



# Task Force on Climate-related Financial Disclosures

## 2024

**Information for New Zealand readers:**

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

# Contents

## 01 Governance

- Overview of Nikko AM group governance **6**
  - Nikko AM group sustainability governance **7**
  - Regional sustainability governance example **9**
- 

## 02 Strategy

- Our approach **11**
  - Identifying climate risks and opportunities **13**
  - In-house analytical capabilities: overview **17**
  - Top-down analysis: temperature alignment **25**
  - Bottom-up analysis: proprietary ESG-integrated approach **27**
  - Bottom-up analysis: external data providers **30**
  - Industry collaboration **33**
- 

## 03 Risk Management

- Overview **37**
  - Risk identification, assessment, and management **37**
  - Climate change as a driver of group risk **39**
  - Managing climate-related risks within our investments **40**
- 

## 04 Metrics & Targets

- Overview **42**
- Methodology **43**
- Reported metrics **44**
- Our commitments **45**



# Foreword

**In 2023, we faced a year of extremes. It was the hottest year on record by some margin and the most active year for sustainability-related reporting requirements. It was also punctuated by extreme weather-related events all around the globe, from the devastating fire season in Canada to Asia's record-high temperatures to Libya's destructive floods.**

The first UN Global Stock Take and the outcomes of COP28 emphasised that the world is not on track to achieve the objectives of the Paris Agreement. At Nikko Asset Management, we are on track for our own climate commitments; however, we know this is not enough. Sustainable investment continues to be a strategic focus for us, and we continue to invest more into this area.

The journey to advance our sustainability practices begins with knowledge and expertise. In 2022, we appointed our first global head of sustainable investment and expanded and streamlined our ESG resources. As I said then, among my top priorities were further growing our newly established Global Sustainable Investment team, advancing our ESG integration, stewardship and climate-change activities, and increasing the number of women in senior roles. We have made advances in all of these areas. For example, we are proud to be increasingly supporting climate shareholder resolutions at major companies in Japan, a practice that is not yet widely adopted in the Japanese market. We believe this is an important step forward and are confident that the industry will follow.

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

Navigating a complex and fast-changing regulatory landscape for sustainability reporting is a responsibility we take seriously — to support our clients to achieve their climate goals and support real-world decarbonisation. To achieve this, we need access to credible, high-quality climate data and scenario-analysis tools. For this to happen, stability of methodologies of third-party data providers is crucial, underscoring the need for regulatory intervention.

We believe it is important for our clients and the industry to be aware of these methodological changes. We will continue to advocate for better-quality climate data and climate tools in the pursuit of real-world decarbonisation. Meantime, we do not shy away from difficult discussions around the practicalities of achieving impact on the ground. Our focus goes beyond headline figures to ensuring that we contribute to the decarbonisation of the real economy.

**Stefanie Drews, Group President**

# Introduction – who we are

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

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

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

## Global Citizen with Asian DNA



## Our People

**949**  
Employees\*\* across all asset classes, located globally

**224**  
Investment Professionals\*\*

**109**  
Portfolio Managers\*\* with extensive, and locally-driven research coverage

**60+**  
years in Asia



One of the **largest** distributor networks in the Asian region



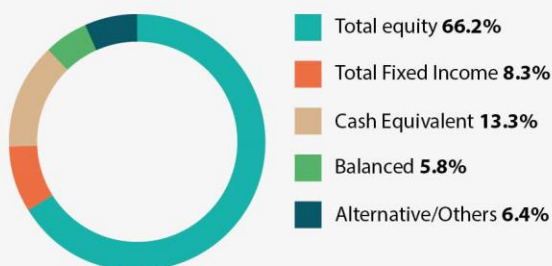
1st SRI Fund established in Japan\*<sup>1</sup>  
1st investment in-kind ETF established in Japan\*<sup>1</sup>  
1st Robotics Equity fund established in Japan\*<sup>1</sup>  
1st Asia ex-Japan REIT ETF established in Singapore\*<sup>1</sup>

\*<sup>1</sup>Based on Nikko Asset Management's research

## Our Global Capabilities

Qualitative insight through a broad range of global investment capabilities

### Total Assets Under Management (USD 211.0bn\*)



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

### Our Specialisations

#### Equities

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

#### Fixed Income

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

#### Multi-Asset

Global, Emerging Markets

#### ETFs

Equities, Bonds, REITs

\*Consolidated assets under management and sub-advisory of Nikko Asset Management and its subsidiaries as of 31 December 2023.

\*\*Including employees of Nikko Asset Management and its subsidiaries as of 31 December 2023.

01

Governance





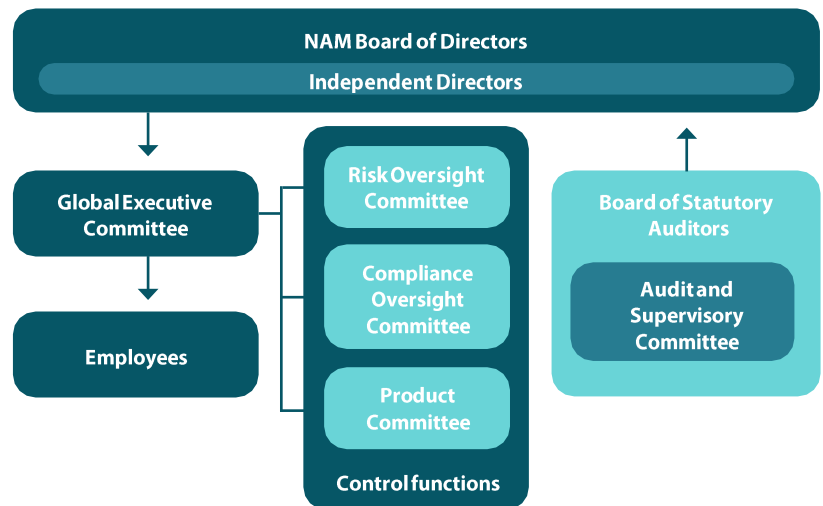
# Governance

## Overview of Nikko AM group governance

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

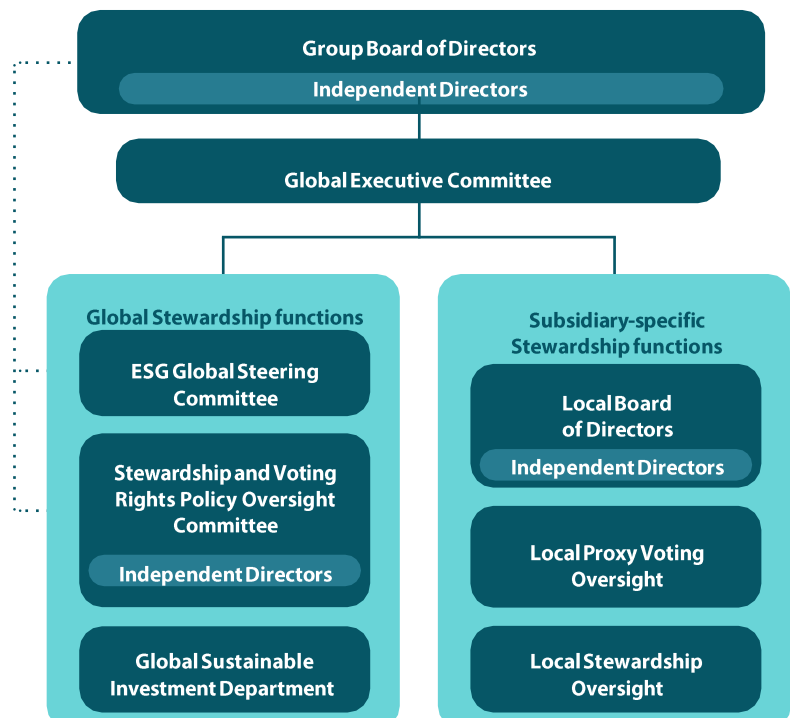
The Nikko AM Group Board delegates responsibility for day-to-day decision-making to our Global Executive Committee (GEC), comprising members of the senior management team, whose details can be found in the leadership section of our website. The charts below show a simplified representation of our group governance structure.

### Nikko AM governance



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

### Stewardship governance structure



## Nikko AM group sustainability governance

Governance of environmental, social, and governance (ESG) activities operates at both the global and local subsidiary level. The overall oversight of our ESG activities is the responsibility of the ESG Global Steering Committee. It oversees the integration of ESG within investment teams, sets policy, and develops strategy, makes external disclosures, and recommends ESG-related initiatives and participation in external bodies. On average, the Committee meets on a quarterly basis.

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

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

The Nikko AM group also has a dedicated Global Sustainable Investment Team that provides expertise and support on ESG matters.

This department is still expanding and is split into five functions:

# 1

### **Regional ESG specialists:**

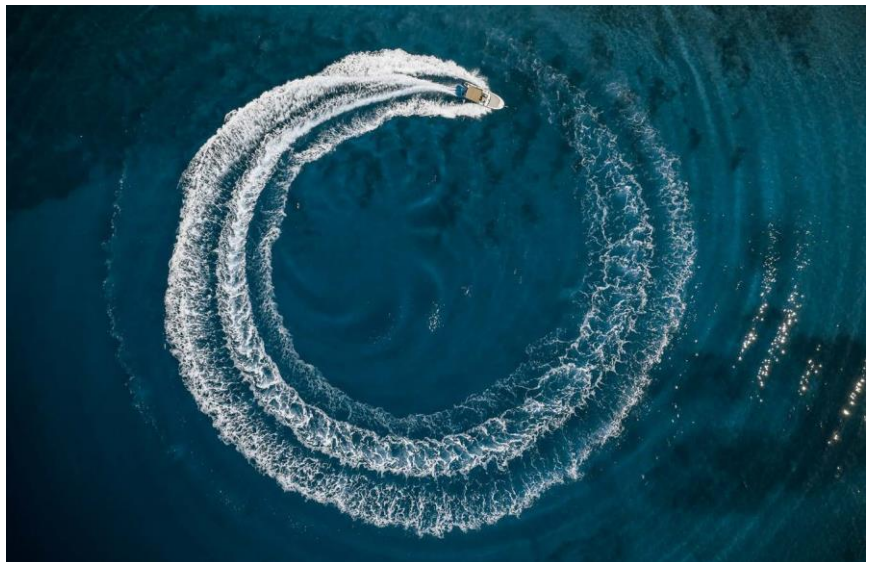
these are our ESG “all-rounders” who work closely with the investment teams supporting their ESG integration and stewardship efforts. They also work closely with our other functions, such as client services and product development, to ensure that we deliver the best outcomes for our clients across the entire value chain.

# 2

**Research & integration:** this function, which is still being developed, is responsible for supporting our investment teams and ESG specialists with subject-matter expertise and ensuring we continuously improve our integration efforts. The function will include, for example, an environmental specialist to help us enhance our activities in this area.

# 3

**Stewardship:** this function will support and coordinate our firm-wide stewardship efforts. It will aim to continuously improve our stewardship activities, including engagement, proxy voting, and ESG research, along with the respective disclosures.



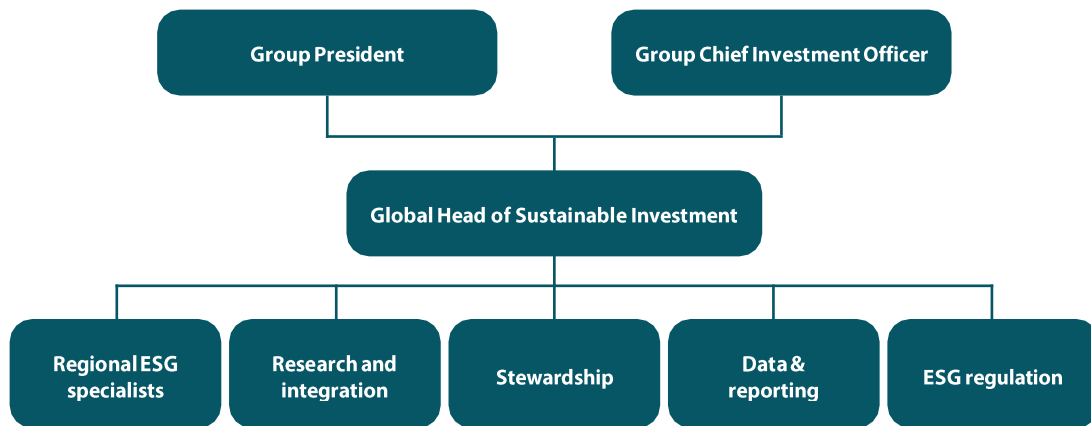
# 4

**Data & reporting:** this function is dedicated to sourcing, storing, validating, and disseminating ESG data globally, as well as providing support with ESG data analytics and reporting.

