG issues, including carbon emissions, land conservation, and labour practices. The chart shows our investment team's ESG Materiality Map for the company.

Engagement

Since 2018, we have been engaging with Wilmar International directly and, before that, as a member of the Investor Working Group on Sustainable Palm Oil set up by the UN-backed Principles for Responsible Investment (this collaboration has now concluded). Over the past few years, we have seen big improvements in the company's response to ESG considerations. These have included addressing deforestation, being certified by the Roundtable on Sustainable Palm Oil (a stakeholder industry group), ensuring traceability in its supply chain, and aiding development in the communities from which its labour is sourced. We have also witnessed a substantial improvement in the company's attempts to improve food safety and nutrition practices, which we had previously highlighted as an area where there was an opportunity to improve sustainability.

Asia ex Japan team ESG Materiality Map

Environmental Pillar (50%)				Social Pillar (30%)			Governance Pillar (20%)		
Climate Change	Nature Capital	Pollution & Waste Management	Environmental Opportunities	Human Capital	Product Liability	Social Opportunities	Corporate Governance	Corporate Behaviour	Governance Opportunities
GHG Emissions from Operations	Water	Toxic Emissions & Waste	Clean Tech	Labour Management	Product Safety & Quality	Access to Basic Services (Food, HC, Finance, Power, Comms, Education)	Beneficial Ownership Assessment (Individual, SOE or Capital Market)		Ownership & Management Change
GHG Emissions from 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 that can put a company out of business
Secondary Risks - Issues that can have a material impact on shareholder return
Opportunities - Issues that can lead to a material enhancement in shareholder returns
Pre-Defined General Secondary Risks - Climate Change and ESG-Governance

Outcome

Throughout 2022, we have continued to engage with Wilmar International to better understand the company's ESG disclosures and push it to improve the information it provides. Developments in each of the three ESG areas that we noted in 2022 include:

Environment: The company agreed to provide more data about its emissions ahead of announcing its goal to become carbon neutral by 2030. It has also made a commitment to provide more definitive ESG data and targets in its 2023 Sustainability Report, and it has also agreed to put more effort into reducing methane emissions and improving methane disclosures.

Social: In China, the company continued to play an important role in ensuring food security during Covid lockdowns in 2022. In Indonesia, it has invested in areas such as education and housing for farmers who have struggled with pandemic-related difficulties. Further details will be announced in its 2023 Sustainability Report. We have encouraged Wilmar International to be more public in highlighting its social contributions, given its big role as a supplier of consumer goods in China and the under-appreciation of Wilmar's contribution in recent years towards the betterment of the farming community.

Governance: The company continued to maintain a good standard of governance and respect for minority shareholders, while its annual accounts were more transparent.

We believe Wilmar International made progress with its ESG development in 2022 and has been receptive to feedback in our meetings with the company.

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CASE STUDY 2

Decarbonising executive compensation at a Japanese oil group (Japan Equity)

This company is a major Japanese oil wholesaler held in some of our Japan Equity portfolios.

Issue

Given the carbon intensity of its business, the company urgently needed a strategy to address climate change.

Engagement

In April 2022, we met one of the executives and exchanged views on the company's efforts to decarbonise its businesses. Our focus was on executive compensation, and we pointed out that financial incentives should include an assessment of progress in meeting the needs of a decarbonised society, which the company had highlighted was a priority management issue.

Currently, executive compensation is linked to performance, mainly based on achieving operating income and net income targets in a single year. These are, in turn, mainly dependent on previous investment in fossil fuels and on current commodity prices. The director responded that the executive compensation system was a key area for review in a new medium-term management plan to be announced in the autumn. He added that our views were helpful as the company debated how to improve its approach to executive compensation.

Outcome

In November, the company announced its new medium-term management plan, which included a new target of cutting revenue from the fossil fuel business to below 50% by 2030. It also announced that executive compensation would now be linked to the company's progress on its greenhouse gas reduction target.

CASE STUDY 3

Setting concrete targets at India's biggest cement company (Indian Equity)

In 2022, we participated in a collaborative engagement group organised by Climate Action 100+ (CA100+), an investor-led initiative aimed at getting the world's largest corporate greenhouse gas emitters to reduce emissions. The target of our engagement was UltraTech Cement, India's biggest cement company, which is held in some of our Indian Equity portfolios.

Issue

UltraTech operates in a hard-to-abate sector in a country whose electricity supplies are dominated by coal-fired power. As a result, its carbon intensity is one of the highest, both in Asia and among its global peers. Over the years, there has been little material improvement in the company's carbon intensity, and it had yet to announce a strategy to move towards a lower carbon future.

In 2021, the company's high emissions had caused us to sell the shares held in our Asian Equity (Ex. Japan) regional portfolios, where emission intensity benchmarks are relatively tight. However, we continued to hold them in some of our Indian Equity portfolios, where benchmark emission intensities are relatively high and where UltraTech is part of the index. Having already engaged with the company directly ourselves with little noticeable effect, we believed the company represented an important target for a collaborative effort by CA100+.

Engagement

In our previous direct engagement meetings with UltraTech, our focus had been on getting the company to improve its current carbon emissions. The focus of our collaborative engagement was more on strategy and, specifically, the Disclosure Framework Indicators established by CA100+. As a result, we set a number of priority targets for UltraTech:

- Reduce greenhouse gas emissions over the years to 2025 on a clearly defined path (Indicator 4)
- Lay out a decarbonisation strategy that explains how the firm intends to meet its medium- and long-term greenhouse gas reduction targets (Indicator 5)
- Make a commitment to aligning capital expenditure plans with the firm's long-term greenhouse gas reduction target, or to phase out planned expenditure in unabated carbon-intensive assets or products (Indicator 6)
- Introduce an executive remuneration scheme that includes climate change performance elements (Indicator 8.2)
- Acknowledge that the firm has a responsibility to help achieve a just transition to a net zero economy (Indicator 9)
- Make a commitment to implementing the recommendations of the Task force on Climate-related Financial Disclosures (TCFD) (Indicator 10)

Outcome

We were encouraged by the last CA100+ investor group meeting in 2022, noting that UltraTech had been receptive to what participants had to say and had since incorporated some recommendations in its latest sustainability report, including:

- Adopting TCFD disclosures and conducting physical and transition risk analyses
- Having its carbon targets verified by the UN-backed Science Based Targets initiative, with the aim of reducing greenhouse gas emissions by 27% by 2032 — in line with the global target of cutting climate warming to 2°C
- Committing itself to net zero carbon by 2050

We will continue to engage UltraTech, both directly and collaboratively, and monitor the company's progress in delivering its transition strategy in accordance with its interim and long-term targets.

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CASE STUDY 4

Keeping the heat on an Indian steel maker to be greener (Asian Fixed Income (Ex. Japan))

In our Asian Fixed Income (Ex. Japan) portfolios, we hold bonds issued by JSW Steel, an Indian-based integrated steel manufacturing company that ranks among the largest steel producers in the country.

Issue

JSW Steel's production processes involve high energy consumption, large greenhouse gas emissions, and a significant amount of waste products. We wanted to understand the company's decarbonisation strategy and track its execution and progress.

