

INITIATIVES FOR A BUSINESS MANAGEMENT STRUCTURE THAT PURSUES THE BEST INTERESTS OF CUSTOMERS (FY2022)

Nikko Asset Management Co., Ltd.
June 30, 2023

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Introduction (Principles for Customer-Oriented Business Conduct Principle 1 & Principle 2)

At Nikko Asset Management (“Nikko AM”), we regard acting in the best interests of the customers who entrust us with their assets as our primary mission. This means that we attach the highest importance to fiduciary and ESG principles in our corporate philosophy and business activities.

In view of Nikko AM’s status as a responsible institutional investor, we also position Environment, Society and Governance (“ESG”) assessments and stewardship activities at the heart of our investment process. With this in mind, we strive constantly to help investee firms to enhance their long-term corporate value and to help society grow sustainably.

Nikko AM is a dedicated maker of a diverse range of funds and investment products intended to deliver various investment methods to a broad range of investors, from individuals to institutions. As such, we are responsible for helping our clients to build and manage their assets by considering how to provide them with investment products they feel they can support, looking into ways of enhancing our ability to manage those products, and putting our ideas into practice.

This report provides specific examples of our initiatives, as well as voluntary indicators to measure their impact, in the year from April 2022 to March 2023. (including the latest information at the time this report was prepared).

- Nikko AM agrees with the JFSA’s publicly released Principles for Customer-Oriented Business Conduct (including revisions). In order to ensure that we put the best interests of our clients first in our business operations, we have formulated and publicly released our Corporate Missions and Fiduciary & ESG Principles, which we review periodically. We have also been releasing regular updates on our initiatives since 2017.

1. Activities for individual clients

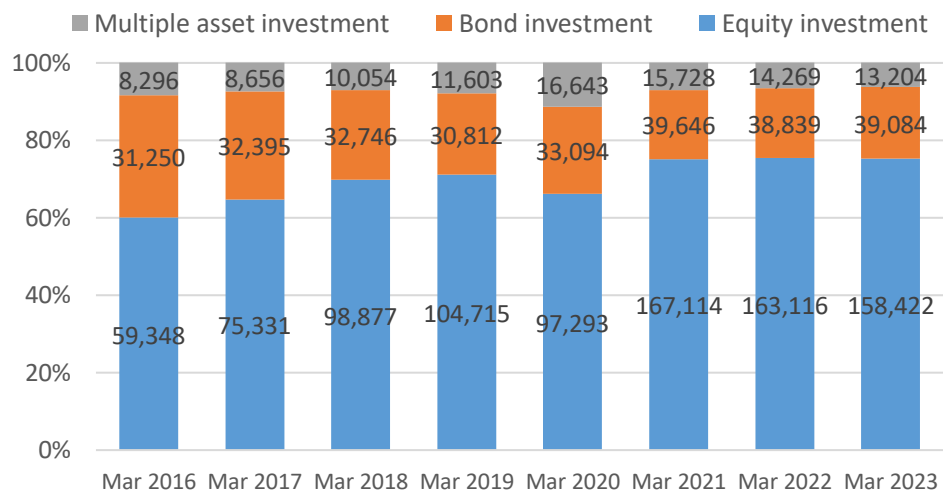
As an asset management company, our paramount mission is to be useful to our customers in their medium-to long-term asset building. Realizing this mission is not just a case of delivering strong investment management outcomes, however. We also need to put a great deal of effort into every aspect of our services, including understandably and simply imparting accurate knowledge of investment management and the products we offer, proactively delivering timely and appropriate information on market trends from a neutral standpoint to help customers make investment decisions, providing products that are suitable for medium-to long-term investment that serves customer needs, and helping customers to manage risks.

Our initiatives in this area, together with the results we have delivered to date, are detailed below.

1.1. Total AUM of Japan-domiciled publicly offered funds (including ETFs and MRFs)

Total AUM of Japan-domiciled publicly offered funds(0.1 billion yen)

Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023
98,894	116,382	141,678	147,130	147,030	222,488	216,224	210,710



We consider our investment division as a team of professionals in which fund managers and analysts forge their own career paths. We also employ an appraisal/compensation structure that emphasizes medium- and long-term investment performance. This is supported by a global system we have introduced to retain key fund managers.