# 5

**ESG regulations:** this function is responsible for identifying, assessing, determining, and supporting our approach to ESG regulations and standards globally.

### Global sustainable investment department governance structure



As part of this structure, the global head of sustainable investment reports directly to the group president and group chief investment officer. This ensures that senior executives in the company have oversight of ESG matters. Both the group president and group chairman have key performance indicators (KPIs) to strengthen the firm's ESG capabilities, which include climate-related risks and opportunities.

As part of oversight of our progress in 2024, the global head of sustainable investment presents frequently to the Group Board. For example, in early 2024 a presentation was made to discuss the progress and achievements of key ESG initiatives across 2023. Likewise, our TCFD report is approved at the highest level, which includes approvals from the ESG Global Steering Committee and the board, among other key stakeholders.

## Regional sustainability governance example

Although we have global sustainability governance to oversee group ESG matters, including climate-related risks and opportunities, we retain regional flexibility that allows each of our entities to further tailor the approach regionally as required.

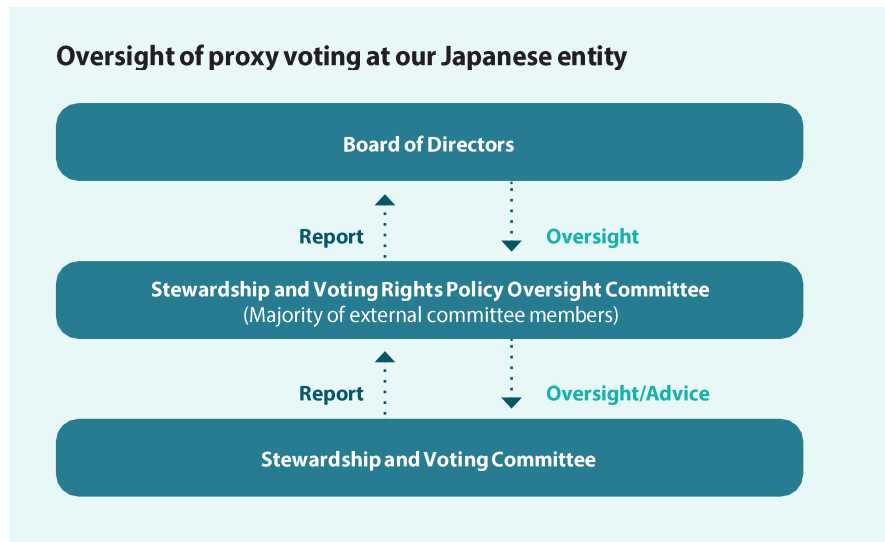
For instance, as our Japanese operations represent the majority of the business, a great deal of resources are devoted to their governance and stewardship.

The Stewardship and Voting Rights Policy Oversight Committee monitors and supervises our engagement with Japanese investee companies and proxy voting, ensuring that both remain in line with our fiduciary and ESG principles and meet the interests of our clients.

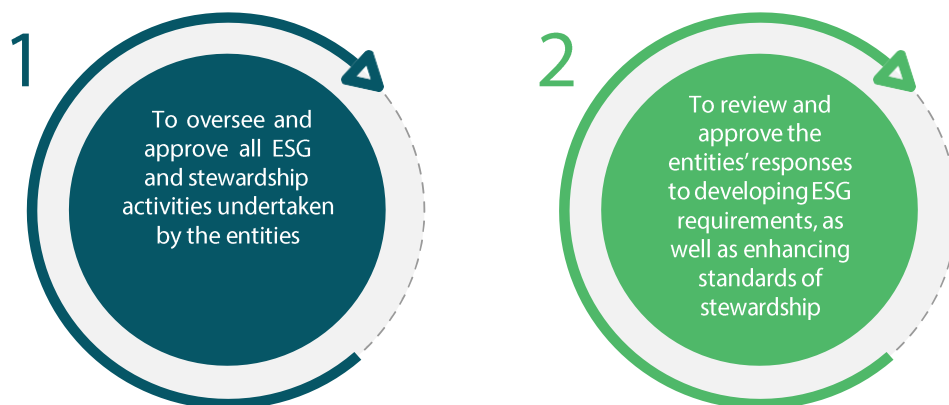
The committee was launched in 2016 as a way of enhancing the transparency of our stewardship activities and strengthening our governance. Four of the committee's seven members are from outside the Nikko AM group, making the

committee highly independent. Its decisions carry weight, as it reports directly to the Group Board on matters such as the governance of our stewardship activities and conflicts of interest, ensuring, for example, that proxy votes are used in line with our Conflict of Interest Control Policy. Directly answering to the Oversight Committee is the Stewardship and Proxy Voting Committee, which is responsible for formulating stewardship policy,

providing guidance on stewardship activities, and updating our group proxy-voting policy, addendums to which can be applied at the subsidiary level, in line with local customs and the requirements of the respective investment teams. The chart below shows a simplified representation of our group governance structure.



Our Japan Sustainable Investment Department makes judgements on how to exercise voting rights and undertakes engagements with Japanese companies. It has integrated engagements into voting rights. Our European entities have extended their sustainability governance to enhance local board and senior-management oversight of ESG activities, risks, and opportunities. For both Nikko AM Europe and Nikko AM Luxembourg, a dedicated board committee (the ESG Stewardship and Oversight Committee) has been established for two main purposes:



On a quarterly basis, this committee analyses, reviews, and approves ESG and stewardship activities that include, but are not limited to, governance, policy revision, engagement and voting activity, and responses to ESG-related regulations and standards.

02

Strategy



# Strategy

## Our approach

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

We assess and address these impacts through two main channels:

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

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

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

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

For 2023, our total market-based carbon footprint — which recognises a reduced emission factor for green energy contracts — was 1,905.17t CO<sub>2</sub>e (2.13t CO<sub>2</sub>e per employee) compared with 1,658.11t CO<sub>2</sub>e in 2022 (1.21t CO<sub>2</sub>e per employee). Compared with our baseline year of 2019, when we generated 5,469.5t CO<sub>2</sub>e (5.9t CO<sub>2</sub>e per employee), this represents a 61.6% reduction in emissions per employee.

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

Compared with 2022, there was a marked increase in emissions from business flights in 2023. Business travel is crucial for our operations to support the investment research needs and commercial priorities of the organisation. We have implemented steps to raise awareness among employees about its impact on the environment.

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

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



## Nikko AM's position on climate change

We recognise that climate change is one of the greatest challenges the global community faces and is a market-wide and systemic risk with implications for the financial system. Since the adaptation of the landmark Paris Agreement in 2015,<sup>1</sup> the world has been increasingly working towards a common goal of limiting temperature increase to well below 2°C above pre-industrial levels and pursuing efforts to limit the increase to 1.5°C above pre-industrial levels. We outline our approach to addressing climate change in our Position Statement on Climate Change.

We strongly believe that ESG considerations are inherent to long-term corporate value creation and contribute to the realisation of sustainable economic growth. In the light of this, we view ESG issues as an integral part of our fiduciary duty to clients and endeavour to incorporate ESG principles in all our investment processes. This includes climate-change risks and opportunities.

As members of the Net Zero Asset Manager initiative (NZAMi), we are committed to contributing to real-world decarbonisation through the six pillars of action shown in the table below.

### Nikko AM climate plan of action

1

#### Investment integration

We aim to build on the data and tools we are currently using, to support investment decision-making when considering climate-change risks and opportunities.

2

#### Client solutions

We seek to understand our clients' climate change ambitions and develop investment solutions that will enable them to achieve their goals.

3

#### Active Stewardship

We actively seek to understand the impact of climate-related issues on investee companies and seek to reflect our views in voting decisions and engagement with management.

4

#### Disclosure

We believe in the merits of climate transparency and will continue to report and disclose our activities through this report and other regulatory and client reporting we produce. We are also committed to evolving our reporting, scrutinising ESG data (including through engagements with data providers), and focusing on reporting that adds value beyond box-ticking.

5

#### Industry Collaborations

Through our participation in relevant industry associations and initiatives, we hope to drive the change required in emissions reductions and mobilising capital. These include engagements with regulators, industry bodies, our peers, and the broader industry.

6

#### Sustainable Investing Opportunities

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

As a pioneer in the green-bond investment space, we launched one of the first green-bond funds in 2010. Building on that, in 2023 we expanded our Article 9 green-bond offering, Nikko AM Global Green Bond UCITS fund. The fund is an actively managed, well-diversified portfolio of corporate and sovereign issuers of green, social, and sustainability bonds.

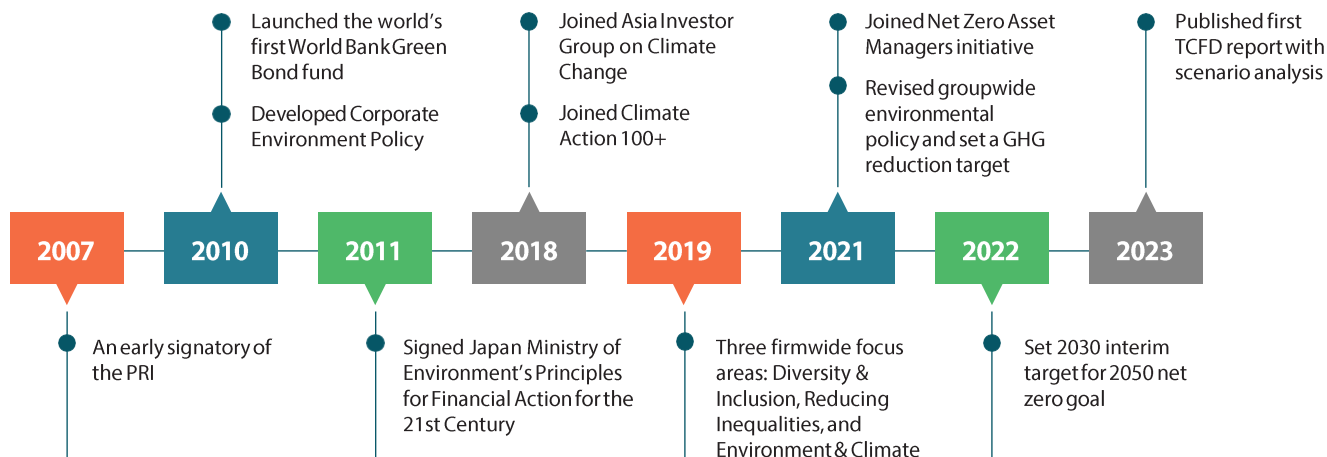
We developed our Climate Change Solutions — Japan Equity Strategy in December 2022. The fund aims to achieve a 50% reduction in GHG emissions against the TOPIX index while minimising tracking-error risk. Engagement with investee companies on their decarbonisation efforts is an important lever for the portfolio to achieve its GHG emission target.

In 2023, we developed two strategic partnerships, with Osmosis Limited and Tikehau Capital. Both firms are signatories to the PRI and share similar ambition to develop lower-carbon investment products to support clients' climate objectives. We aim to build on the thought leadership of both firms, where possible using the information to support clients' education.

<sup>1</sup> Paris Agreement: <https://unfccc.int/process-and-meetings/the-paris-agreement>

## Our progress and key milestones

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



## Identifying climate risks and opportunities

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

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

- **Short term:** three to five years in line with investment horizons
- **Medium term:** Up to 2030 in line with interim net-zero targets
- **Long term:** Up to 2050 in line with net-zero targets

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

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

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

Our mitigation activities are described throughout this report and include, but are not limited to, the following activities:

- In-depth bottom-up research
- Active stewardship
- Top-down scenario analysis
- Portfolio risk monitoring

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

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

### Increasing reporting regulations

Navigating a complex and fast-changing regulatory landscape for sustainability reporting is a key focus area for us. An example of this is the ISSB framework, which is being considered by various jurisdictions for inclusion in their regulatory reporting requirements. We are currently working on understanding the evolving reporting requirements and their implications for existing investment processes. Analysing climate-related data across all our asset classes is a complex and resource-intensive exercise. Inadvertently failing to meet regulatory requirements and the expectations of our clients could result in potential financial costs and reputational impacts. We believe we have a strong foundation in place to identify and respond to regulatory and voluntary changes, and we continue to invest in this area.