Engagement

We engaged with the company several times in 2022. During these discussions, the company identified 17 priority ESG areas to be addressed and has set some specific sustainability targets, including:

- Reducing Scope 1 (direct) and Scope 2 (indirect) CO_2 emissions by 42% from 2005 levels by 2030
- Reducing energy consumption by 19% from 2005 levels by 2030
- Achieving carbon neutrality at JSW Steel Coated Products by 2030

Outcome

The company is clearly trying to make progress, although there is still more to do. For instance, greenhouse gas emissions and energy consumption showed a small uptick in 2022 after a new plant was commissioned at its Dolvi works. However, we expect that both will come down again in 2023 through a combination of measures, including an increase in green energy consumption.

This is evidence of the seriousness of the company's commitment to systematically increase the share of renewable power used in production. It has entered into solar and wind power purchase agreements through its JSW Energy offshoot. The plan is to ultimately develop renewable power capacity of 958 MW, of which 225 MW of solar power was commissioned in April 2022. The company has yet to specify a target for renewable power.

JSW Steel has also committed itself to using more steel scrap as it shifts to potentially greener electric arc furnaces (EAF), and to use more low- and medium-grade iron ore. As part of its steel scrap commitment, the company has entered into a 50–50 joint venture with National Steel Holdings, a New Zealand metal recycling group, to set up scrap shredding plants using industry-leading machinery. Its plans should be boosted by the Indian government's vehicle scrappage policy, which aims to phase out polluting vehicles over time. This should help the development of an ecosystem of steel scrap collection and recycling, for which JSW's environmentally friendly EAF-based steel production should be well placed.

While the company discloses data on Scope 3 emissions (from suppliers and the like), it has no specific targets for reductions, nor has it established a firm-wide net-zero target or roadmap. While the company's MSCI ESG Rating was upgraded from CCC to B, it admits that it remains on the low end of the rating band. It has been making efforts to improve its score, including appointing an independent auditor and increasing the number of female board members. As we engage with the firm, we will continue to make the case for further action on ESG priorities.

CASE STUDY 5

Controversial sourcing policies at an IT company (Global Equity)

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

Issue

MSCI had given Hexagon a low ESG score compared with other companies in the same sector on account of its sourcing policies and the lack of traceability of its raw materials.

Engagement

We discussed the issue in early 2021 with the Head of Investor Relations and Sustainability. Since then, the company has published its first annual sustainability report. This states that appropriate sourcing policies are now in place, with close to 50% of its suppliers being covered by a new audit scheme, introduced in 2020.

The firm's Conflict Minerals Policy commits it to identifying products that may include minerals from countries where there is conflict and the policy extends to suppliers, where possible. It is also required to make reasonable efforts to avoid purchasing raw materials that directly or indirectly finance armed groups that violate human rights. Hexagon is also implementing a sustainability programme and a supplier qualification process, and it is encouraging suppliers to adopt guidance from the OECD on responsible supply chains.

Following the company's response to our engagement, we decided to leave our investment recommendation unchanged, with no change to our Future Quality assessment. However, we will continue to engage with management on procurement as part of our regular interaction with portfolio companies. We plan to focus particularly on the firm's degree of progress in auditing its suppliers.

Outcome

Hexagon has since shown steady improvement in the area of ESG. In August 2021, MSCI upgraded its controversial sourcing score for the company to close to the industry average. MSCI also gave it a top score on its commitment to avoiding controversial materials. In May 2022, we followed up on our initial engagement and were pleased to see that, despite Covid restrictions, Hexagon had carried out 24% of planned supplier audits and was on track to meet its target of 100% of direct suppliers audited by the end of 2023. Based on the numbers to date, Hexagon has seen the level of non-compliance per supplier remain stable, while, in a more recent report from MSCI, controversial sourcing has ceased to be a key issue at the firm.

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Making votes matter

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

Voting is particularly important when we invest through passive strategies, as we do not have the ultimate authorisation of selling the stock. Therefore, we strive to exercise our stewardship through proxy voting and the engagement process. In our fixed income investments, where we do not have the voting rights that are available to shareholders, we aim to be active owners of assets by using other stewardship tools, such as issuer engagement.

The Nikko AM Group Proxy Voting Policy establishes our company-wide approach to proxy voting decisions. This policy establishes the principles we use for determining how we exercise our voting rights at the group level. Implementation of the group-wide policy is undertaken by our regional offices, with the freedom to interpret the rules to suit local conditions. This gives our investment teams the ability to tailor their approach to stewardship according to the attributes of the local market.

As a result, there are some variations in how stewardship activities, including voting, are implemented across the group. For example, our UK entity has a supplemental proxy voting policy that applies to our Global Equity strategy for addressing our environmental and social principles.

Our detailed Guidelines on Exercising Voting Rights (as well as our supplementary Standards for Exercising Voting Rights on Japanese Stocks) forms part of the group proxy voting policy. Some of the considerations it covers include:

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

A summary of our firm-wide voting records for 2022 is listed in the table below. During the year, we attended 7,274 shareholder meetings and voted on 75,242 resolutions. Overall, across all regions, we voted against management on 12% of resolutions. The most common reason for voting against management was in relation to the election of directors.

The firm uses Institutional Shareholder Services (ISS) to execute our proxy voting. 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. For the majority of resolutions, the portfolio manager or analyst responsible for the security in question will review the advisory research and recommendation from ISS and then conduct further research on any issues that have been flagged. ISS has benchmark policy guidelines that are regularly updated.

Breakdown of voting records by region, January to December 2022

Region	Number of meetings	Number of resolutions	Votes for management (%)	Vote against management (%)
APAC ex Japan	2,452	19,498	86%	14%
EMEA	1,124	17,024	91%	9%
Japan	2,399	24,904	85%	15%
Latin America	216	2,003	90%	10%
North America	1,083	11,813	90%	10%
TOTAL	**7,274**	**75,242**	**88%**	**12%**

Japanese voting

Our Japanese operations represent more than half of Nikko AM's business, so we devote a great deal of resources to governance and stewardship in Japan. The Stewardship and Voting Rights Policy Oversight Committee supervises and monitors our engagement with Japanese investee companies and our proxy voting, ensuring that both of these activities remain in line with our fiduciary and ESG principles — and that they truly meet the interests of investors. Four of the committee's seven members are from outside the Nikko AM Group, making it highly independent. It reports directly to the Board of Directors on matters such as the governance of our stewardship activities and conflicts of interest. For example, it ensures that proxy votes are used in line with our Conflict of Interest Control Policy.

Our Standards for Exercising Voting Rights on Japanese Stocks establish detailed decision criteria for this part of the firm. The Japan Sustainable Investment Department is responsible for overseeing all voting proposals for holdings in both actively managed and passive portfolios. It makes voting decisions on proposals after taking into account past engagement with investee companies.

CASE STUDY 1

Unease over a range of concerns at Amazon, from human rights to political lobbying (Global Equity)

Issue

At Amazon's annual general meeting in May 2022, a number of proposals were put forward by both management and shareholders. Below, we discuss the background to some of these votes and explain how we voted and why.

Activity

Executive pay: We voted against a management proposal to ratify the compensation of the new CEO and other named executive officers (NEOs). This was driven by a large equity grant for the new CEO and large time-vested awards to be granted to other NEOs. We believe that these lacked objective performance criteria, exacerbating a misalignment between pay and performance. The vote passed with an approval rating of just under 56%.