Out of the total assets in the publicly offered funds that we manage on behalf of our customers (as of March-end 2023), equity investment funds accounted for 75%, bond investment funds (including MRFs) accounted for 19%, and multiple asset investment funds/other funds accounted for 6% of the total.

1.2. Initiatives for cumulative investment including cumulative Nippon Individual Savings Accounts (Principles for Customer-Oriented Business Conduct principle2 & 【Note】)

In order to meet cumulative investment needs, in addition to cumulative NISAs, we also promote the use of defined contribution plans, personal defined contribution pension plans and general accounts. Through these products, we advocate long-term, cumulative and diversified investments to those who wish to build up their assets. We also provide assistance to distributors for cumulative investment initiatives by not only providing products but also creating and offering a variety of support tools.

In 2023, two of our funds registered as specified index fund . We have now registered seven of our funds for eligibility in the cumulative NISA system.

In addition, we emphasise the importance of using cumulative investment as a highly effective way of enhancing investor returns in forums such as product strategy seminars for distributors.

Registered our funds for eligibility in the cumulative NISA system

Nikko DC J Growth
Listed Index Fund US Equity (S&P500)
Listed Index Fund World Equity (MSCI ACWI) ex Japan
Listed Index Fund International Developed Countries Equity (MSCI-KOKUSAI)
Listed Index Fund International Emerging Countries Equity (MSCI EMERGING)
Tracers Global Triple Fund (Grown-ups' Balance)
Tracers MSCI All Country Index (World Equity)

(Note) As of April – End of 2023

**1.3. Expected Average holding periods of top ten funds for AUM
(Principles for Customer-Oriented Business Conduct principle2 & [Note])**

Rank	Fund name	Expected average holding period (years)	AUM (JPY 100M)	Fund investment universe/type
1	G bba I Robotics Equity Fund (Sem iannual SettlementType)	6.53	3,986	Foreign equity/active
2	G bba I Robotics Equity Fund (Annual SettlementType)	6.70	3,345	Foreign equity/active
3	Sm artFive (Monthly SettlementType)	12.84	3,032	Balanced
4	G bba I Prospective Fund	8.11	2,921	Foreign equity/active
5	G bba I Exponential Innovation Fund	23.11	2,830	Foreign equity/active
6	N kko Triple Fund (Property Bond Equity) Monthly Dividend PaymentType	10.26	2,743	Balanced
7	N kko LaSalle G bba I REIT Fund (Monthly Dividend PaymentType)	8.80	2,608	G bba I REIT/active
8	N kko Index Fund 225	3.82	2,498	Japanese equity/passive
9	D igital Transformation Equity Fund	8.03	2,087	Foreign equity/active
10	G bba I Three Times Triple Fund (Annual SettlementType)	7.04	1,576	Balanced

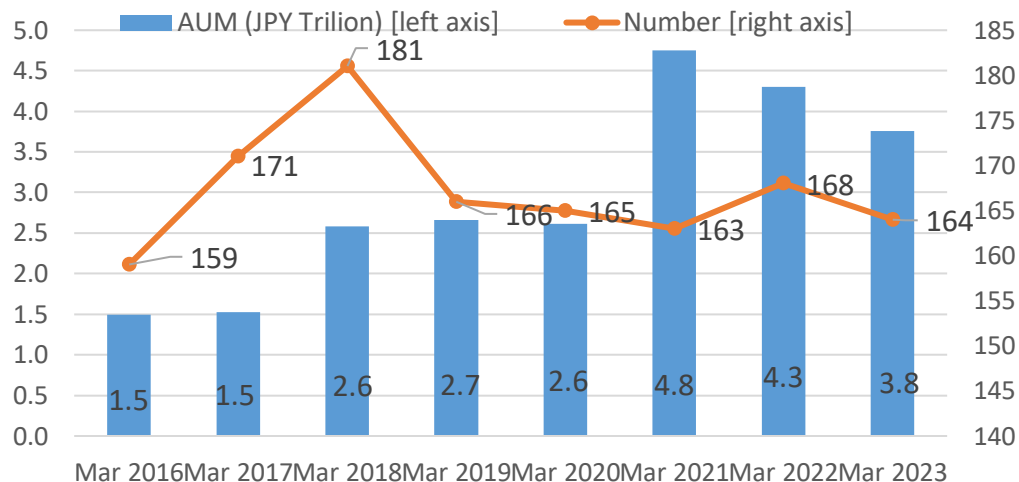
※ Expected average holding period is theoretical calculated by “annual average AUM ÷ annualized redemption amount” (calculation period is fiscal year 2022).