## Sustainable Investing Opportunities

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

In 2023, we developed two strategic partnerships with Osmosis Limited and Tikehau Capital. Both firms are signatories to the PRI and share similar ambition to develop lower-carbon investment products to support clients' climate objectives. We aim to build on the thought leadership of both firms, where possible using the information to support clients' education.

Osmosis, founded in 2009 and headquartered in London, is a research-based, quantitative investment manager focused on delivering better risk-adjusted investment returns with better environmental outcomes. Its investment philosophy is based on the view that companies that are more resource efficient are more likely to outperform their peers over the long term. The Osmosis portfolios overweight resource efficient companies and underweight, or short, inefficient companies as identified by the Osmosis Model of Resource Efficiency. The approach targets excess returns through the identification of resource efficiency in listed companies. Osmosis defines resource efficiency as the carbon emitted, waste generated, and water consumed, relative to value creation. Resource-efficient companies are, therefore, those that most efficiently use limited resources to create economic value.

## Case Study – Green Bond Pioneers

The green-bond market has witnessed significant evolution and diversification. It continues to evolve to address broader social, environmental, and sustainability issues. In 2010, we formed a partnership with the World Bank to launch our first Green Bond Fund, which focused exclusively on investing in World Bank green bonds. Fast forward to 2023, and our world is facing a global environmental crisis. We believe that green bonds continue to have a vital role to play in mitigating the severity of the global environmental crisis by supporting positive climate change solutions. During 2023, we relaunched the Green Bond Fund, expanding its capabilities beyond sovereign, supranational, and agency bonds while maintaining its SFDR Article 9 label. The fund aims to address the challenges of climate change, promote nature and the protection of ecosystems, and prevent further biodiversity loss. By balancing fundamental and quantitative analysis, we provide a more comprehensive and sophisticated approach to investing in green bonds, ensuring that portfolios are both sustainable and profitable.

Further reading available on the Green Bond fund and our white paper on building a greener future available here:

- [Global Green Bonds | Nikko AM Asia](#)
- [Towards a greener future: building credibility and demand for sustainability-linked bonds | Nikko AM Insights](#)

**"As pioneers in the green bond space, we believe green bonds will continue to play a significant role in investors' portfolios as part of their climate investment strategy, to facilitate the transition to net zero."**

**– Steven Williams, Head of EMEA  
Global Fixed Income**

## Sustainability categorisation framework

In 2023 we developed our own ESG classification framework for our range of products. The framework provides a methodology to define the range of ESG approaches used in our investment processes. The new categories will help our clients to navigate our investment strategies, according to their ESG or sustainability-related goals.

The framework has four categories. ESG Inside has the broadest criteria that covers all our strategies that integrate material ESG factors into the investment process. Within that, there are three narrower categories, according to the type of approach adopted: ESG Managed, ESG Themed Investing, and ESG Impact. The graphic below explains this in more detail.



The framework is not intended to match a specific current or future taxonomy or regulatory system. It is a dynamic framework; we will regularly review and amend it as required to comply with the applicable regulatory requirements.

## In-house analytical capabilities: overview

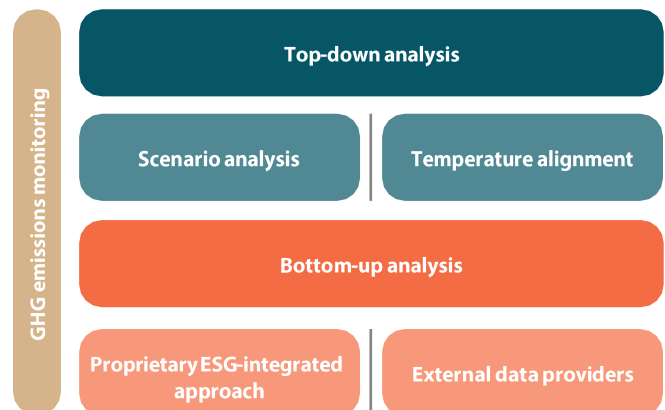
A significant low-carbon energy transition is underway. Managing our portfolios effectively is critical in our assessment of physical and transition risk, underpinned by our top-down and bottom-up analysis.

### Top-down analysis

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

In accordance with the recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD), as well as in response to increasing regulatory pressure to conduct climate-scenario analysis, we have assessed our portfolios for both transition and physical risk under multiple climate scenarios. In more recent years, there has been a growing interest in utilising forward-looking metrics, such as temperature-alignment tools, to understand company- and portfolio-level climate-related risks and opportunities. To keep up with industry practice and in response to growing regulatory pressure to incorporate portfolio temperature alignment to assess climate-related risks and opportunities, we have assessed our portfolios’ temperature alignment. For both climate-scenario analysis and temperature alignment, we utilised industry-recognised third-party models to ensure transparency and interpretability.

As in 2023, we have drawn on MSCI Inc’s suite of products, utilising their Climate-Value-at-Risk (CVaR) and Implied Temperature Rise (ITR) models to conduct our scenario analysis and temperature-alignment assessments, respectively. We have also adopted the terminology associated with these models.



### Updates in the methodology

We note that there were methodological updates to both CVaR and ITR models over the course of 2023. The implications of these methodological updates differ for each metric. Therefore, we will expand on how each metric has been impacted in the relevant sections of this report.

## Scope

Our analysis is conducted on our exposure to public listed equity and corporate bonds. Analyses of our in-scope portfolios cover 69.9% of the total assets under management (AUM) for our Japan Equity, Japan Fixed Income, Japan Investment Technology, Asia ex-Japan Equity, Asia Fixed Income, Global Equity, Global Fixed Income, New Zealand Equity, and New Zealand Fixed Income investment teams as of 31 December 2023. Our in-scope Japanese-domiciled holdings are aggregated and reported as “NAM JP”, and our in-scope companies domiciled outside of Japan are aggregated and reported as “NAM ex-JP”. For our fixed-income portfolios, we include corporate bonds and exclude sovereign, supranational, and agency issues. Although there are methodologies to model sovereign climate-scenario analysis, these tools are in their infancy, which may impact the accuracy of their output. We continue to monitor new developments in the models. The analysis takes into consideration both active and passive portfolios managed by Nikko AM, of which 65.3% of our in-scope AUM is passive.

## Top-down analysis: scenario analysis

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

## Methodology

The following assessments were conducted utilising MSCI Inc’s CVaR methodology. We acknowledge that the understanding of and, hence, the process of assessing climate-related risk and its impact are constantly evolving, and we will update our approach accordingly. Over the past year, our understanding of the model’s methodology and limitations remains unchanged.

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

## Transition risk

In the global effort to address climate change and support the Paris Agreement, countries around the world have ratified the Paris Agreement, committing to put forth climate action plans, also known as nationally determined contributions (NDCs), on how they would work towards reducing their carbon emissions. However, this would not be without economic and societal impact. As countries enact climate action plans to reduce their carbon emissions, their decisions cascade down to the population — corporates and individuals. This can result in policy and legal risks stemming from regulatory changes, technology advancements, and changes in market demand.<sup>2</sup> Therefore, transition risk is defined as the risks stemming from the global transition towards a lower-carbon economy. This does not happen consistently with the same nature, speed, and focus, however, and is subject to sectoral and geographical nuances. MSCI’s transition-risk methodology assesses companies’ CVaR under various Network for Greening the Financial System (NGFS) climate scenarios.<sup>3</sup> This assessment focuses on policy risk, modelling a company’s CVaR as a function of its annual carbon emissions and annual carbon-price estimates over 15 years. The carbon-price estimates used are dependent on the climate scenario. As a result, the CVaR associated with the company is the aggregated cost it is expected to pay to reduce its carbon emissions to reach emission-reduction targets over 15 years. The process utilised by MSCI provides a sound grounding for us to analyse transition risk while acknowledging that there are limitations to the methodology. Over the past year, our understanding of the model, its methodology, assumptions, and limitations remain unchanged.

<sup>2</sup> Transition Risk Definition: <https://www.tcfhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf>

<sup>3</sup> NGFS Climate Scenarios: <https://www.ngfs.net/ngfs-scenarios-portal/>

We note that MSCI had updated its CVaR methodology last April, which as a whole resulted in less negative CVaR across the disorderly scenarios and more negative CVaR across the orderly scenarios and NDCs scenario. We observe a similar trend across our NAM JP and NAM ex-JP portfolios. We have assessed our portfolios under the following scenarios:

- **1.5°C and 2°C**
  - **Orderly** — climate policies introduced early with gradual intensification. Transition risk is relatively subdued
  - **Disorderly** — delayed or divergent climate policies. Higher transition risk from more stringent and stricter measures that are delayed and/or divergent across countries and sectors, leading to higher carbon pricing
- **NDCs** — climate policies are implemented only in some jurisdictions but are globally insufficient to halt global warming. Implies temperature rise of 3°C by 2100<sup>4</sup>, which leads to higher physical risk.

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

Under the 1.5°C Disorderly scenario, the model indicates a potential CVaR of 20% for our NAM JP assets, as seen in Figure 1, and 8% for our NAM ex-JP assets, as seen in Figure 2. Under a more orderly scenario (1.5°C Orderly), the potential risk diminishes substantially, to 14% for NAM JP and 6% for NAM ex-JP.

Diving deeper into the numbers, we are unsurprised to find that the bulk of our risk is attributable to carbon-intensive sectors, such as energy, materials, and utilities. When jurisdictions start to increase carbon prices in a bid to bring down carbon emissions, the cost to companies in these sectors will increase should their emissions profile not come down. As a global asset manager with both active and passive strategies, we are likely to maintain some exposure to these sectors, but we will continue to monitor the risk and apply mitigation techniques as described later in the report.

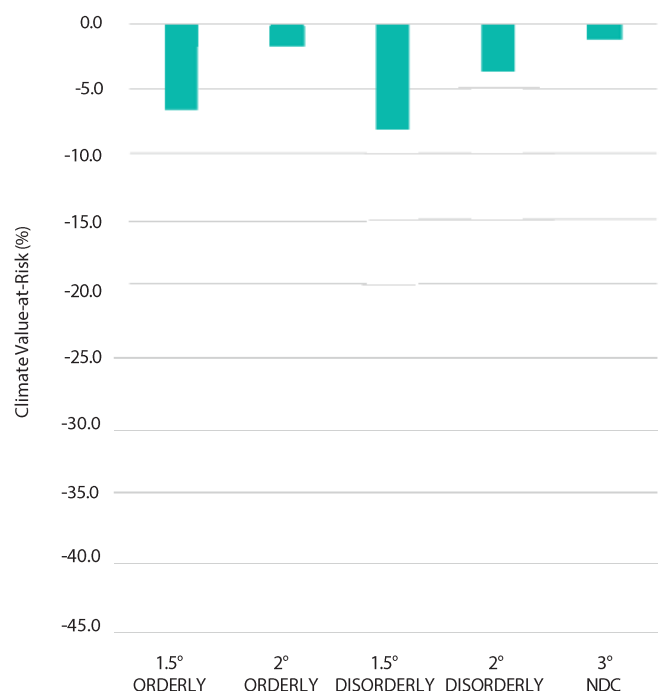
Of our NAM JP and NAM ex-JP assets, 72.59% and 10.4% are passively held (respectively). We have limited discretion over our passively held funds, and their transition risk largely mirrors that of the indices the funds track. To mitigate the transition risk faced by our passive assets, we take an active stewardship approach by engaging with our companies and actively voting on all of our equity holdings.