Shareholders' resolutions: We voted for a number of shareholders' resolutions on human rights issues because we felt that investors would benefit from increased transparency and disclosure on how the company was managing risks in this area. Resolutions we voted on included:

- The commissioning of a third-party report to assess Amazon's human rights due diligence process. The vote failed, gaining just under 40% of votes in favour.
- Increased reporting on how the company was protecting the rights to freedom of association and collective bargaining. This was proposed in response to increasing public scrutiny and high staff turnover and injury rates in its domestic warehouse operations, as well as allegations of anti-union activities and sourcing from forced labour. The vote failed, gaining an approval rating of just under 39%.
- The commissioning of a third-party study and report on Rekognition, the company's facial recognition technology. The report would look at the extent to which the technology could threaten privacy and civil rights, unfairly target people of colour, be marketed and sold to authoritarian or repressive foreign governments, and the financial or operational risks associated with these human rights issues. This vote also failed, garnering favourable votes from just over 40%.

We also supported shareholder resolutions related to working conditions, such as:

- The adoption of a policy that would include non-management employees as board candidates, which could put the firm on a path to better helping to resolve worker grievances. This vote failed, with just under 13% of votes in favour.
- The commissioning of a third-party audit to evaluate working conditions following reports of unsafe working practices and unfair treatment of workers. Among these reports are the 2021 findings of the US Department of Labor that relate to the serious health and safety issues Amazon warehouse employees face. This resolution failed, gaining an approval rating of just under 44%.

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Environment: We voted for a resolution requesting an annual report on plastic packaging pollution, which would include any company strategies or goals to reduce the use of plastic packaging. There is growing concern over the environmental damage caused by plastics, and regulations may come into force in several jurisdictions that would limit the use of single-use plastic packaging. Disclosures in line with the resolution would therefore help shareholders gauge whether the company is appropriately mitigating related risks. The vote failed, but with nearly 49% in favour.

Lobbying: We voted for a proposal requesting disclosure of direct and indirect lobbying payments and policy. We felt that this would help shareholders better assess risks and benefits associated with the company's participation in the public policy process. The vote failed, but it had an approval rating of 47%.

Diversity: We supported a resolution requesting a report on the median pay gap at the company by gender and racial breakdown, including information on its policy and goals to reduce compensation disparities based on gender and race. In light of lawsuits and fines over hiring and pay practices, we believed that increased disclosure would allow shareholders to better assess the company's management of related risks and benefits. The vote failed with just under 29% of the vote.

We do not doubt the power of Amazon's retail business or the enduring growth offered by Amazon Web Services. However, the company's premium valuation and our increasing concerns about the company's ability to sustain high returns on capital, caused us to sell our position in Amazon during the second quarter of 2022. Therefore, we will not be taking further action on these resolutions.

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

CASE STUDY 2

Voting to improve investment efficiency at an IT group (Japan Equity)

This company, a large independent IT solutions vendor in Japan, is held in our Japan Equity portfolios.

Issue

At the firm's annual general meeting in March 2022, a large institutional shareholder proposed the appointment of two additional outside directors to the board. This investor argued that, instead of reinvesting profits in its core business or returning funds to shareholders, the company had for some time directed investment to areas where synergies with the core business were unclear. It had neglected to allocate capital in a way that contributed to sustainable growth or medium- to long-term corporate value, resulting in a depressed valuation and a return on equity that had fallen to half the level of its peers. The investor believed that strengthening the board with two outside directors with experience in finance, accounting, and capital allocation would boost independent oversight, help improve capital allocation, and enhance corporate value.

Activity

We interviewed the candidates proposed by the shareholder and concluded that they would be a welcome addition to the board and could help to strengthen management oversight. We therefore voted in favour of the shareholder resolution. However, the resolution failed, gaining only 39% of the vote.

Outcome

Although the resolution failed to pass, it led to positive changes. In August 2022, the company established a Corporate Value Enhancement Committee with the aim of evaluating advice and adopting suggestions from stakeholders on how to improve the company's value.

In September, we had a meeting with a company director and told him why we had voted for the shareholder proposal and against management. Despite the failure of the proposal, we said we still expected that the firm's management would include independent outside directors on the board to improve oversight of the company's management.

Subsequently, the activist shareholder that had made the original proposal nominated four independent directors at an extraordinary general meeting in November. Two of them were accepted by the company and are now on the board.

CASE STUDY 3

Boosting independence on the board of a Japanese electronics group (Japan Equity)

Issue

We identified the independence of the board as a clear area for improvement for this company. One outside director was a senior manager at the company's biggest lender, from which outside directors had been accepted for over 20 years.

Action

For at least five years, we have consistently voted against the appointment of this director. Since there was no indication that the company planned to stop this practice, we increased pressure on the firm to act, telling management that we could not regard directors appointed from the same major lender for decades to be genuinely independent. We said we needed it to appoint outside directors who could demonstrate guaranteed independence.

Outcome

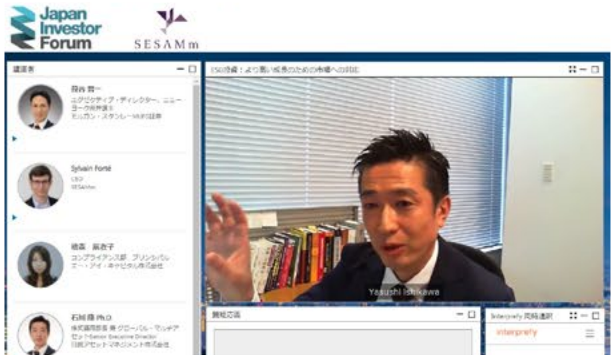
At the general meeting of shareholders in June 2022, the controversial outside director was not put up for re-election and a more independent outside director was appointed instead. As a result, all of the company's outside directors can now demonstrate genuine independence.

Part of the discussion

Nikko AM participated in several events in 2022, with senior staff members presenting on various topics ranging from stakeholder capitalism to ESG investing.

One such event was the Japan Investor Forum 2022 on 15 June 2022, where Equity Fund Management Department Head Yasushi Ishikawa spoke in a panel discussion titled "ESG Investing: Responding to the Growing Data Needs".

In his presentation, Yasushi gave an overview of Nikko AM's proprietary CSV score, emphasising the importance of setting assessment criteria that are in line with a company's business and having a framework with a certain degree of flexibility. He also gave details on the possibilities of using financial data to extract ESG data — such as the internally developed human resource investment efficiency measure — while stressing the importance of verifying the relationships between ESG data and corporate value or performance.



Yasushi Ishikawa participating in the Japan Investor Forum 2022

Johnny Russell speaking at Pensions & Investments' 16th Global Pension Symposium

Another prominent event was Pensions & Investments' 16th Global Pension Symposium held in Tokyo from 16–18 November 2022. Nikko AM Joint Head of Global Multi-Asset Rob Samson and Global Equities Portfolio Manager Johnny Russell spoke at the event, which focused on the theme "Leveraging Opportunities in Japan and Around the Globe".

Johnny gave a keynote speech titled "Stakeholder Capitalism — What Is It and Why Should Investors Care?" in which he noted that companies adopting stakeholder capitalism are enhancing their competitive positioning. He highlighted that these companies have higher retention rates than their peers and are successfully fighting the war for talent, while some are discovering new solutions needed to solve many of our current problems, such as climate change. He concluded that, for asset managers, there are opportunities to add value by gaining a deeper understanding of the seismic shift taking place towards stakeholder capitalism.