The figure is different from the actual average holding period of the investor.

※ Funds with very small redemption amount compared with the subscription amounts or AUM may result in longer period than the actual holding period.

※ AUM as of March-end,2023.Top 10 AUM funds excluding ETF and MRF.

1.4. AUM and number of asset-building funds (annual or semi-annual annual account settlement) (Principles for Customer-Oriented Business Conduct principle2 & [Note])



As an asset management company, our paramount mission is to be useful to our customers in their medium-to long-term asset building. The asset management business is one in which firms can only grow if they also grow their customers' assets. We are therefore increasing the number of publicly offered equity funds that are suitable for long-term asset building (excluding ETFs; annual or semi-annual annual account settlement). As of March 2023, we have 164 such funds at Nikko AM with a total AUM of approximately JPY 3.8 trillion.

Major publicly offered funds that we deem suitable for customers' medium- and long-term asset-building needs (examples)

Fund investment target	Fund name	Distribution frequency	AUM (JPY 100M)
Japanese Equities/Active	Nikko DC J Growth	Annual	599
	Japan Robotics Equity Fund	Annual, semiannual	513
	Nikko Japan Open	Annual	335
Foreign Equities/Active	Global Robotics Equity Fund	Annual, semiannual	7,332
	Global Fintech Equity Fund	Annual, semiannual	1,814
Foreign Bonds/Active	Nikko Developed Countries High Yielding Bond Open (Growth Type)	Annual	55
Balanced	Global Three Times Triple Fund (Annual Settlement Type)	Annual	1,576
	Smart Five (Annual Settlement Type)	Annual	542
	Nikko GW7 Eggs	Annual	476
	Nikko Triple Fund (Property Bond Equity) Growth Type	Annual	289
	Global Three Times Triple Fund (Annual Settlement Type)	Annual	146

* AUM as of Mar-end, 2023. Aggregate value is shown for series funds. AUM is in descending order by fund investment destination.

* For fund with multiple settlement types, hyperlink is set to the fund with the largest AUM.

1.5. Fund Efficiency Initiatives (Principles for Customer-Oriented Business Conduct principle2 & [Note])

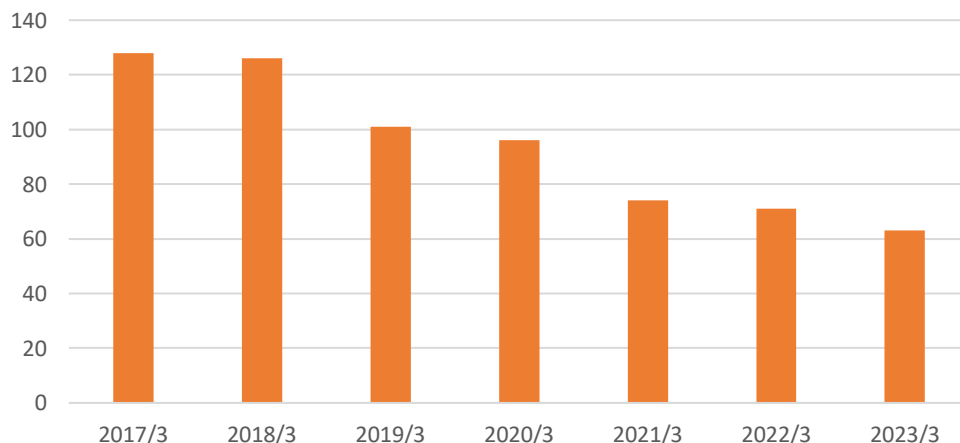
We believe that it is imperative for asset managers to constantly develop and manage more attractive and effective products for investors. We strive to achieve this goal through constant efforts to enhance our fund lineups and to expand AUM. However, it is also true that some of our funds have small AUMs. Funds with smaller AUMs cost more to manage than other funds and are less likely to realize the investment policies set out in their investment prospectuses or trust deeds, making it harder to deliver the sustained medium- and long-term investment performances that customers expect.