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

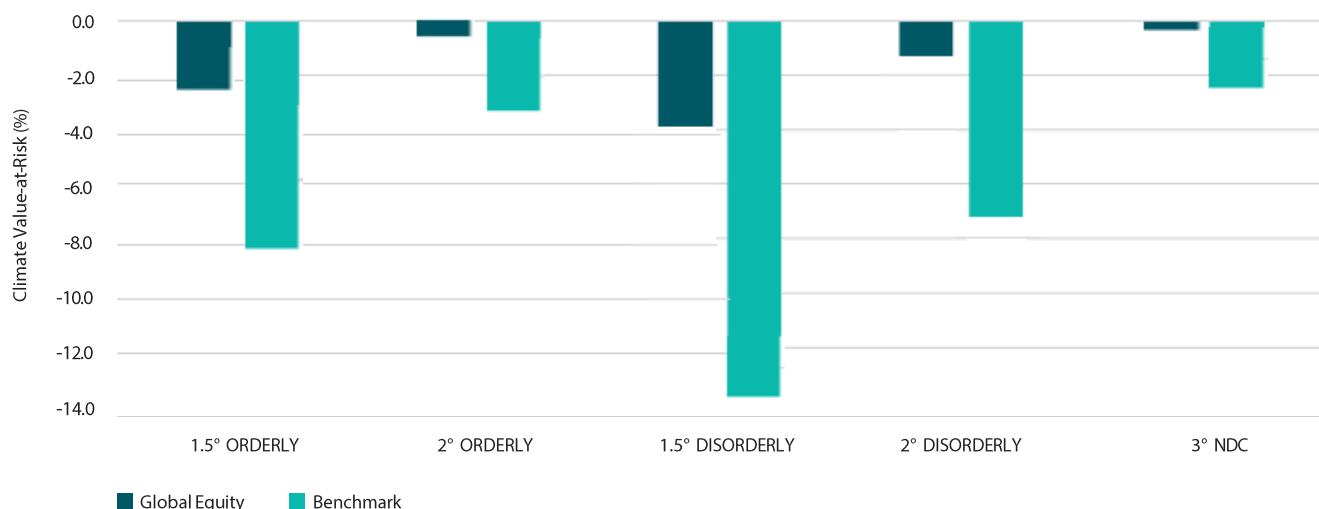
**Figure 1. Transition risk — NAM JP**



**Figure 2. Transition risk — NAM ex-JP**



<sup>4</sup> UNFCCC: <https://sdg.iisd.org/news/unfccc-reports-warn-about-2-5c-warming-amid-glimmers-of-hope/#:~:text=The%20UNFCCC's%20second%20synthesis%20of,2.5%C2%B0C%20of%20warming>

**Figure 3. Transition risk — Global Equity**

## Physical risk

In recent years, we have seen increasing occurrence and severity of natural disasters such as wildfires and hurricanes, but also of weather patterns such as prolonged and heavier rainfalls that lead to floods. With climate change leading to higher global temperatures, the frequency and severity of such events is only set to increase. These events have financial implications for organisations, not only through direct asset damage but also indirectly through operational disruptions that can stem from changes to productivity. Therefore, physical risk is defined as risks stemming from the physical impacts of climate change. These risks can be event-driven (acute) or arise from longer-term shifts in climate patterns (chronic), which lead to changes in habitable landscapes.<sup>5</sup> Whether it faces acute or chronic weather events, the economic system will have to adapt.

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

We acknowledge that there are challenges in modelling the impact of physical risk, as the expected change to weather patterns may deviate from the trends that have already been observed and used to create forecasts. This deviation can occur in either direction, which means that the actual outcome may be more or less severe than currently forecast and may occur more or less frequently. This limits the ability of any model to accurately predict how physical-risk types will develop and, even more so, the extent of its potential financial impact. Over the past year,

our understanding of the model, assumptions, and limitations remains unchanged. Any changes to the CVaR figures are a result of underlying updates made by MSCI.

We note that MSCI made several updates to its CVaR methodology in April last year. For physical risk, several updates were made but did not result in significant changes to CVaR on the in-scope portfolios. Rather, the impact of methodology change was specific to individual companies.

We assessed our portfolios under the following scenarios:

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

<sup>5</sup> TCFD Physical Risk: <https://www.tcfddhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf>

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

Under the aggressive scenario, our NAM JP assets see a potential CVaR of about 14.5% (Figure 4) and about 7% for our NAM ex-JP assets (Figure 5). Under the average scenario, the potential CVaR is significantly lower, about 7.5% for NAM JP (Figure 4) and about 1.5% for NAM ex-JP (Figure 5). Given that NAM JP is fully invested in Japanese assets, its physical risk is concentrated in Japan, which has high physical risk because of its location, whereas the physical risk of NAM ex-JP assets is more diversified globally.

Further analysis of the data reflects that CVaR is more pronounced in geographical locations with high acute risk (i.e. event-driven). These events tend to occur suddenly, disallowing ample time for risk-adaptation or mitigation efforts. Additionally, the severity of these events cannot be predicted, which can result in the insufficiency of implemented risk-mitigation or adaptation efforts. Therefore, the geographical locations with the highest acute risks would result in the greatest asset damage and operational disruption.

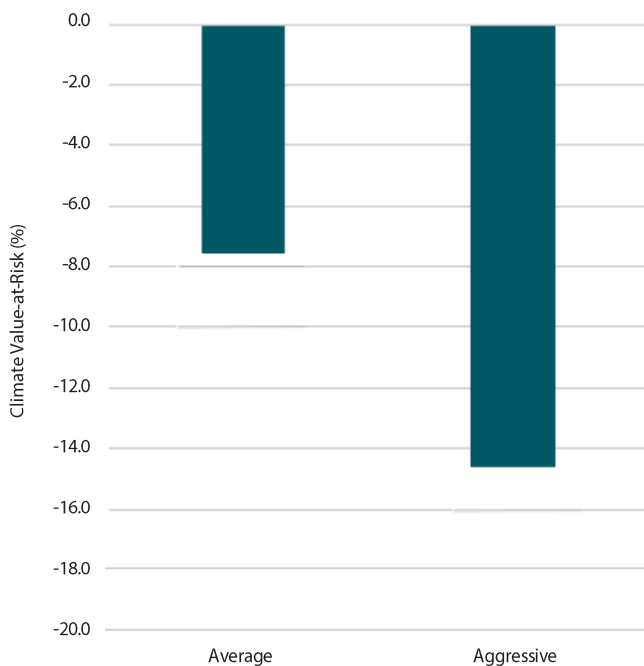
As noted above, we hold 72.59% of our NAM JP assets passively, along with 10.4% of our NAM ex-JP assets (Asia ex-Japan Equity and Asia Fixed Income portfolios). We have limited discretion over our passively held funds, and the physical risk largely mirrors that of the indices the funds track. To mitigate

the physical risk faced by our passive assets, we take an active stewardship approach by engaging our companies and actively voting on all our Japanese equity holdings.

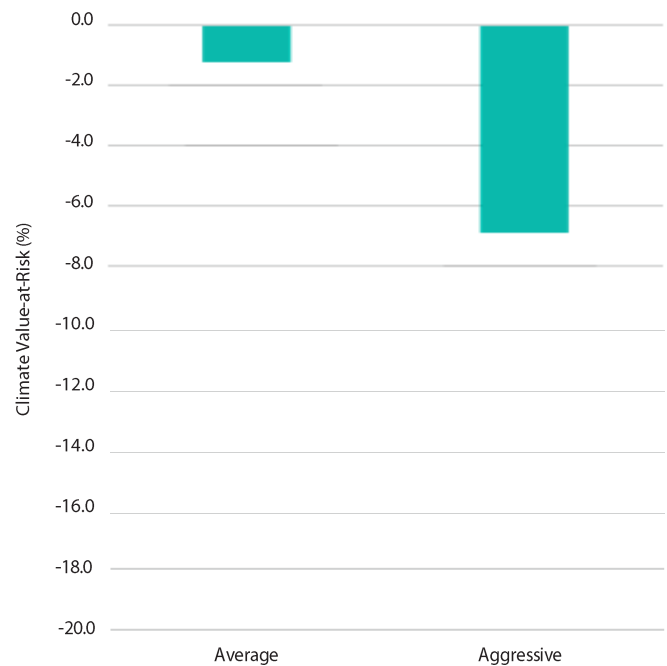
For our actively managed funds, where we have more flexibility in managing our portfolios, we can actively factor in physical-risk considerations when assessing our portfolio holdings. Physical risk still exists but is less than that of these funds' relative benchmarks.

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

**Figure 4. Physical risk — NAM JP**



**Figure 5. Physical risk — NAM ex-JP**



If we take our Asia ex-Japan Equity UCITS fund as an example in Figure 6, the fund has a lower CVaR from physical risk than its benchmark (MSCI Asia ex-Japan Index). This would mean that the fund faces lower potential financial impact from physical risk events than the benchmark does — in both average and aggressive scenarios. Even so, with the increasing climate-related events in the recent years, we continue to engage with our holdings on their preparedness for physical-risk adaptation and to raise awareness of the physical risk faced by their assets.

When assessing physical risk, we are also able to determine the potential physical-risk events that might have the greatest impact on our portfolio

holdings. This is largely driven by where our portfolio holdings’ assets are located.

If we take NAM ex-JP as a case study, as showcased in Figure 7, the location of our portfolio holdings spans regions such as Asia ex-Japan, Europe, and New Zealand. Under both average and aggressive scenarios, coastal flooding presents the greatest CVaR, followed by heat under the average scenario and precipitation under the aggressive scenario. For each physical risk type, there will be a potentially significant exacerbation of physical-risk events under the aggressive scenario if climate change is not kept under control. With increasing and more severe coastal flooding events, which we are

currently reading about in the news, the CVaR from coastal flooding would increase more than five-fold, from slightly more than 1% to 5.5% over the same 15-year modelling period.

Interestingly, however, several companies in our portfolios might stand to benefit from a warmer climate. For companies that operate in regions with snowfall, we see a slight positive attribution under the average scenario. But this reverses under the aggressive scenario, where we still see risk for snowfall events as a result of the connections between different weather events that can exacerbate their impacts.

Figure 6. Physical risk — Asia ex-Japan Equity

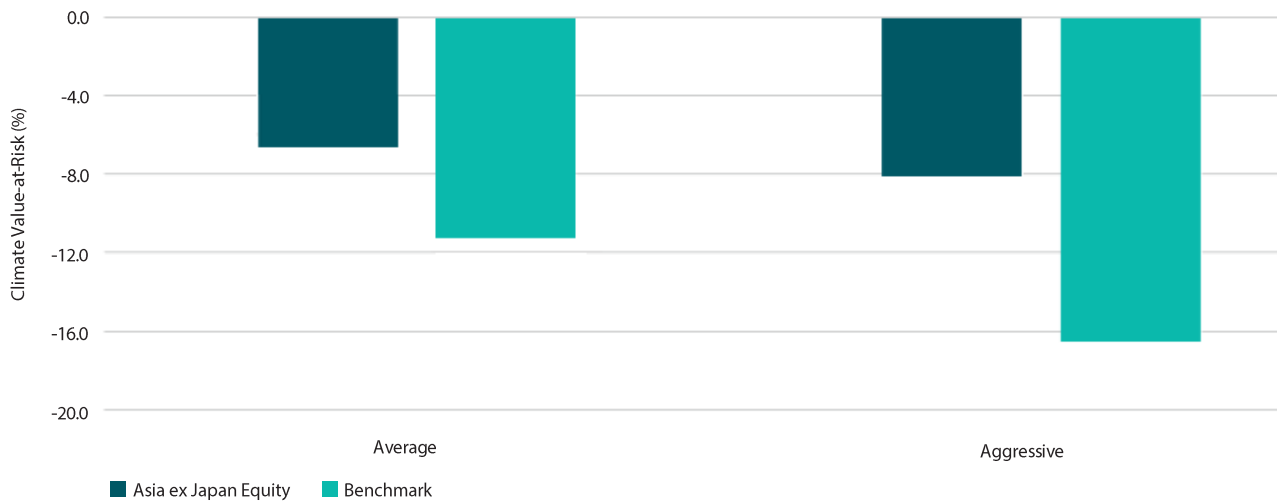
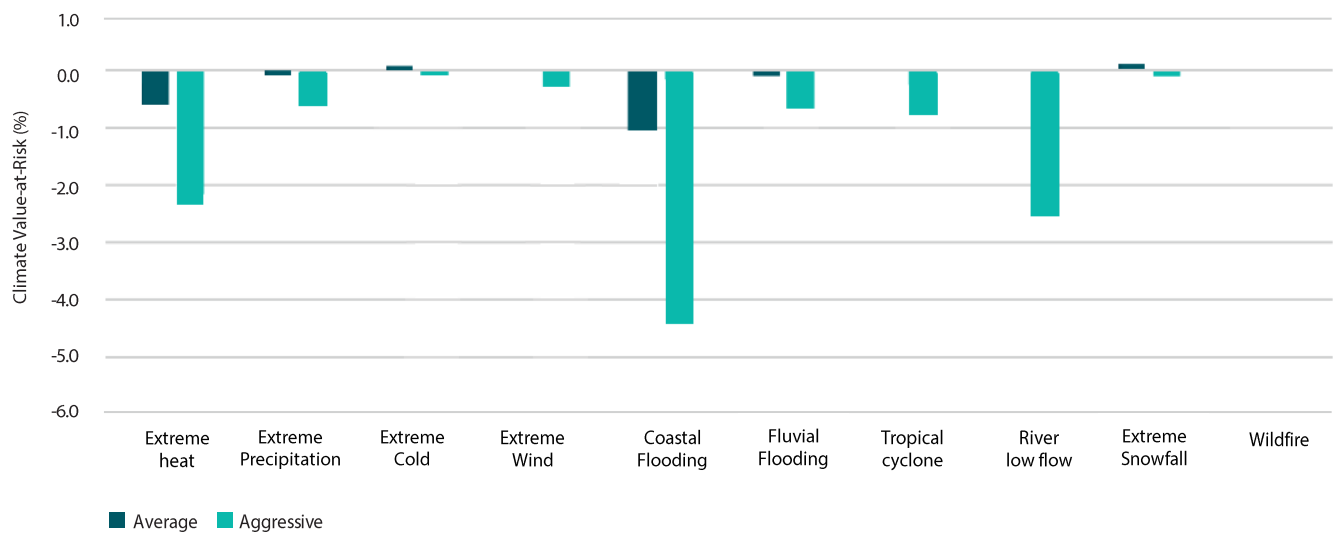