Masayuki Teraguchi, Head of the Investment Technology Fund Management Department

Masayuki Teraguchi, Head of the Investment Technology Fund Management Department, gave a lecture on ESG investing to an audience of business professionals at Waseda University Graduate School of Accountancy on 23 December 2022. It was part of a programme established by Waseda University Visiting Professor Ryohei Yanagi — known for the Yanagi Model, which demonstrates the link between ESG and enterprise value — and Waseda University Graduate School Professor Takashi Shimizu. The three-hour lecture, which included a lively Q&A session, was attended by about 50 professionals and was featured in the *Nikkei Shimbun*, a major Japanese financial newspaper.

All three of these events emphasised the importance of integrating ESG in our investment decisions. Nikko AM will continue to seek opportunities to be part of the discussion amidst the rapidly evolving landscape of sustainable investment.

Corporate Sustainability

Jayne Ruane,
Nikko AM Asia,
Marketing Department

Speaking freely

A message from **Yutaka Nishida**, Executive Chairman

Diversity drives innovation. We prove this all the time at Nikko Asset Management — thanks to the diverse skills of our people, who represent more than 30 nationalities. We also understand that diversity does not immediately translate into inclusion.

Our ability to create a truly inclusive culture rests on our ability to listen and respond to everyone's voice. So, we must actively encourage open and honest communication; we must have a culture where everyone feels they can speak freely. And as we further grow our business globally, it is essential for all of us at every level of the firm to have a good grasp of our strengths and be aware of the issues that need to be addressed. We will only find out about these through the constructive exchange of opinions and ideas.

In 2022, I learned a great deal about our organisation by meeting one on one with a large number of employees. These experiences have brought home to me just how important it is for senior managers to take time to speak directly with colleagues in the workplace instead of simply reading reports. Now, sitting down to talk with employees is part of my routine. In our discussions, I encourage them not only to tell me about the positives but to have the courage to talk about anything they feel should change or be improved. I have also told managers that they will be accountable for creating and sustaining a workplace environment where people on their teams feel like they can speak freely about anything that is on their mind.

The involvement of senior management is crucial to promoting inclusivity and helping to create an environment where more employees feel they can share their thoughts. We are supporting our Human Resources Department with its series of Career Café events, which are small groups that discuss ideas and concerns about women's careers and workstyles. Additionally, we have launched a mentor system in which senior managers from different functions are assigned to mentor others.

In 2022, senior managers became Executive Sponsors of each of our sustainability groups, actively participating in their discussions. This demonstrates our management team's commitment to sustainability and has helped to raise the profile of the groups within the company.

Creating a corporate culture with inclusivity at its heart is not something that happens overnight. It is essential that we continue working towards creating the most inclusive organisation we can — where all employees communicate openly, have opportunities to connect with each other, and feel they are making a difference.

We can only deliver long-term performance as an asset manager when we are diverse, inclusive, and communicating.

Yutaka Nishida
Executive Chairman

"a corporate culture with inclusivity at its heart is not something that happens overnight. It is essential that we continue working towards creating the most inclusive organisation we can"

The key to sustainable growth


Taka Miyawaki, Global Head of HR

At Nikko AM, we believe that diversity, equity, and inclusion (DEI) are critical factors for our sustainable growth and long-term success.

Our diverse teams offer a broad spectrum of perspectives, and this strengthens decision-making, allowing us to bring our clients an even better range of progressive solutions. We have also seen that our employees are happier and more productive because they are working in an environment where they know they are accepted and valued for who they are. So, we are committed to creating an inclusive workplace where everyone is treated equally and has equitable opportunities, regardless of their gender, sexual orientation, age, race, or ethnicity.

DEI at our firm is founded on our Global Diversity & Inclusion Policy. This states that DEI is one of our core values and that we are committed to fostering and preserving a culture of diversity and inclusion among employees. Our Global HR Department assists the firm's leadership and employees to ensure that we live by this policy and further improve DEI across the firm globally.

"DEI guides so much of what we do in the Global HR Department because we know it is fundamental to sustainable growth at our firm," says Taka Miyawaki, Global Head of HR. "For example, across our offices, all employees are evaluated and recognised by their performance — specifically, business outcomes and the behaviours that lead to them — and our evaluation and reward systems support this. We also provide the necessary training, such as unconscious bias and anti-harassment, to ensure our employees treat one another with respect."

Two international sustainability groups regularly challenge us to improve DEI in the areas of gender and racial equality. One of these is the International Women's Group, our newest — and already the largest — sustainability group. It exists to identify issues affecting women at the firm and propose possible solutions.

"we are committed to creating an inclusive workplace where everyone is treated equally and has equitable opportunities, regardless of their gender, sexual orientation, age, race, or ethnicity"

"The most important goal we are working towards right now is #30by2030, which aims to have 30% of managerial positions held by women globally by 2030," notes Taka. "We have made significant improvements in this area over the past three years, and it will be a very important milestone for the firm when we achieve it."

The other is the Global Racial Equality Group, which was formed in 2019 to help promote a deeper understanding of the importance of racial equality across the firm. In 2022, it conducted a company-wide survey to evaluate the DEI experience as it relates to race at Nikko AM, and the results are helping us to identify ways we can better support employees.

"Racial diversity is a key strength for Nikko AM," states Taka. "We have around 30 nationalities in our global workforce, and this shows how diverse we already are."

In the coming years, we will continue to strengthen DEI at the firm, based on the suggestions of these two sustainability groups and others, and ensure that all our employees have equitable opportunities without any discrimination.

Findings that will help promote equality


Participants in a GREG meeting

The Global Racial Equality Group is Nikko AM's first truly global sustainability group in that it comprises members from each of Nikko AM's global offices, including headquarters in Tokyo.

Its aims are to raise awareness of the importance of racial equality and to help the firm understand areas where it needs to improve support for employees on the basis of race.

Global Racial Equality Survey

One of our most exciting achievements in corporate sustainability in 2022 was to undertake our first ever firm-wide survey about racial equality. The Global Racial Equality Group (GREG) and the Global Sustainability Team — together with the support of the Human Resources Department and in partnership with the consulting firm Mercer — conducted the survey in April and May, and there was an overwhelming response. A total of 587 employees, which is close to 65% of our employees worldwide, submitted answers.

The results provide a comprehensive overview of the DEI experience at our company. Of the survey participants, 89% have not experienced racial inequality at Nikko AM. Some 92% of employees also said they enjoyed strong and trusting relationships with their co-workers and managers, and they recognised senior leadership's commitment to, and support for, the DEI agenda.

However, the survey results highlighted some areas for improvement. These included creating a safer culture in some of our offices for staff to speak up, stronger communication about HR policies and practices to ensure their fair application, and opportunities for more training and education on racial issues. The results were shared at sessions organised for senior management and for employees around the world.

"We need to ensure that we have values, support, and deliberate systems that strive to achieve and sustain racial equality," said Tony Glover, Global Head of International Sales and Global Head of Consultant Relations, the Executive Sponsor of GREG. "This year-long project could not have been done successfully without the team. The survey findings signify what we are doing well as a company, and they have given us clues about how we can strive to be better."

Global Racial Equality Group

GREG was launched in 2020 to promote and raise awareness about racial equality, both within the firm and in our communities. It is a diverse group made up of members from each of our global offices.

"GREG strives to help Nikko AM identify ways to create the most inclusive and supportive work environment for all employees," said Kevin Gaines, co-lead of GREG. "Together with HR and the regional sustainability groups, we hope to develop programmes geared towards breaking down communication barriers and enhancing the collegial nature of our company's culture."