At Nikko AM, we address this by not only terminating smaller funds once they reach maturity but also terminating them early by shortening their trust periods based on legally stipulated procedures.

We carried out terminations of 22 publicly offered funds in the year from April 2022 to March 2023 and gained the understanding of beneficiaries for the early termination of eleven of them.

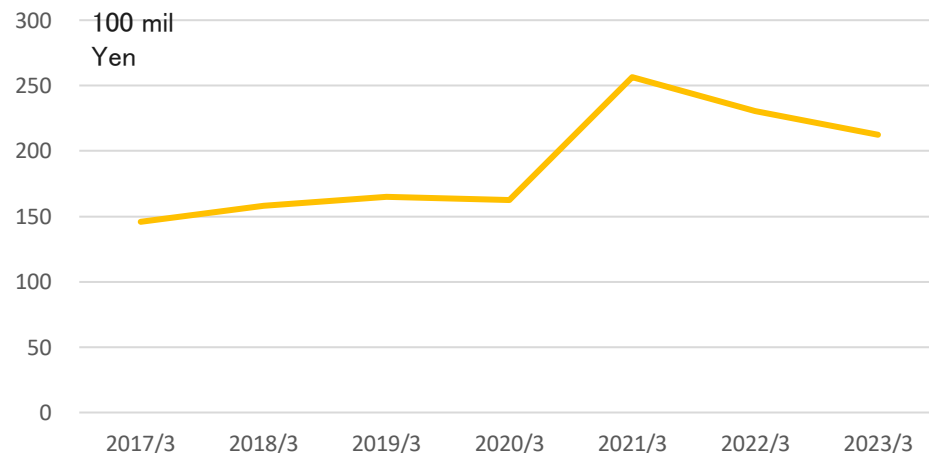
These efforts are essential ways for us to maintain the strength of our funds' product attributes and to deliver strong investment performances. We firmly believe that the effective allocation of human resources is the key to delivering medium- and long-term profits to investors.

Publicly offered stock investment funds open type (ex ETFs)
Number of small AUM's funds

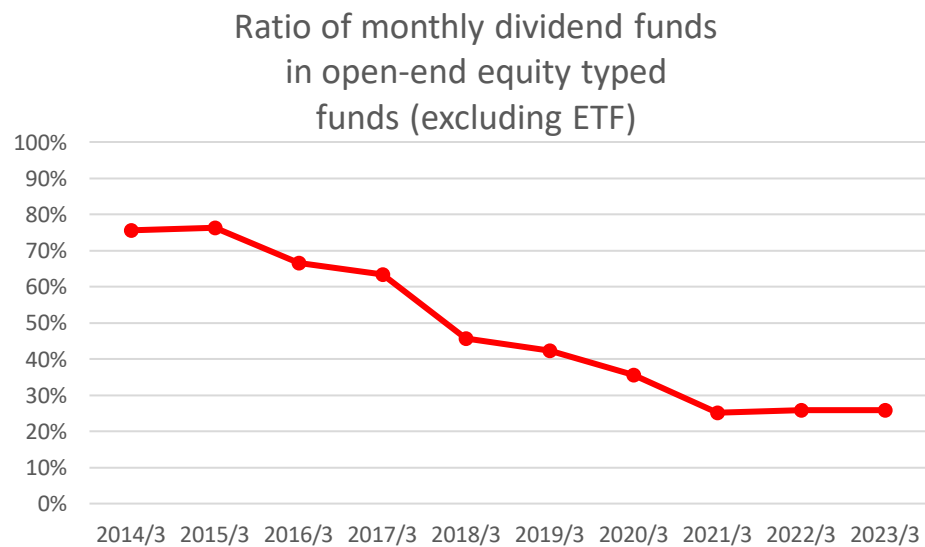


(Note) Small AUM means under 1 billion Yen.