Figure 7. Physical risk (by type) — NAM ex-JP



## Technological opportunities

Given the shifts that are occurring because of our changing climate, opportunities are likely to be created alongside the risks that have been highlighted. These opportunities can occur through direct actions, such as investing in more efficient processes, or through indirect actions across supply chains, such as the shift to cleaner energy sources. A myriad of climate-related opportunities can result from such actions. However, we understand that there is complexity in how these opportunities can be assessed, particularly with the data-based limitations on holistically encapsulating or assessing them. Therefore, we rely on our bottom-up analysis across many of our holdings. This allows us to assess the context of the company's operations, the regions and sectors in which it operates, and its overall strategy, which may not be fully evident in existing data.

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

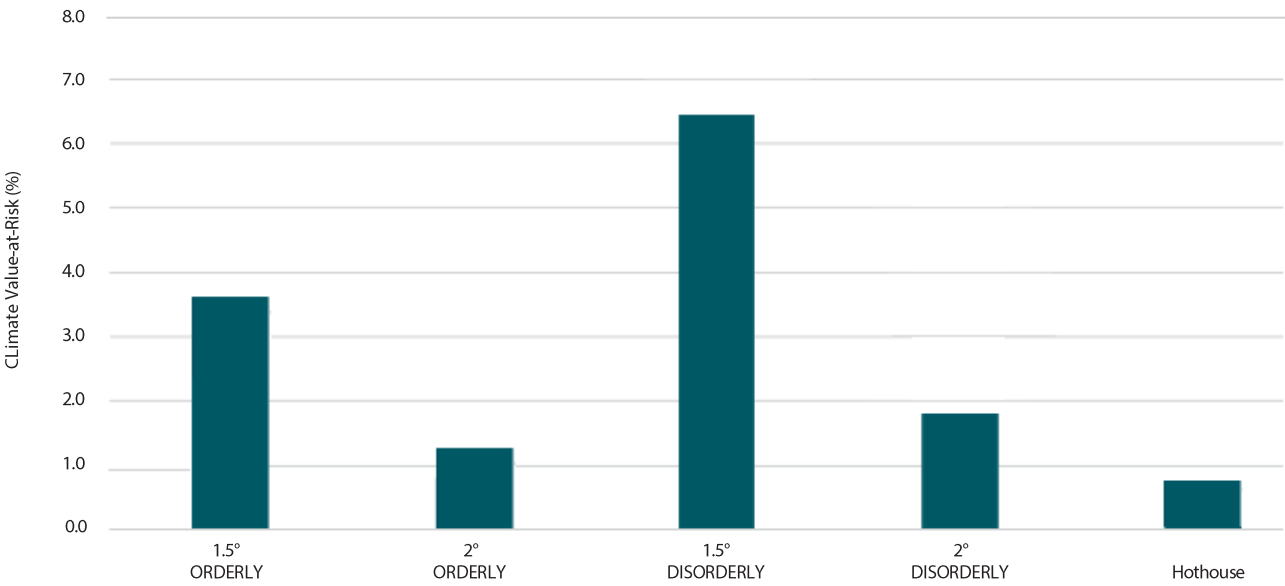
We understand the limitations of using broad datapoints to assess technological opportunities and of confining the consideration of climate-related opportunities to just R&D/green patents, as factors such as operational improvements can have a material impact. However, we also understand that this allows us to gain a high-level, top-down overview of potential opportunities that our portfolios can potentially capture. We continue to rely primarily on our bottom-up analysis and in-depth considerations of climate-related opportunities to best define these opportunities. This provides a more idiosyncratic assessment, in keeping with our approach for more active funds.

MSCI's methodology on climate-related opportunities focuses on current green revenue and opportunities arising from new technologies. Over the past year, our understanding of the model, its assumptions, and its limitations remains unchanged. We note that MSCI updated its CVaR methodology in April 2023, which resulted in overall less positive values across all climate scenarios. The disorderly scenarios saw the greatest reduction of CVaR while the reduction of CVaR was smaller in the orderly scenarios.

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

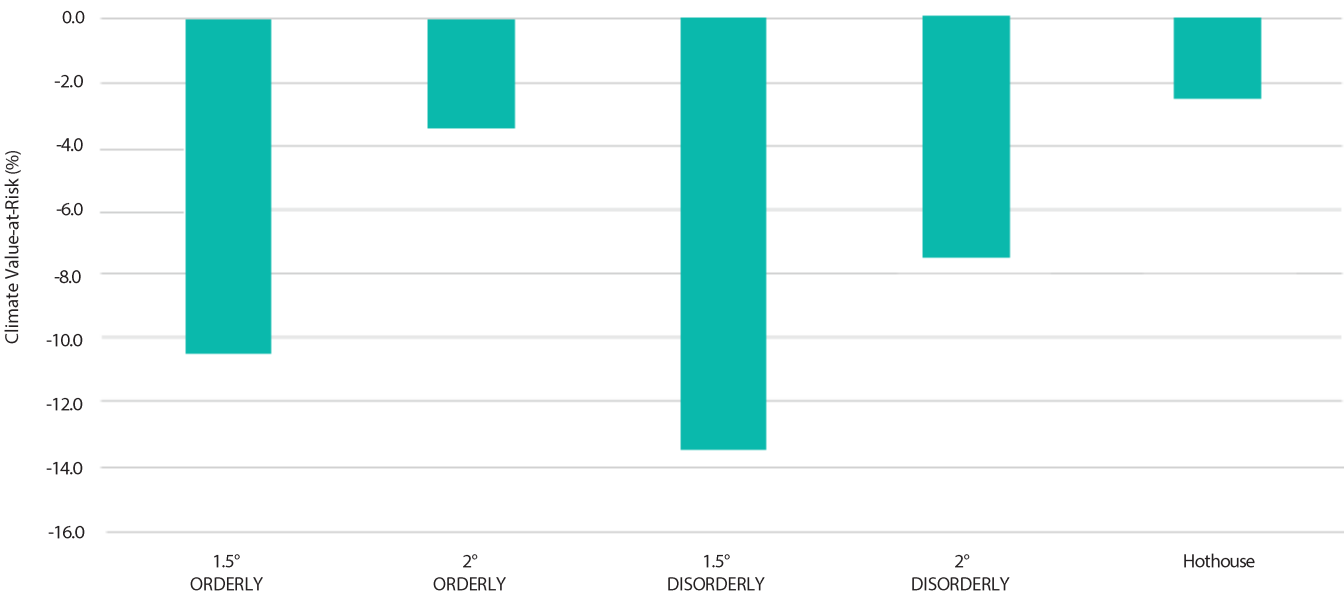
To illustrate these technological opportunities, we use our NAM JP assets as a case study. As shown in Figure 8, the technological opportunities are greatest under the 1.5°C Disorderly scenario, at slightly above 6%. Under this scenario, the urgency to decarbonise is the greatest and steepest because of the delay in taking action. Therefore, the need for technological advancement is greatest. Under a more orderly scenario (i.e., 1.5°C Orderly), NAM JP's technological opportunities are slightly above 3.5%.

Figure 8. Technological opportunities — NAM JP



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

Figure 9. Aggregated risk — NAM JP



## Top-down analysis: temperature alignment

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

We draw on MSCI's Implied Temperature Rise (ITR) methodology, which seeks to evaluate if companies or portfolios are aligned to the Paris Agreement. This is a forward-looking temperature alignment metric that considers a company's current emissions and its disclosed targets to project the company's future emissions. This is then compared with the company's allocated carbon budget (calculated based on the company's revenue as a proportion of global carbon budget) to determine if the company is overshooting or undershooting its allocated carbon budget. The overshoot or undershoot is then converted, based on a formula, to the company's ITR (represented in °C). Based on the company's ITR, the company is then categorised into one of the following groups: Strongly Misaligned, Misaligned, 2°C Aligned, and 1.5°C Aligned.

We understand that the relationship between emissions and temperature is not straightforward and that the ability of companies to reduce their emissions is highly dependent on the context of their operations. Some examples include the regulatory landscape in which they operate, the availability of resources, and

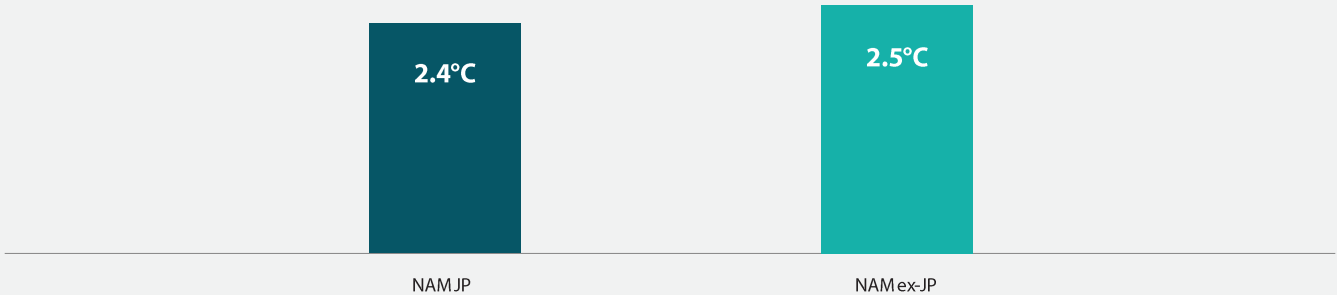
their supply-chain dependencies. We understand that methodological limitations and assumptions are inherent in all models; with ITR, we believe that the model can currently gauge only the extent to which the companies and their targets are in line or misaligned with the Paris Agreement.

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

In 2023, MSCI started updating its ITR methodology, and the process was completed only in February 2024. A notable change is the move from the company's own in-house MSCI pathways to NGFS's Net Zero 2050 pathways.

The following ITR calculations use MSCI's updated ITR methodology. We have calculated our NAM JP and NAM ex-JP assets under the MSCI updated methodology. The ITR is about 2.4°C for our NAM JP assets and about 2.5°C for our NAM ex-JP assets (Figure 10).