Olga Bobrova, co-lead of GREG, stated, "As shown in the survey and evidenced through our internal discussions, our colleagues genuinely want to do more to enrich the lives of the people in their communities and promote positivity in the workplace. There is also a hunger among our employees for more training and educational opportunities focused on diversity, equity, and inclusion. I believe that through our activities, GREG will contribute to further embedding a DEI mindset into our company culture and, ultimately, greater enablement of our diverse workforce."

Empowered and empowering

In late 2022, Nikko AM formed the International Women's Group (IWG), comprising staff from each international office outside of Japan. A total of 27 staff members volunteered to join this new group, making it the biggest sustainability group at Nikko AM.

The IWG complements the existing Japan Women's Group and serves to unify our diverse talent in finding solutions to local and global problems affecting women, both at Nikko AM and in our communities. It is facilitated by regular group discussions at the regional office level, creating a safe space for volunteers to openly share ideas, discuss challenges, and brainstorm possible solutions. The regional groups connect back to the global level, proposing initiatives to be considered and given support by Nikko AM's top leadership.

To date, the IWG regional leads have observed a high level of passion for, and commitment to, this crucial area.

"I have been fortunate enough to have had supportive managers and allies of both sexes in my career, and I would like to be an impactful voice for fellow colleagues," said Samantha Yeo, IWG Asia Lead. "IWG members are aligned with the same ideal that gender equality is a shared responsibility for both men and women, and we hope to be able to address the unique challenges that working women face in our career progression — whether we are single, married, childless, mothers, or caregivers of elderly parents."

Members of the International Women's Group at the New York office with Stefanie Drews

Katelyn Hedden, IWG US Lead, added that, "As the lead, you always want to make sure you are representing your group accurately and to the best of your ability. The subject of women's issues is vast and complex, as there are countless avenues to take when considering where you can make the most impact. To have so many passionate people with tons of different ideas is hardly a problem to have! The challenge lies in taking all that passion and harnessing it into a single, direct path where we can develop a focused plan and concrete steps toward our goal. Creating actionable steps is the only way to really make a difference, and I believe we are going to do just that."

Some of the activities considered by the IWG so far include:

- Reviewing the parental leave policy
- Providing a menopause policy
- Offering more training and development opportunities
- Introducing women's mentoring programmes

The IWG will continue to work closely with the global Human Resources Department and broader Nikko AM management team to firm up initiatives to be implemented in 2023 and beyond.

Power Pact – A Promise for the Future

Nikko AM continued to put a spotlight on the need to further nurture the career development of female talent, as part of our #30by2030 female leadership target. In fiscal 2022, the IWG held the "Power Pact — A Promise for the Future" women's empowerment series. This series of four internal events focused on enabling our female staff to take charge of their career development and to learn new skills for overcoming common career challenges.

Power Pact builds on a previous series called Power Chat, which aimed to energise and empower female colleagues through stories of challenges and successes told by senior leaders at Nikko AM. This time around, we engaged a professional coach from outside the firm to facilitate the events, who educated employees and set next steps across four interrelated topics:

- Taking charge of career development by overcoming limiting beliefs
- Harnessing the value of personal branding
- Emotional intelligence for the workplace
- Navigating challenging conversations

The sessions were held virtually and involved staff across Asia, New Zealand, Europe, and the Americas. On average, each session saw 130 participants, and the post-event Q&A provided further opportunities for questions to be addressed.

Helping the environment

Nikko AM Group greenhouse gas emissions

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

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

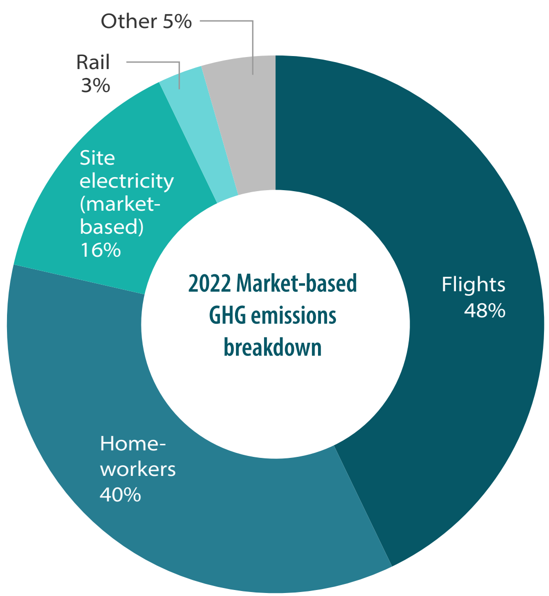
Scope	Activity	2019 tonnes CO_2e	2020 tonnes CO_2e	2021 tonnes CO_2e	2022 tonnes CO_2e	% change from 2019 (Baseline Year)
Scope 1	Site gas	8.6	8.0	10.0	8.5	-0.3%
Scope 2	Electricity generation	785.3	624.3	502.0	259.1	-67.1%
Scope 3	Home-workers	N/A	352.6	446.6	442.8	N/A
	Flights	4,491.7	755.8	95.2	802.5	-82.1%
	Rail travel	95.3	32.5	28.9	76.2	-20.1%
	Electricity transmission & distribution	40.1	29.4	24.6	14.7	N/A
	Taxi travel	23.9	10.8	12.8	42.7	78.3%
	Non-controlled site electricity	N/A	5.9	4.8	5.2	N/A
	Hire cars	18.6	3.6	2.5	6.3	-66.2%
	Employee owned car travel (grey fleet)	4.2	N/A	N/A	0.2	-96.4%
	Bus travel	1.9	0.0	N/A	0.0	-99.9%
	Scope 3 Sub Total	4,675.7	1,190.5	615.3	1,390.5	-70.3%
	Total tonnes of CO_2e	5,469.5	1,822.8	1,127.3	1,658.1	-69.7%
	Tonnes of CO_2e per employee	5.9	2.1	1.2	1.7	-70.9%

Including full time staff & directors, contract and part time staff of Nikko AM Group (as of 31 Dec). Past performance is not indicative of future results.

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

For 2022, our total market-based carbon footprint — which recognises a reduced emission factor for green energy contracts — was 1,658.11t CO_2e (1.71t CO_2e per employee) compared with 1,127.22t CO_2e in 2021 (1.21t CO_2e per employee). Compared with our baseline year of 2019, when we generated 5,469.5t CO_2e (5.9t CO_2e per employee), this represents a 70.9% reduction per employee.

Business flights accounted for 48% of the total carbon footprint, while electricity usage from our offices and remote-working employees' homes accounted for 16% and 27%, respectively.



"we need to remain vigilant as the world normalises, and we will continue to address our two main sources of emissions: electricity usage and business travel"

Compared with 2021, there was a marked increase in emissions from business flights. However, this was expected, as 2021 was in the midst of the pandemic and global travel was at a standstill. The 2022 result was partially offset by the introduction of green energy contracts for the Tokyo office, which cut the site's total market-based electricity emissions by 48% compared with the previous year.

Carbon offset projects

We offset greenhouse gas emissions from our operations through an equivalent amount of carbon credits from certified projects that reduce carbon emissions. To offset our 2022 emissions, we purchased Gold Standard-verified carbon credits from a methane gas capture and electricity production project at the Kubratovo Wastewater Treatment facility in Sofia, Bulgaria.

Reducing GHG emissions

Our 2022 carbon footprint results were well below our long-term target. However, we recognise that this was achieved under abnormal circumstances, as many parts of the world were still grappling with the effects of the pandemic. We need to remain vigilant as the world normalises, and we will continue to address our two main sources of emissions: electricity usage and business travel.