Publicly offered stock investment funds open type (ex ETFs)
AUM per fund



1.6. Change in distribution pattern for medium- and long-term investment: composition of Japan-domiciled publicly offered funds
(Principles for Customer-Oriented Business Conduct principle2 & 【Note】)



1.7. Risk/return features of Nikko AM's key funds (Principles for Customer-Oriented Business Conduct principle2 & [Note])

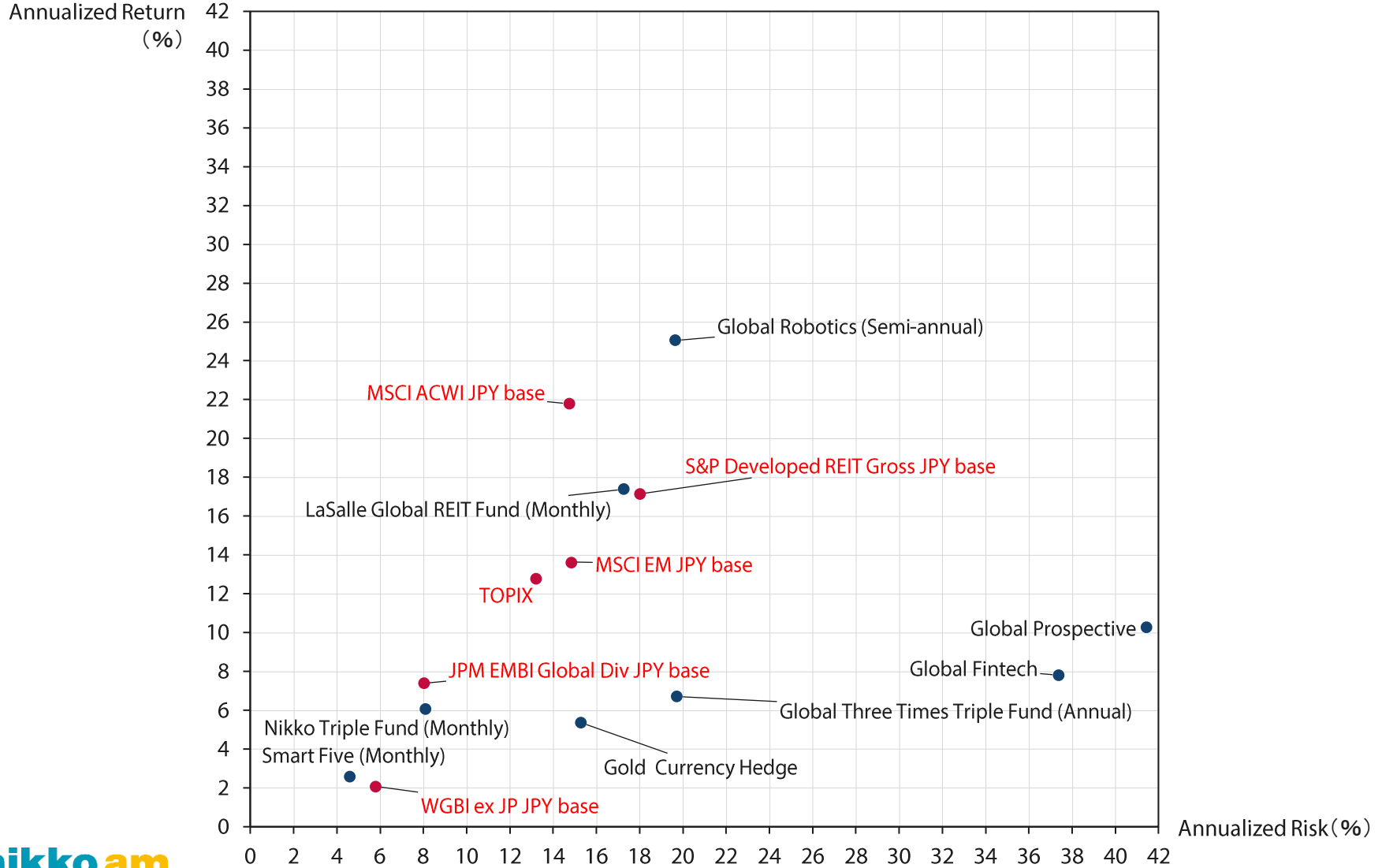
Procedures for selecting Nikko AM's key funds