Figure 10. Implied Temperature Rise (ITR)



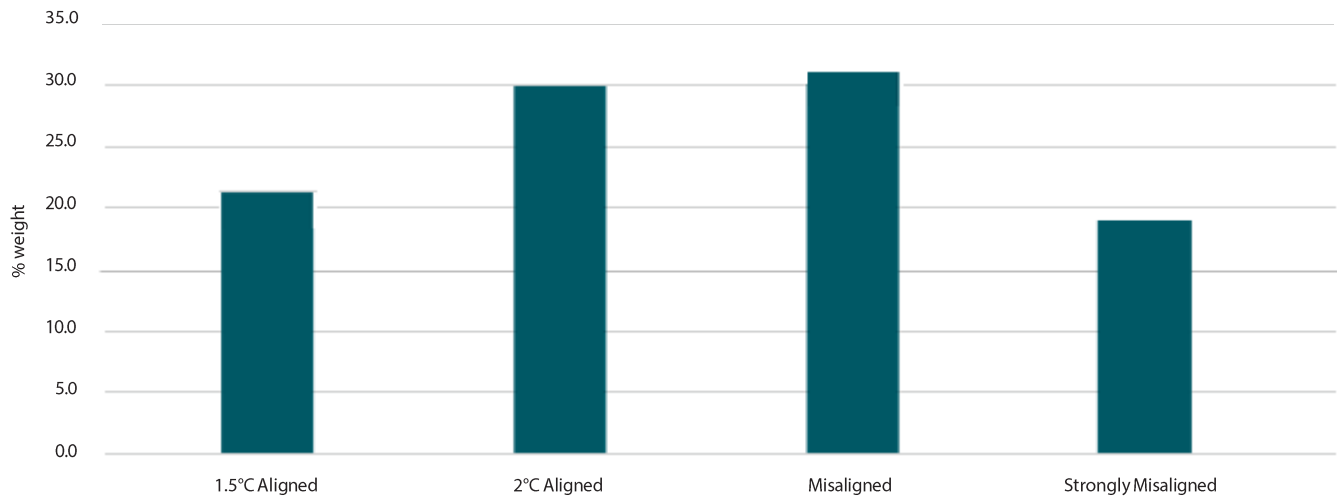
Most of our passive assets are held in our NAM JP portfolios, with a minor portion held in our NAM Asia (Asia ex-Japan Equity and Asia Fixed Income) portfolios. We have limited discretion over our passively held funds, so the ITR closely mirrors those of the indices the funds track (for context, the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

change through active ownership — via engagement and proxy voting, as described previously.

For our actively managed funds, where we have flexibility in managing our portfolios, we can be more selective and tilt towards companies that have credible transition plans and are making real-world impact through decarbonisation.

To further enhance our risk assessment and inform our analysis, we assess the temperature-alignment bands of our portfolio and underlying holdings. Temperature-alignment bands are categorised as 1.5°C Aligned, 2°C Aligned, Misaligned, or Strongly Misaligned. Based on our analysis in Figure 11, we find that about 51% of our (Nikko AM group) investments in scope for this report are 1.5°C and 2°C aligned. This insight will help us to focus our stewardship activities on those that have greatest negative impact on climate change.

Figure 11. NAM Group ITR Bands



## Bottom-up analysis: proprietary ESG-integrated approach

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

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

Although ESG issues are rarely the only consideration when making investment decisions, an understanding of these issues informs the investment process and gives our investment teams a more rounded view of companies. So ESG factors such as climate change, nature, and biodiversity under the environmental pillar are considered as part of our investment policies and processes, and not treated as part of a separate exercise. We strongly believe that attention to ESG factors is essential to good investment discipline — core to any business and inherent to its long-term value creation while contributing to the realisation of wider sustainable economic growth. Given this view, we endeavour to incorporate ESG considerations across all asset classes and geographies.

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

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

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

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

The table below gives a brief overview of the approach taken to ESG integration for our in-scope portfolios. More details on how Nikko AM's investment teams integrate ESG and conduct stewardship activities can be found in our annual response to the **UK Stewardship Code** and our **2024 Sustainability Report**, covering activities in CY2023.

| Asset Class                                      | How we integrate ESG and stewardship responsibilities into the investment process                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Japanese Equities</b>                         | <p>ESG is integrated into investment decisions through the use of a selection process based on “creating shared value” (CSV) evaluations. The concept of CSV evaluations comes from the work of Harvard University professor Michael Porter, who found that the creation of social value leads to economic value.</p> <p>We have used our own CSV evaluation as part of our investment process since 2013 and introduced CSV stock-price analysis in 2021. This latest addition to the process allows us to calculate a fair price for the stock based on CSV evaluation, further enhancing the investment process. The CSV evaluation currently comprises 12 factors grouped into three categories — ESG, competitiveness, and financial strength.</p>  <p>In terms of ESG engagement with company managements, we have six key themes:</p> <p><b>Environment:</b> Biodiversity and Action for a Decarbonised Society,<br/> <b>Social:</b> Diversity, Human Capital and Productivity and Human Rights,<br/> <b>Governance:</b> Effective Governance.</p> <p>A key part of our engagement with companies is the exercise of voting rights. We can and do use these rights to reinforce our views on any of the issues outlined above. That could mean, for instance, voting against board appointments where a company faces serious risks related to climate change or sustainability and/or where management initiatives to address them are deemed insufficient and the situation is not improving.</p> <p>In terms of our wider stewardship responsibilities, we may also vote against management where we think a company is lagging in other areas, such as governance or financial performance. Respective examples of this can be found below in the following case studies: “Engagement leads to dividends and diversity at a Japanese media group” and “Shining a light on returns at a big Japanese ceramics-to-solar group”, disclosed in Global Stewardship report 2024.</p> |
| <b>Global Equities</b>                           | <p>Each portfolio manager undertakes ESG analysis, which is fully integrated into the stock-picking process to ensure we can robustly evaluate the materiality of each factor and its potential impact in the future. Our four-pillar “Future Quality” analysis includes in-depth evaluations of ESG factors to determine their effect on the company’s risks and returns. Research includes an analysis of a company’s corporate governance, social practices, the environmental sustainability of its products or services, and its capacity to fund its growth and ESG commitments.</p> <p>Our investment team engages with investee companies to help promote better ESG practices if we believe there is room for standards to improve. This includes ESG controversies identified by the Global Equity team. Proxy voting is executed in the interests of our clients in line with our proxy-voting guidelines.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Asia ex-Japan Equities and China Equities</b> | <p>We incorporate ESG analysis into company research, security selection, and portfolio construction. Our ESG “materiality map” focuses on the material ESG issues and opportunities for each of the companies we cover. The materiality matrix is based on ESG factors defined by the International Sustainability Standards Board (ISSB), formerly known as the Sustainability Accounting Standards Board (SASB), and MSCI.</p> <p>As part of our in-house proprietary ESG-scoring methodology, individual companies are rated against a number of ESG pillars, and the results are aggregated with fundamental analysis to provide a company-level score. We also use ESG-focused research to identify areas for company engagement and improvement.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Asset Class                     | How we integrate ESG and stewardship responsibilities into the investment process                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Japan Fixed Income</b>       | <p>In the Japan Fixed Income team, we believe ESG considerations are key factors when analysing qualitative risks that cannot be covered exhaustively by financial analysis. Our credit analysts consider ESG factors in addition to the fundamentals of each issuer. ESG factors are integrated into investment decisions for the industries and issuers we cover. Our Japan Sustainable Investment department also provides support on items such as ESG engagements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Global Fixed Income</b>      | <p>The majority of fixed income assets managed by the investment team are in investment grade bonds from issuers ranging from international bodies like the World Bank, to governments and large companies. The scale of these organisations and the limited rights of bondholders restricts our influence over their ESG policies. However, particularly in the case of corporate credit, ESG factors are considered to the extent that they are deemed material to the investment case and in line with our clients' risk appetite and perspectives on ESG investing. In relation to our holdings in sovereign entities and major banks, when presented with the opportunity, we maintain dialogues with issuers on ESG themes as a means of building our insight and market intelligence.</p> <p>We use a proprietary ESG platform to aggregate ESG data in order to enhance our ESG evaluation of sovereign, supranational, agency and corporate issuers. This tool allows us to compute ESG rankings based on the variables we think are the most relevant for each fixed income field or sector and gives us full control over the data sources we use, allowing for multiple data feeds.</p>                                                                                                                                                         |
| <b>Asia fixed income</b>        | <p>We incorporate ESG analysis into all company research as part of our bottom-up fundamental analysis and portfolio construction. This research is based on our ESG Materiality Map, which analyses companies using ESG factors based on those defined by the ISSB and MSCI but adapted to reflect conditions in Asia. We also use ESG-focused research to identify areas for issuer engagement and improvement.</p> <p>We have also developed a proprietary ESG sovereign-rating model that uses public data from sources such as the World Bank, the United Nations, and the European Commission Emissions Database for Global Atmospheric Research. In this sovereign-rating model, we use 21 indicators that broadly cover all three areas of ESG. These include GHG emissions (per capita and proportional to GDP), an index of human development, and a measure of government effectiveness.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>New Zealand Equities</b>     | <p>The team seeks to understand how industry and company ESG factors may affect investments and, ultimately, client portfolios. ESG factors are considered as one aspect of the overall analysis to build a picture of the risks and opportunities faced by a company. Portfolio companies with low ESG scores are targeted for engagement in an effort to improve their performance in weak areas or where it would be beneficial for stakeholders. We are proactive in finding and addressing wider issues affecting New Zealand companies, such as regular and severe weather events (see our case study "Anticipating the ramifications of climate change in New Zealand" under Principle 4), disclosed in Global Stewardship report 2024.</p> <p>We launched the Nikko AM Freedom Fund in 2021, which donates all fees and returns to the Tearfund charity. Tearfund works through partnerships in some of the poorest parts of the world. Together with these partners, it helps to combat human trafficking and slavery while tackling poverty and injustice through sustainable development.</p> <p>Lastly, we engage with companies as part of our everyday research process on ESG issues. An example is given in our case study "Loss of conviction after strong board and company engagement", disclosed in Global Stewardship report 2024.</p> |
| <b>New Zealand Fixed Income</b> | <p>The team seeks to understand how industry and company ESG factors may affect investments and, ultimately, client portfolios. ESG factors are incorporated into the due diligence process to provide an overall picture of the risks and opportunities faced by issuers. Following investment, the team engages with portfolio companies with low ESG scores in an effort to seek improvements that would be beneficial to stakeholders.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

## Bottom-up analysis: external data providers

Data from external service providers is used as one input in our investment decision-making process to supplement our bottom-up analyses and the stewardship of the assets we manage. For our ESG analysis, we use data from a variety of sources, including MSCI, Bloomberg, ISS, and Good Bankers. Data from these sources is further supplemented by publicly available data sources (e.g. sustainability reports). We also have regular meetings with external ESG analysts to improve our understanding of how they engage with companies and to enhance the quality of the research we receive. We consider the quality and depth of reports and insights, as well as the effectiveness of the vendor in providing us with the necessary insights to fulfil our stewardship obligations on behalf of our clients.

In 2022, we established an ESG data team. This team has focused on improving the availability and quality of data, as well as access to it. A primary concern has been to ensure that our data is accurate, timely, and consistent across all investments and regions covered. One important service provider that we currently use for the provision of ESG data analysis is MSCI. As part of an internal project,

which is continuing, we have had several calls, teach-ins, and email discussions with MSCI to ensure we both understand and know how to use the data it supplies. The results of these sessions then feed into discussions between the ESG data team and the investment teams to decide how to use the data in practice.

For instance, as reflected in the sections above, we utilise MSCI's CVaR to conduct and report on our scenario analysis and climate-related data such as GHG emissions and intensity calculations. When we see errors, we liaise with third-party data providers and try to resolve them in a timely manner. Additionally, a large portion of our AUM is in Japanese and Asia ex-Japan equities and in fixed-income assets where coverage by third-party providers is still evolving. We find that there are data gaps and delays, and at times we disagree with the analyses or ratings even when they are available. So we do not rely exclusively on these services.

Additionally, we conduct all engagement with companies ourselves, not only to make better informed investment decisions but also to push for enhanced disclosures on climate-related metrics and encourage target setting to collectively improve the quality of data in the market.