For site electricity, we intend to continue with the green energy contracts or equivalent where they are available and pursue similar arrangements in other locations.

To raise awareness of the effects of air travel on our carbon footprint, we invited our consultant, Carbon Footprint Limited, to give a talk to employees in November. A representative from the organisation explained the fundamentals of climate change and the methodology behind the carbon footprint calculation.

We also introduced new measures for approving overseas business travel requests. Applicants are required to include the carbon footprint of their international flights, so that employees and their managers can see how each flight adds to our firm's carbon footprint.

Adding to The Forest of Nikko AM

As part of a campaign linked to our Sustainability Town Hall event in September, we asked colleagues attending online to use a special Zoom background to show support for our corporate sustainability initiatives. Over 350 people attended using the background, and the firm donated USD 50 for every background used to three different causes, one in each of our three sustainability pillars.

For our environment & climate pillar, we chose to donate to reforestation projects in The Forest of Nikko AM through Tree-Nation, a platform that supports tree-planting projects around the world. This year, we added projects in two new locations: a US project that helps forests recover from wildfires and infestation, and a UK project that enables communities to plant native trees in local public spaces.

We will continue to look for other ways we can contribute to reforestation efforts in the regions where we operate.

Native seedlings were planted in areas lost to three severe 2020 fires in Cameron Peak, East Troublesome and Williams Fork, US

Effecting real change

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

These groups are bottom-up initiatives that provide educational opportunities for employees and can effect real change at the company through the proposals they make. Participation in our sustainability groups, which employees join voluntarily, is steadily increasing; we currently have 11 groups with more than 100 members globally.

Japan LGBTQ Group

The Japan LGBTQ Group had a busy 2022. Within the firm, it worked to broaden its focus to introduce employees to a more diverse range of voices. In March, the group hosted a session with a female-to-male trans individual who is also president of OUT JAPAN for a screening the film *Zero as You Are*. The film relates the nine-year journey of a trans person, addressing sensitive topics such as gender reassignment surgery and the legal hurdles faced by the trans community in Japan. Through this event, our employees gained a deeper understanding of the trans community and learned to better appreciate the importance of diversity.

In November, the group celebrated Pink Friday — a global campaign to raise awareness of LGBTQ allyship — by hosting a hybrid event with Maeve DuVally, who worked in corporate communications at Goldman Sachs for nearly 18 years and who came out as a transgender woman in 2019. This event provided the company with insight into life in a Western country, where the laws and customs could be seen as more progressive, and inspiration for our own actions. Employees who attended the event wore pink clothes, and those online used pink virtual backgrounds.

Outside of the firm, the group has been working to create stronger ties with organisations within the finance industry and beyond it. It continued the annual tradition of participating in the Tokyo Rainbow Pride festival and parade in April as part of LGBT Finance for the sixth year in a row. In June, in celebration of Pride Month, Nikko AM became the first Japan-headquartered asset manager to join LGBT Great, a global alliance of financial institutions.

Pink Friday hybrid event

Additionally, the group published an article on our website in which three LGBTQ employees and four allies discussing the company's initiatives, where we are going, and what still needs to be done. This article is notable as it is rare to see "out" employees in Japan discussing this topic openly.

For the fourth year running, Nikko AM was awarded Gold from work with Pride (wwP), the highest award on wwP's rating index. The organisation scores companies based on their commitment to addressing issues that the LGBTQ community is facing and on how they promote equality in the workplace and beyond. We were also awarded with JobRainbow's Best Workplace Award for the second year in a row.

Japan Women's Group

The Japan Women's Group exists to address gender-related issues and provide support for women's career progression at Nikko AM. In 2022, the group planned and held several informative events — online, in person, and hybrid — where speakers from outside the company gave talks to large numbers of employees.

In February, Sayaka Tanaka of the organisation Waffle spoke about closing the gender gap in the IT industry through empowerment and education. She told attendees that, in order to address the gender gap, companies first need to understand the issue and update their values to reflect an appreciation of equality. Then they need to cast their nets wider in the hiring process while also consciously providing more career advancement opportunities to minorities. In March, the Japan Women's Group marked International Women's Day with a talk by Reiko Abe, Chairperson of Oriental Consultants India Pvt., Ltd. A strong female leader, she told stories of her experiences undertaking infrastructure projects in emerging countries, which encouraged attendees. The group sent participants a special Zoom background as a way to communicate solidarity on International Women's Day and took a commemorative photograph during the event.

In May, Professor Yuko Yotsumoto of the Graduate School of Arts and Sciences at the University of Tokyo was invited to deliver a seminar exploring the idea that there are differences between the male brain and female brain. She cited data and empirical results to refute the popular view — based on long-standing gender roles — that men's and women's brains have different characteristics. She also emphasised the importance of ending structural discrimination through education.

In August, the Japan Women's Group partnered with the Global Racial Equality Group to show *Ainu: My Voice*, a short film about Ainu (the indigenous people of northern Japan) women, and hold a talk show-style event with the film's producer, Chuk Besher. Drawing on his own experiences, he spoke on topics such as societal indifference, white privilege, and exclusionism.

Members of various sustainability groups

The Japan Women's Group will continue to deliver thought-provoking activities for employees while it also continues to discuss how to improve the firm's internal policies and workplace culture.

Japan Abilities Group

The Japan Abilities Group works to ascertain the needs of Nikko AM employees, including those living with physical or mental disabilities, those who have illnesses or family members with illnesses, and those who are caregivers.

The aim of the group is to ensure that the company provides a comfortable workplace environment for all employees. It also plans initiatives to enhance employees' understanding of the social issues faced by people living with disabilities or illness. Deaf and hard-of-hearing members can participate in the group's activities by using the MS Teams caption function in meetings and with captioning during seminars.

In February, the Japan Abilities' Group hosted a seminar provided by the NPO Maggie's Tokyo, which Nikko AM supports through its employee charity programme. Representatives from the organisation reported on their work to provide facilities where cancer patients and their family and friends can talk to professionals, such as nurses and psychologists. Also in February, a representative of Nicolas Tours, based in Okinawa, gave a talk on the company's custom tours, which are also accessible for people with disabilities.

In April, the group hosted a talk by Shinji Negi, Vice President of the Paralympians Association of Japan. A former wheelchair basketball player — who also served as Associate Mayor of the Tokyo Paralympic Village — he is working to realise a society in which everyone can reach their full potential. Another seminar held in April was with Toru Kishida, President of the NPO Cancer Note, who spoke about undergoing treatment for an illness while working. This talk built on an event that was held in 2021.

The Japan Abilities Group also held a series of sign language seminars, as a training initiative for small groups of participants, which followed on from a previous, well-received series of sessions. To conclude the series, Hisano Tezuka, a Nikko AM employee who was born without the ability to hear, gave a talk using sign language about her experiences as a competitor in the Deaflympics (the Olympics for the deaf and hard-of-hearing). The event was very well received.

Outside of the office, Katsuya Hashimoto, of Nikko AM's Marketing Department, captained Japan's wheelchair rugby team for the first time at the Mitsui Fudosan 2022 Wheelchair Rugby Shibuya Cup in November. Nikko AM employees helped run the event as volunteers.

Japan Environment Group

The Japan Environment Group discusses and implements activities through which both the company and individuals can help to conserve the environment and address climate change.