1. Rank Nikko AM's publicly offered funds (excluding money funds, ETFs and index funds) as of March-end 2023).
2. If there are multiple series funds among the top funds for AUM, use the funds with the largest AUMs.
3. For the relevant period, we selected the 10 funds in the below chart as Nikko AM's key funds (excluding funds that have less than a year to maturity) as of March-end 2023.

	Fund name	AUM(JPY100M)	Launch date	Asset Class	Risk/Return Abbreviated name on profile
1	Global Robotics Equity Fund (Semi-annual Settlement Type)	3,986	Aug-15	Foreign equity	Global Robotics (Semi-annual)
2	Smart Five (Monthly Settlement Type)	3,032	Jul-13	Balanced	Smart Five (Monthly)
3	Global Prospective Fund	2,921	Jun-19	Foreign equity	Global Prospective
4	Global Exponential Innovation Fund	2,830	Apr-21	Foreign equity	* Graph not shown because the investment period is less than 3 years
5	Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type	2,743	Aug-03	Balanced	Nikko Triple Fund (Monthly)
6	Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type)	2,608	Mar-04	Global REIT	LaSalle Global REIT Fund (Monthly)
7	Digital Transformation Equity Fund	2,087	Jul-20	Foreign equity	* Graph not shown because the investment period is less than 3 years
8	Global Three Times Triple Fund (Annual Settlement Type)	1,576	Oct-18	Balanced	Global Three Times Triple Fund (Annual)
9	Global Fintech Equity Fund	1,026	Dec-16	Foreign equity	Global Fintech
10	Gold Fund Currency Hedge (for SMA)	620	Sep-17	Other	Gold Currency Hedge

1.7. Risk/return features of Nikko AM's key funds (Principles for Customer-Oriented Business Conduct principle2 & [Note])

Risk/return profile of major funds in past three years (as of March-end 2023)



1.8. Sharpe ratios of major funds (As of March-end 2023) (Principles for Customer-Oriented Business Conduct principle2 & [Note])

	Fund name	A Excess Return (Annualized)	B Standard Deviation	A/B Sharpe Ratio	A Excess Return (Annualized)	B Standard Deviation	A/B Sharpe Ratio
1	Global Robotics Equity Fund (Semi-annual Settlement Type)	5.66%	22.57%	0.25	25.05%	19.64%	1.28
2	Smart Five (Monthly Settlement Type)	-0.96%	5.14%	-0.19	2.57%	4.59%	0.56
3	Global Prospective Fund	-39.55%	38.63%	-1.02	10.25%	41.43%	0.25
4	Global Exponential Innovation Fund	-33.18%	34.32%	-0.97	—	—	—
5	Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type	-1.01%	7.43%	-0.14	6.06%	8.09%	0.75
6	Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type)	-11.06%	17.96%	-0.62	17.37%	17.26%	1.01
7	Digital Transformation Equity Fund	-32.68%	40.59%	-0.81	—	—	—
8	Global Three Times Triple Fund (Annual Settlement Type)	-15.58%	28.13%	-0.55	6.70%	19.71%	0.34
9	Global Fintech Equity Fund	-28.59%	40.43%	-0.71	7.81%	37.36%	0.21
10	Gold Fund Currency Hedge (for SMA)	-1.24%	15.01%	-0.08	5.36%	15.28%	0.35

1.9. Investor returns of major funds (periods since launch) (Principles for Customer-Oriented Business Conduct principle2 & [Note])