## Active stewardship

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

Globally, our **Engagement and Stewardship Strategy** defines our approach to corporate engagement. As a testament to our stewardship activities, we became a signatory to the UK Stewardship Code (UKSC) in 2022 and renewed our signatory status in 2023. We responded to the UKSC as a group, so the stewardship activities of our investment team worldwide are represented in our response. We have recently published our latest **Global Stewardship Report**, covering the reporting period 1 January to 31 December 2023. We see stewardship as the core action that we can take to address climate-related risks in our own portfolios and in the wider economic system. By tracking and holding companies to account and engaging with material carbon emitters, we believe that we can better mitigate climate-related risks and benefit from climate-related opportunities.

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

## Engagement activity

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

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

In 2023, across all regions, 34.7% of our ESG-related engagements focused on the environmental pillar, on topics such as climate change.

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

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

Where we engage with companies to shape corporate behaviour and influence positive change, we may escalate the discussions. The escalation methods vary across asset classes and regions. We describe them in more detail in our Nikko Asset Management Group Engagement and Stewardship Strategy. Escalation case studies are shared in our latest response to the UKSC 2020.

As a signatory to NZAMi, we have committed to creating investment products aligned with net-zero emissions by 2050 and to facilitating increased investment in climate solutions. In December 2022, our Japan Investment Technology Department launched a Japanese Equity Climate Change Solution Strategy. As detailed in our **2023 Sustainability Report** under Japan Investment Technology Team (pages 18–20), the portfolio aims to achieve a 50% reduction in GHG emissions versus the TOPIX while minimising tracking error against the index. Details on the conceptualisation of the strategy can be found in our whitepaper **Climate change solutions in Japan**, recently published by Masayuki Teraguchi, Head of Japan Investment Technology Department.

## Case study: engagement by asset class (Japan equity)

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

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

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

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

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

Our largest AUM lie in our Japanese equity investments, with a large proportion held in passive portfolios. Although this limits our ability to eventually divest from the company, we continue to use our influence to drive change through active ownership activities.

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

Since August 2021, a key focus of the Japan Sustainable Investment Department has been to work with portfolio managers and analysts in the Japan Equity Department to engage with large and mid-sized firms specifically on ESG issues. In deciding which firms to engage with, we base our priorities on several stewardship considerations, including ESG, corporate earnings, asset efficiency, and shareholder return. After each engagement, a report is created to track progress and is shared internally. Feedback is also provided to active investment portfolio managers. Since August 2023, the department has been fully incorporated into the Global Sustainable Investment Department, which increased its scope to cover all the asset classes managed by our Japanese investment teams.

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

## Voting activity

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

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

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

Over 2023, we analysed 7,216 shareholder meetings and voted on 74,471 resolutions. We cast votes on all shares where there were no legal, client, or technical constraints.

Over the past few years, we have noticed a rise in shareholder resolutions filed against companies that are critical for climate change. Recently, during the 2023 AGM season, we supported several climate-related shareholder resolutions filed for some of the biggest Japanese corporations, such as Toyota, Mitsubishi Corporation, and Tokyo Electric Power Company (TEPCO). We will continue to support climate-related shareholder resolutions where appropriate.

## Industry collaboration

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

We have made significant progress and dialled up our active participation in various collaborative engagements in 2023. We continued our collaborative engagements under industry initiatives such as Climate Action 100+ (CA100+) and the Asia Investor Group on Climate Change (AIGCC), but also became an investor participant in Nature Action 100 (NA100) and publicly supported an initiative led by the Dutch Association of Investors for Sustainable Development (VBDO), all of which are illustrated in our **2024 Global Stewardship Report**.

Other initiatives we support, participate in, or are signatories to include (but are not limited to) the following:

- Global Investor Statement to Governments on the Climate Crisis
- International Corporate Governance Network
- The Net Zero Asset Managers initiative
- PRI
- TCFD
- The Investor Agenda
- Climate Action 100+
- Nature Action 100+

## Collaborative engagements

In some instances where one-on-one company engagements deliver insufficient progress, we believe that collaborative engagements with like-minded investors can increase shareholders' influence on companies' corporate behaviour and ESG performance.<sup>6</sup>

Our regional investment offices select the most suitable and effective engagement methods for their portfolios. Although we are seeing increasing investor collaboration efforts across regions, this engagement method is still relatively uncharted in some parts of the world.

In some parts of Asia, for example, one-on-one engagements can be viewed as more constructive and culturally appropriate to build trust. In Japan specifically, we participate in collaborative engagement while taking into consideration the possibilities associated with joint shareholdings.

Mindful of these important regional nuances and our commitment to constructive, positive, and pragmatic engagements, we carefully select our engagement methods while remaining committed to supporting collaborative engagements.

In addition, through CA100+, we took the active lead role in a long-term engagement with a Japanese machinery manufacturer, with multiple company engagements having taken place in 2023. As this engagement is scheduled to continue in multiple phases until 2030, we look forward to reporting on its progress in greater detail in future reports. Beyond these examples, we have expanded our collaboration efforts by participating in climate-related consultations and roundtable events. This included submitting feedback on two consultations led by the Monetary Authority of Singapore (MAS) — MAS Consultation on Coal Phaseout and Transition Planning.

## Case Study 1: Helping to lift the veil on corporate emissions (equity and fixed income)

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

<sup>6</sup> Coordinated Engagements: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3209072](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3209072)

## Case study 2:

### Engagement with UltraTech (CA100+)

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

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

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

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

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

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

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

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

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

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

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

03

# Risk Management





# Risk Management

## Overview

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

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

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

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

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

## Risk identification, assessment, and management

### Risk appetite

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

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

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

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

“Three lines of defence” model

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

■ First line of defence

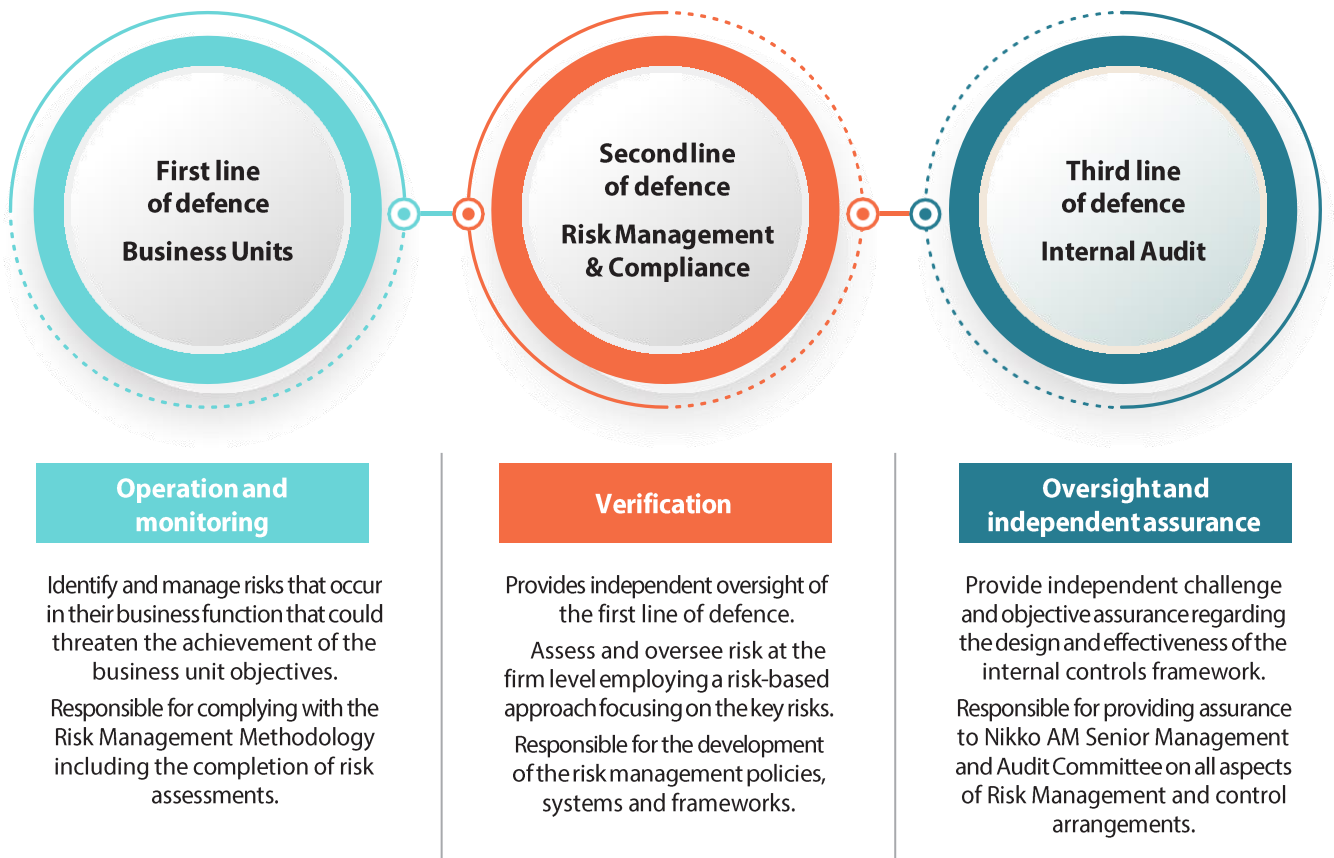
The first line of defence is the departments themselves (and their relevant heads/leads). These functions are directly involved in each business and operation of the group and so are responsible for risk identification (including climate-related risks), assessment and control (in line with the group-defined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

■ Second line of defence

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

■ Third line of defence

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



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

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

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

## Risk lifecycle

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

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

## Climate change as a driver of group risk

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

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

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

## Managing climate-related risks within our investments

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

As highlighted earlier in this report, our investment teams identify attractive companies through in-depth bottom-up research based on their own philosophy and approach. This already includes understanding how ESG risks (and opportunities)

may impact value. The section Bottom-up analysis: Proprietary ESG-integrated approach highlights how our investment teams integrate ESG factors, including climate, into their decision-making process.

Additionally, to monitor risks on an ongoing basis, we conduct frequent investment-risk monitoring on portfolios and benchmarks. We incorporate two levels of assessment: a global baseline, which focuses on GHG emissions; and a regional “top-up” approach, which allows for additional monitoring of further climate-related risks. Many of Nikko

AM’s regional offices already have frameworks in place to monitor GHG emissions, but work is underway to further advance these processes across regions and asset classes. We will continue reporting on the progress in future TCFD reports.

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

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

1

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

2

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

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

04

# Metrics & Targets





# Metrics and Targets

## Overview

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

As a signatory to the NZAMi, we completed our initial target disclosures<sup>7</sup> in 2022, committing to 43% of our assets (or USD 115.68 billion) to be managed in line with net zero. Our interim 2030 target is a 50% reduction of our portfolios, relative to our 2019 baseline (84.7tCO<sub>2</sub>e/USD million invested).