In 2022, it continued its ongoing programme of talks with various experts to educate employees on the environment. One event was a study session with Kozo Ishii, Japan Program Director for the Marine Stewardship Council (MSC), in which he explained the current state of marine resources and the MSC's certification framework. Attendees also learned about overfishing and the proliferation of illegal, unreported, and unregulated fishing, as well as ocean temperature changes and acidification caused by climate change.

The group marked Earth Day in April with a talk by Momona Otsuka, Chief Environmental Officer at the Kamikatsu Zero Waste Center, where attendees learned about cutting-edge initiatives for creating a circular economy. Then in May, in connection with International Day for Biological Diversity, it hosted a study session with Naoko Nakayasu, General Manager of the Association of National Trusts in Japan.

In September, the group invited Yuko Iizuka from Sumitomo Forestry Co., one of the largest forest owners in Japan, to talk about their approach to achieving decarbonisation and a circular bioeconomy by managing their entire life cycle of wood products. Then, in October, Shoji Numata, President of Machiokoshi Energy Co. Ltd., spoke about his firm's efforts to commercialise Japan's underdeveloped geothermal energy resources.

Members of the Japan Environment Group

Experts from within Nikko AM also gave talks. For example, Satoshi Yanai, an analyst covering the automobile sector, and Akihiro Ban, an electrical machinery analyst — both from the Equity Fund Management Department — led a study session on electric vehicles in June. They made presentations on the potential for electric vehicles and the challenges involved in popularising them in Japan.

In August, as a way to raise awareness about the environmental problems caused by burning garbage, the group held an event where employees shared their experiences of reducing the amount of garbage they produce by turning raw household waste into compost for use in gardening.

In October, the Japan Environment Group held an outdoor volunteer event for the first time in three years. The event, organised in conjunction with Bloomberg and the NPO The Lifestyle Research Institute of Forests, was held in Yoyogi Park in Tokyo. Ten Nikko AM employees took part, collecting fallen tree branches so they could be made into woodchips.

Japan Philanthropy Group

The Japan Philanthropy Group was created in April with several volunteers who are committed to making a difference in Japan through financial contributions and volunteering. The group oversees Nikko AM's employee charity programme, and supports solutions for a variety of social challenges, including poverty, inequality, and isolation.

The employee charity programme is an initiative that allows employees to donate to organisations selected by the Philanthropy group through ongoing salary deductions, and which Nikko AM matches.

Representatives from the organisations supported through the scheme give talks to employees about the social challenges they are working to address so more people can learn about each initiative.

At one of these sessions, Hirokazu Morita, Chairman of the NPO The Volunteers Group to Send Wheelchairs to Overseas Children, gave a talk on bringing greater physical and mental freedom to children around the world. At another session, Megumi Nakamura of the United Nations High Commissioner for Refugees (UNHCR) spoke on lessons learned from Sadako Ogata, the organisation's former high commissioner, and the UNHCR's humanitarian support.

Employees volunteer to help ship out unused emergency water stockpiles to charity organisations.

In October, a seminar was given by Miku Sano, head of the Tokyo office of The Big Issue Japan, which works to enable homeless individuals to support themselves. Attendees heard about the experiences of people who have been helped by the organisation, as well as the issue of hidden homelessness in Japan. In December, Takeaki Nakahara, President of the NPO Teach for Japan, delivered a talk on how a child's world can be changed by their experiences in the classroom.

Nikko AM employees participated again in the annual FIT For Charity Run, the largest charity event in Tokyo for the finance sector. The firm has been a sponsor of the event since 2006 and joined its organising committee in 2022. Ahead of the event, the organising committee's chairperson and representatives from two of the organisations that had received support through the event in the previous year gave a seminar, explaining how FIT helps to address social issues facing local communities.

The 2022 charity run was a hybrid event. The online component took place in November and the main event was held in person, for the first time in three years, on 18 December at the Japan National Stadium. A total of 47 people from Nikko AM participated in the event in various ways.

The Japan Philanthropy Group will continue conducting a wide range of activities to educate others and help address societal issues.

On the beach, on the pitch, and in the streets

In Singapore, 2022 marked the return to a pre-COVID normal. This allowed the Asia Sustainability Group to organise and participate in a variety of in-person activities supporting our key pillars of diversity, equity, and inclusion (DEI); reducing inequalities; and protecting the environment.

Volunteers from Nikko AM collect plastic waste along Selimang Beach in Singapore

Looking out for the environment

Our first activity of the year was a beach clean-up organised by the Singapore International Foundation (SIF), in conjunction with World Water Day. This was our first in-person event since November 2019 — the same year we participated in the Water for Life project in Cambodia with SIF. Seven Nikko AM staff members, together with other volunteers, looked for rubbish along Selimang Beach in Singapore at low tide, collecting 218kg of plastic waste.

In 2022, we took a big step forward on our journey to help conserve our biodiversity by partnering with the Mandai Wildlife Group. Through a corporate sponsorship programme, we contribute towards the larger efforts of the group and their enrichment programmes to enhance the wellbeing of animals in

Nikko AM has adopted a pygmy hippo at the Singapore Zoological Gardens

their care. We also adopted a pygmy hippo, a threatened species, at the Singapore Zoological Gardens as part of the sponsorship.

The Mandai Wildlife Group is active in community engagement, education, environmental protection,

Art programme for children with Cahaya Community

Sports day with Cahaya Community

biodiversity conservation. It builds regional research and conservation capacity, and treats, rehabilitates, and re-releases animals all over Singapore. The group's conservation projects are spread across 10 countries and they are helping at least 68 species, of which 64% are critically endangered.

Helping children develop new skills

Over the course of 2022, we worked closely with Cahaya Community to run programmes for children in less privileged communities. The first was an art programme for a small group of children, providing them with a safe space to explore their creativity. Six of our staff members — a few of whom brought along their children — took part in this project, where being sustainable was a key concept. The project used mainly recycled and environmentally friendly materials.

On a more ambitious scale, we ran a sports day with Cahaya Community for around 30 children, featuring games such as netball, football, and a relay race. Nine Nikko AM staff members volunteered for the event, which provided a fun and healthy respite for the children. It also served as a platform to impart important soft skills such as problem solving, communication, and teamwork.

Diversifying our focus

With the aim of helping children beyond the shores of Singapore, we held a used book and stationery drive at the office to support a school in Iloilo City in the Philippines, called Anecito Panolino Elementary School, which had weathered a typhoon and other natural disasters. This was done as a part of World Environment Day in June. Through the generosity of our colleagues, we donated numerous story books and stationery items to students.

We also advocated for mental health by raising funds for distressed youths in need of counselling. It was our second year supporting Limitless, a non-profit organisation, through a charity run in which 36 staff members participated.

Getting behind those affected by cancer

As part of the firm's efforts to increase staff engagement in corporate sustainability, members of the EMEA Sustainability Group asked our colleagues at the beginning of the calendar year to nominate charities to support in the fiscal year of 2022.

Employees then voted on one to support, and the charity with the most votes was Maggie's, an organisation that provides free cancer support to cancer patients and their families. Many staff members first learned about Maggie's through a "Lunch and Learn" session.

Throughout the year, the sustainability group held a number of fundraising and volunteering events for employees, starting with a raffle held at the office summer party, with both Nikko Asset Management Europe and its suppliers donating prizes, and all proceeds going to Maggie's.

The London office participated in the London Night Hike, where employees walked 10 miles along the Thames River from one Maggie's centre to another. Employees also took part in the Santa in the City run and Festive Kitchen Table Day in London, as well as the Carols by Candlelight concert in Edinburgh. All these activities raised both awareness and funds for Maggie's.