	Fund name	Investor Return (Annualized)	NAV Return (Annualized)
1	Global Robotics Equity Fund (Semi-annual Settlement Type)	12.24%	14.17%
2	Smart Five (Monthly Settlement Type)	2.47%	3.22%
3	Global Prospective Fund	-5.62%	-1.09%
4	Global Exponential Innovation Fund	-31.55%	-31.74%
5	Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type	1.28%	4.51%
6	Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type)	9.26%	5.05%
7	Digital Transformation Equity Fund	-24.92%	-21.18%
8	Global Three Times Triple Fund (Annual Settlement Type)	2.48%	4.15%
9	Global Fintech Equity Fund	9.81%	7.31%
10	Gold Fund Currency Hedge (for SMA)	7.16%	5.24%

1.10. Fee transparency (Principles for Customer-Oriented Business Conduct Principle 4 & Principle 5 [Note 1])

Given that we develop funds, we are naturally obligated to provide clients with detailed and easy-to-understand explanations of fees and other such costs. At Nikko AM, we provide this information in delivery prospectuses to enable clients to compare our many publicly offered funds. In some cases, we also include figures such as the amount of fees payable for each JPY 1 million purchase in sales materials for distributors to enable them to provide more detailed explanations to retail clients. Furthermore, our investment reports include details of costs per unit and total expense ratios. In August 2021, we also started ensuring linkage between the information we provide on costs and other such figures with the contents of important information sheets created and disclosed by distributors. This demonstrates our ongoing commitment to ensuring that individual clients receive accurate information that is easy for them to understand. Fund-specific details of our activities to address Principle 4 can be found on our website.

1.11. Response to one-product-many-prices issue for funds linked to the same benchmark (Principles for Customer-Oriented Business Conduct Principle 4)

We reduced the management fees of Nikko Zaikei Stock Fund (General 30), Nikko Zaikei Stock Fund (General 50), Nikko Zaikei Stock Fund (Pension 30), Index Portfolio and Balance Portfolio to bring them to more appropriate levels in view of factors including their product attributes as well as the current market environment.

1.12. Easy-to-understand provision of important information to clients (Principles for Customer-Oriented Business Conduct Principle 5 & [Note 1])

As a developer of funds, Nikko AM discloses information on product risks, product characteristics, target market trends, and costs such as fees for each of its funds in distributor materials and prospectuses. Based on our belief that ongoing follow-up work after making a sale is an important responsibility of fund developers, we also provide information on matters including trends in target markets and their impact on funds in materials such as spot reports, videos and dedicated websites using simple expressions, pictures and charts. We obtain this kind of information on market trends and product attributes directly from investment managers (including investment advisors) and believe that it is important to disclose negative information as well as positive news to clients if we deem it important. Fund-specific details of our activities to address Principle 5 can be found on our website.

1.13. Provision of suitable services to clients (Principles for Customer-Oriented Business Conduct Principle 5 [Note 1] & Principle 6 [Note 3])

Since 2021, we have been identifying the target client types for each of our publicly offered funds based on product risks and client risk tolerance levels. We have also developed a framework for coordinating the information we disclose with the information provided by the distributors of each fund. Please contact distributors of Nikko AM's funds for details.

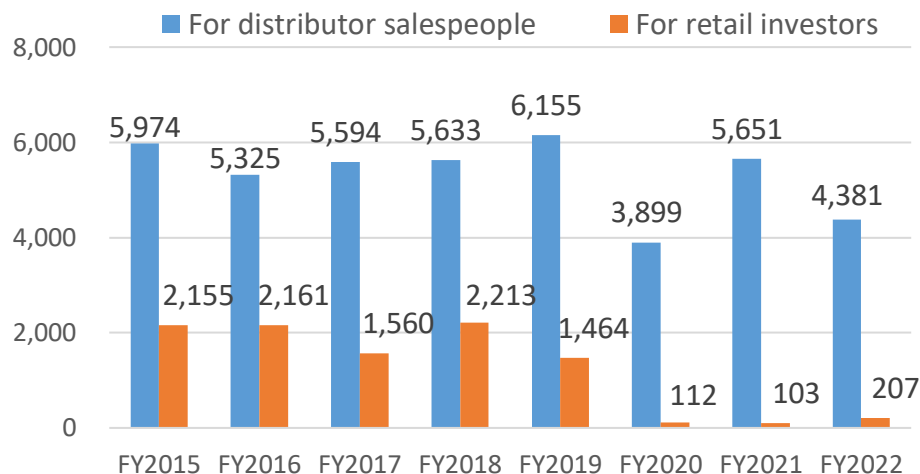
1.14. Provision of neutral information for investment decisions