## Scope of the metrics and targets

The metrics below capture our carbon emissions for CY2022 and CY2023 (years ending 31 December 2022 and 31 December 2023, respectively) for the listed equity and fixed-income corporate holdings in our in-scope portfolios.

| Metric                                                                                      | Definition                                                                                                     |
|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| <b>Absolute carbon emissions</b><br>(tCO <sub>2</sub> e)                                    | Total GHG emissions of a portfolio.                                                                            |
| <b>Carbon footprint</b><br>(tCO <sub>2</sub> e/USD million invested)                        | Total GHG emissions of a portfolio, normalised by the enterprise value including cash (EVIC) of the portfolio. |
| <b>Weighted average carbon intensity (WACI)</b><br>(tCO <sub>2</sub> e/USD million revenue) | Portfolio's exposure to carbon-intensive companies.                                                            |

<sup>7</sup> Nikko AM NZAMi Disclosures: <https://www.netzeroassetmanagers.org/signatories/nikko-asset-management-co-ltd/>

## Methodology

In 2023, we expanded the scope of our reporting to include New Zealand equity and fixed income, in line with the in-scope assets described in the Strategy section. We have aligned with the Partnership for Carbon Accounting

Financials (PCAF)<sup>8</sup> to calculate our absolute carbon emissions and carbon footprint (equivalent to economic emissions intensity under PCAF) and TCFD for weighted average carbon intensity (WACI).<sup>9</sup> While PCAF uses “enterprise value including cash”

(EVIC) as the denominator, TCFD uses a revenue-based denominator. We internally monitor and report on all three metrics to obtain a more holistic view for decision-making.

| Metric                           | Equation                                                                                                                                                                                                                                                                                                                                        | Uses                                                                | Limitations                                                                                                                                     |
|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Absolute carbon emissions</b> | $tCO_2e = \sum \frac{\text{Current value of investment}}{\text{Issuer EVIC}} \times (\text{Issuer Scope 1 + 2})$ <p>Emissions are allocated based on equity-ownership approach where the company's emissions apportioned to the portfolio is based on ownership share of the company based on EVIC.</p>                                         | Track changes in GHG emissions of a portfolio on an absolute basis. | Data is not normalised, so suboptimal to compare portfolios or against benchmark.                                                               |
| <b>Carbon footprint</b>          | $tCO_2e/\$m \text{ invested} = \frac{\sum \frac{\text{Current value of investment}}{\text{Issuer EVIC}} \times (\text{Issuer Scope 1 + 2})}{\text{Current portfolio value}}$                                                                                                                                                                    | To compare portfolios regardless of their AUM.                      | Sensitive to changes in issuer's EVIC and portfolio weights.                                                                                    |
| <b>WACI</b>                      | $tCO_2e/\$m \text{ revenue} = \sum \frac{\text{Current value of investment}}{\text{Current portfolio value}} \times \frac{\text{Issuer Scope 1 + 2}}{\text{Issuer revenue}}$ <p>Emissions are allocated based on portfolio weights (current value of investment relative to current portfolio value) rather than equity-ownership approach.</p> | To compare portfolio and benchmark.                                 | Revenue base results in a bias towards companies with higher pricing levels.<br>Sensitive to changes in issuer's revenue and portfolio weights. |

Calculations were computed in April 2024, using the most recent data available for GHG emissions (i.e., Scope 1 and 2) and financial data (i.e., EVIC and revenue). This is in line with the latest Global GHG Accounting and Reporting Standard for the Financial Industry suggested by PCAF. In future publications, there may be changes to our published figures. Any such changes will be due to changes in our in-scope assets covered, as well as improvements in disclosures and data quality, and changes to methodologies.

<sup>8</sup> Partnership for Carbon Accounting Financials (PCAF) Methodology (page 63): <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

<sup>9</sup> Taskforce for Climate-related Financial Disclosures (page 1): <https://www.tcfhub.org/wp-content/uploads/2022/04/Table-3.pdf>

## Reported metrics

The following metrics are reported as of 31 December 2023, for our in-scope portfolios.<sup>10</sup> In this report, we have increased the scope of our reporting, to include New Zealand equity and New Zealand fixed income. In the table, we have included aggregated carbon metrics as of 31 December 2022, restated from our previous report to include New Zealand equity and fixed income, for a comparable illustration of how we have progressed over the year.

|                           | Asset class  | AUM<br>(USD billion) | Absolute<br>emissions<br>(million tCO <sub>2</sub> e) | Carbon footprint<br>(tCO <sub>2</sub> e/USD<br>million invested) | WACI<br>(tCO <sub>2</sub> e/USD<br>million revenue) | Coverage<br>(% AUM) |
|---------------------------|--------------|----------------------|-------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------|---------------------|
| NAM JP                    | Equity       | 119.3                | 7.7                                                   | 64.5                                                             | 77.9                                                | 99.9%               |
|                           | Fixed income | 1.4                  | 0.3                                                   | 200.3                                                            | 316.9                                               | 99.6%               |
| NAM ex-JP                 | Equity       | 13.6                 | 0.6                                                   | 44.2                                                             | 117.1                                               | 99.8%               |
|                           | Fixed income | 5.2                  | 0.2                                                   | 31.0                                                             | 86.1                                                | 99.4%               |
| Total (as of 31 Dec 2023) |              | 139.4                | 8.7                                                   | 62.7                                                             | 84.4                                                | 99.9%               |
| Total (as of 31 Dec 2022) |              | 118.2                | 7.1                                                   | 60.4                                                             | 95.2                                                | 99.6%               |

In 2023, absolute emissions have increased to 8.7MtCO<sub>2</sub>e, from 7.1MtCO<sub>2</sub>e in 2022. This can be attributed primarily to the increase in AUM. The carbon footprint has increased from 60.4tCO<sub>2</sub>e/USD million invested in 2022 to 62.7tCO<sub>2</sub>e/USD million invested, and WACI reduced from 95.2tCO<sub>2</sub>e/USD million revenue in 2022 to 84.4tCO<sub>2</sub>e/USD million revenue. Movements in carbon metrics are not always attributable to a single factor such as company emissions. They have to do with a wide array of factors, including portfolio positioning, changes in the company's financials (i.e., revenue and EVIC — which can also change because of market movements), data coverage, and exchange rates, among others. Therefore, it is important to evaluate various data metrics to get a full picture of the progress made in the reduction of GHG emissions over the years.

Over the course of 2023, we have significantly improved the coverage of our companies across all asset classes. This can be attributed to an internal process initiated by the Global ESG data function to map securities comprehensively and accurately to its respective carbon figures, boosting overall coverage. Previously, we solely relied on the mapping provided by our third-party data provider but noted that the mapping, particularly for fixed-income securities to the respective carbon metrics, was not sufficiently comprehensive. Additionally, we also recognise that progress has been made in terms of ESG-related disclosures over the year, with growing regulations mandating disclosure of key ESG metrics, such as GHG emissions. As investors, we will continue to engage our holdings to enhance disclosures of key ESG metrics, including GHG emissions.

<sup>10</sup> The in-scope portfolios are the same as those defined under the Strategy section; however, there might be differences depending on data availability.

## Our commitments

For our commitment under the Net Zero Asset Managers initiative (NZAMi), our net-zero target follows the methodology set out in the Net Zero Investment Framework (NZIF), which draws on the IPCC scenarios.<sup>11</sup> We have committed 43% of our assets (or USD 115.68 billion<sup>12</sup>) to be managed in line with net zero. As a start, our initial target covers our equity strategies, for the following reasons:

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

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

Our interim 2030 target is to reduce the carbon footprint of our committed assets by 50%, as compared with our baseline year of 2019.<sup>13</sup> Currently, our commitment covers Scope 1 and 2 emissions. To the extent that it is possible, we will include material Scope 3 emissions when data becomes more readily available.

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

From a bottom-up perspective, climate risks and opportunities are considered as part of the various investment teams' ESG-integrated process, as detailed in Bottom-up analysis: Proprietary ESG-integrated approach (page 27). As we detailed in the sections above, climate-related risks and opportunities are not the same for all companies but depend on industry and geography, across different time horizons, with varying severity and type of impact. These nuances are taken into consideration

as part of the materiality assessments conducted for individual companies in the investment teams' bottom-up analyses. So the investment teams identify climate-related risks where these are material to the company assessed. We believe that stewardship is key to enable collective decarbonisation and as a tool to further assess and manage climate-related risks and seek out opportunities. So, to complement our bottom-up approach, we take an active ownership approach. This allows us to engage companies on their climate-related risks, understand how they are managing their risks, and push them to decarbonise. We engage our companies — both directly and collaboratively — to better understand their transition plans and to push them to set more ambitious targets to reduce their emissions.

<sup>11</sup> Net Zero Investment Framework (NZIF): <https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/>

<sup>12</sup> AUM figures as of 31 December 2021

<sup>13</sup> As of 31 December 2019

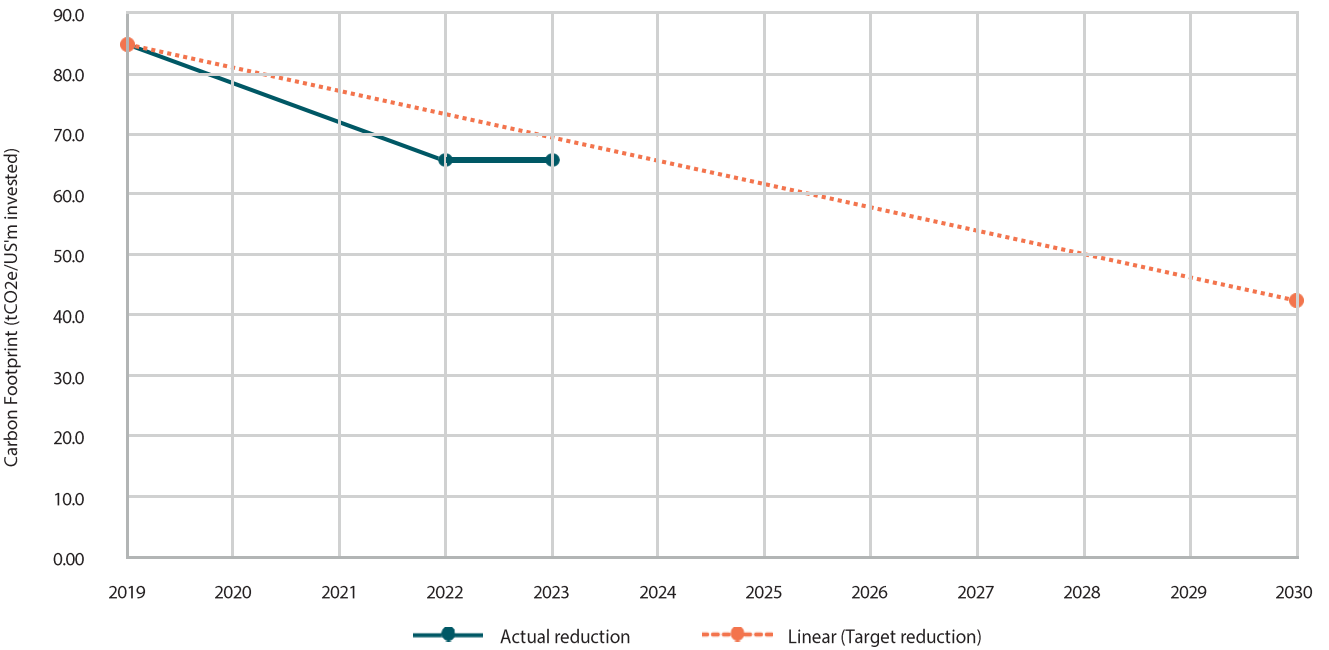
Progress towards NZAMi

For our assets in scope of NZAMi, we have made progress towards our commitment since our initial target disclosures in October 2022. Figure 12 shows that the carbon footprint of our committed portfolios was 65.2 tCO<sub>2</sub>e/USD million invested as of 31 December 2023. This represents a marginal decrease of 0.3% from 2022 and an overall ~23.0% reduction from our 2019 baseline carbon footprint of 84.7 tCO<sub>2</sub>e/USD million invested. As illustrated in the chart below, we are still well positioned to meet our 2030 interim targets.

Japan Sustainable Investment Department has narrowed down, from over 2,000 companies, a climate-focused engagement list consisting of 70 companies. Of these companies, the 60 chosen account for 72% of the overall GHG emissions (Scope 1+2) across Japan equity,<sup>14</sup> which makes up the largest portion of our AUM. The remaining 10 were chosen because they are important companies with regard to their Scope 3 footprint. As part of the engagement plan, the team evaluates the companies’ corporate initiatives against NZAMi’s recommended framework.

As part of the focused engagement, we sent a letter to companies at whose general shareholders meetings we voted against shareholder proposals related to climate change. The letter explained our reasons for opposing the proposals and actions we would like to see from the companies in the future. The letter conveyed our intention to avoid situations in which votes in opposition of such shareholder proposals (votes in favour of companies) are interpreted as allowing companies to slow down their decarbonisation initiatives.

Figure 12. Progress towards our NZAMi commitment



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

We will continue to enhance our TCFD report and climate analytics with further details and analysis, to be disclosed in next year’s TCFD report.

<sup>14</sup> As of 31 December 2019

**Important information** This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although Nikko Asset Management Co., Ltd.'s information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy, and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (Nikko AM) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

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. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way.

The information, opinions and data in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document.

No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by forward-looking statements and forecasts. Nothing in this report should be construed as a forecast, estimate or projection of future financial performance. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

**United Kingdom:** This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**Luxembourg and Germany:** This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

**United States:** This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore:** This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are

(a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request. The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