Employees at the Edinburgh office joined the Together We Walk challenge, climbing the seven hills of Edinburgh, to raise funds for Maggie's

Delivering Christmas presents in London for the Salvation Army Toy Drive

In addition, employees at the Edinburgh office joined the Together We Walk challenge to raise donations by climbing the seven hills of Edinburgh. In fiscal 2022, the funds raised for Maggie's by employees, together with the firm's matching policy, totalled GBP 15,000.

The sustainability group also made contributions to a number of other initiatives. For example, they collected coat donations from staff for WrapUp London, and they donated presents to the Salvation Army in London and Cash for Kids in Edinburgh. The firm matched the value of the gifts — GBP 1,000 in total, which was donated to the two charities.

In 2023, the EMEA Sustainability Group will again ask staff to submit nominations and hold a vote to determine the office's next charity partner for the new fiscal year.

Empowering the marginalised, protecting the vulnerable

In 2022, the Nikko AM New Zealand Sustainability Group chose to focus its efforts on helping to empower people who are financially marginalised.

In August, the group partnered with the advocacy organisation Women in Super and the Young Women's Christian Association (YWCA) to host "Navigating Money in Your 20s", an event to promote improved financial literacy among young people. Well-known, young influencers from challenging backgrounds gave talks to the community about what money means to them and what they wished they had known about budgeting and saving money before they finished school.

Panellists included Shaneel Lal (a transgender advocate who writes for *The New Zealand Herald* and has a very large online following); Sonitani Kula Leger (an advocate for youth workers); Tangihaere Tukumai Rangimarie (an advocate for people with disabilities); and Fatumata Bah (an analyst at the Ministry for Ethnic Communities). The panel was facilitated by Latayvia Tualasea Tautai, a financial mentor at a social services organisation for Pacific peoples who was included on the YWCA's Y25 list of 25 women "under 25 doing cool things in the community".

Going forward, the sustainability group aims to strengthen its partnerships with community organisations that are committed to helping vulnerable and marginalised people improve their financial resilience.

The other cause that has been a focus for Nikko AM New Zealand has been combatting modern slavery. In 2022, we started offering the Freedom Fund, which allows management fees and proceeds from investments to go towards tackling modern slavery. In addition, employees have led seminars on modern slavery at national charitable events, and Nikko AM New Zealand was presented with an award for advocacy of anti-human trafficking by Tearfund, a local charity partner.

Panellists at Navigating Money in Your 20s, an event organised by the sustainability group, in partnership with Women in Super and the YWCA

Giving back to our community

The Americas Sustainability Group continued to evolve as the workplace opened up again in 2022. Throughout the year, we increased our in-person volunteer work while working and staying connected virtually.

In 2022, the sustainability group donated over USD 10,000 to local non-profit organisations, such as The Classical Theatre of Harlem and South Bronx United, our community partners. Members also collected items to be donated and volunteered their time.

The Americas Sustainability Group cares deeply about the local community, and two employee-organised fundraisers allowed us to give back to those less fortunate than ourselves.

- In July, it raised money to purchase school supplies for local students living in transitional housing. The group was able to buy almost 100 backpacks and fill them with supplies such as notebooks and pencils.
- The second fundraiser was launched after an extremely destructive Category 4 hurricane hit the US. Nikko AM Americas employees provided financial assistance to organisations that were on the ground helping to clean up and build back stronger.

Additionally, the sustainability group held two volunteer days during the year.

- In March, during Women's History Month, a group of employees volunteered for an organisation that helps families, specifically pregnant women, nursing mothers, and young children. The day was spent at the non-profit's thrift store where employees sorted new items, tagged clothing, and helped where needed.
- In August, employees worked with students who were giving presentations as part of a summer school programme. The students presented on different subjects ranging from robotics, entrepreneurship, photography, and wellbeing. Volunteers sat in the audience, asking follow-up questions and giving comments. This volunteering opportunity was organised by South Bronx United.

The group's activities in 2022 made an impact in our community and were aligned with the company's sustainability goals. We are proud of the culture of sustainability we are building from the bottom up.

Volunteers filled almost 100 backpacks with school supplies

The sustainability group raised money to buy school supplies for local students living in transitional housing

South Bronx United event

Looking Ahead

Moving in a good direction

In 2022, we were very pleased to see employees at all levels of Nikko AM gaining a greater awareness of sustainability and ESG considerations — and also taking meaningful action.

One way we observed this was when our colleagues globally came together to contribute to a single cause. Shortly after the conflict in Ukraine began, sustainability groups in each region coordinated a global donation drive for humanitarian aid in Ukraine. In a strong show of solidarity, employees from all offices donated more than USD 44,000, which was matched by the firm.

It was also a year that senior management engaged more with our employee-led sustainability groups, which form the foundation for all our sustainability activities. The Corporate Sustainability Department invited all Global Executive Committee members to become Executive Sponsors for at least one sustainability group, and country heads to become sponsors for the groups in their respective regions.

This proved to be instrumental in raising our colleagues' awareness and morale, as they saw senior management participating in discussions and activities, as well as working together with junior team members in various sustainability drives.

To recognise the contributions of these sustainability group members, Nikko AM's president and executive chairman penned letters of appreciation to each of them and told their line managers about their achievements.

We also saw the membership of our sustainability groups grow in 2022. The addition of the Japan Philanthropy Group and the International Women's Group boosted firm-wide membership from about 70 to over 110 — a record high — representing approximately 11% of our employees, and took us closer to reaching our target of 15% by 2025. This is further evidence that a sustainability-conscious mindset and a culture of volunteerism have taken root at the firm.

Our annual sustainability town hall was a big success. Colleagues from around the world joined the session to hear about management's commitment to sustainability and the latest developments in ESG and corporate sustainability at the firm. Globally, we held more than 30 educational events in 2022 — the result of passionate sustainability group members wishing to keep the Nikko AM community informed about a wide range of issues relating to sustainability. We believe that events like these help to encourage more of our colleagues to join a sustainability group that aligns with their areas of interest.

In 2023, we plan to establish a policy that formalises the firm's commitment to corporate sustainability. As part of this exercise, the Corporate Sustainability Advisory Council will become a Steering Committee, a counterpart to the ESG Steering Committee that governs our practices as investment managers. Together, these two groups will steer the way Nikko AM behaves and invests, ensuring that sustainability is the rudder guiding all we do.

As the Corporate Sustainability Department reaches its five-year milestone in 2023, we plan to review our three areas of focus — diversity & inclusion, reducing inequalities, and environment & climate — which are the pillars that uphold our corporate sustainability initiatives. We will consult with all stakeholders to identify any adjustments that need to be made to reflect where we are on our sustainability journey.

We recognise that the key to continued success in our activities is to ensure that our colleagues remain passionate about sustainability, which keeps our bottom-up culture vibrant. It is our responsibility to encourage positive behaviours, so we want to do more to recognise and reward employees' actions when they lead to good outcomes. As a start, we have partnered with the global HR team to review Nikko AM's values to ensure that they encourage sustainable mindsets and behaviours.

Nikko AM will continue to be a strong advocate for a sustainable world, and we will work together with external partners to achieve this goal. As a long-term investor and a global corporate citizen, we are committed to doing our part to contribute to economic prosperity as well as social and environmental sustainability.

Joyce Koh and **Daisuke Kono**
Joint Global Heads of Sustainability

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John Permaul,
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External commitments

Our participation in external initiatives

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

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