Main investment information sources provided as series	Frequency	Additional information
Rakuyomi	Twice weekly	87 released in 2022
Koyomi	Monthly	12 released in 2022
Gokuyomi	Monthly	4 released in 2022
Market 5 Minutes	Monthly	12 released in 2022
Weekly Market	Weekly	52 released in 2022
Data Watch	Weekly	115 released in 2022
Follow-up Memo	Irregular	5 released in 2022
Global REIT Weekly	Weekly	51 released in 2022
Monthly Market	Monthly	10 released in 2022
JAPAN in Motion	Monthly	5 released in 2022
GLOBAL EQUITY OVERVIEW	Quarterly	0 released in 2022
Nikko AM Newsletter	Irregular	3 released in 2022
CHINA INSIGHT	Irregular	11 released in 2022
KAMIYAMA Reports	Irregular	16 released in 2022
KAMIYAMA Seconds!	Irregular	49 released in 2022
Why should we invest?	Irregular	1 released in 2022
Robotics Report	Irregular	0 released in 2022
FinTech Report	Irregular	0 released in 2022
What Nikko AM wants you to know about healthy money management	Irregular	1 released in 2022
Global Foresight	Quarterly	4 released in 2022
MLP Monthly	Monthly	12 released in 2022

We strive to contribute to the asset building of customers by providing investment information that is as neutral as possible. Under our Fund Academy brand, we provide fund-related knowledge and information that we judge to be essential, not only to retail investors and distributors but also to non-customers. In addition to the titles shown in the table, our website contains videos, e-learning documents, simulation tools and other such information sources.

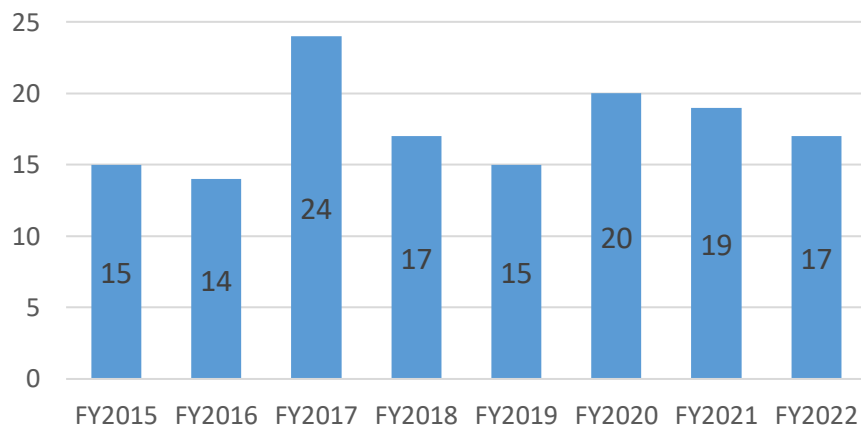
Fund Academy:
[Nikko AM Fund Academy \(nikkoam.com\)](https://www.nikkoam.com)

1.15. Seminars held



We deliver our products via channels including the sales teams of the distributors we work with and the internet. The information we provide to retail investors, as well as our efforts to supply appropriate information and training to salespeople, contribute to the final investment decisions made by individuals. The extensive framework we have in place enables us to hold over 5,000 training sessions for salespeople annually. Even under COVID-19, we have in place enables us to hold over 100 seminars for retail investors.

1.16. Number of fund awards won



We work daily to develop products that serve the interests of our customers. In fiscal year 2022, external assessment institutions have given awards to three of our Japanese equity funds, six of our foreign equity funds, four of our foreign bond funds and four of our balanced funds, recognizing a total of 17 of our funds.

* Aggregation of awards from R&I Fund Awards, Fund of the Year (Morning Star) and Lipper Fund Awards. The Fund of the Year award for fiscal year 2022 is yet to be announced.

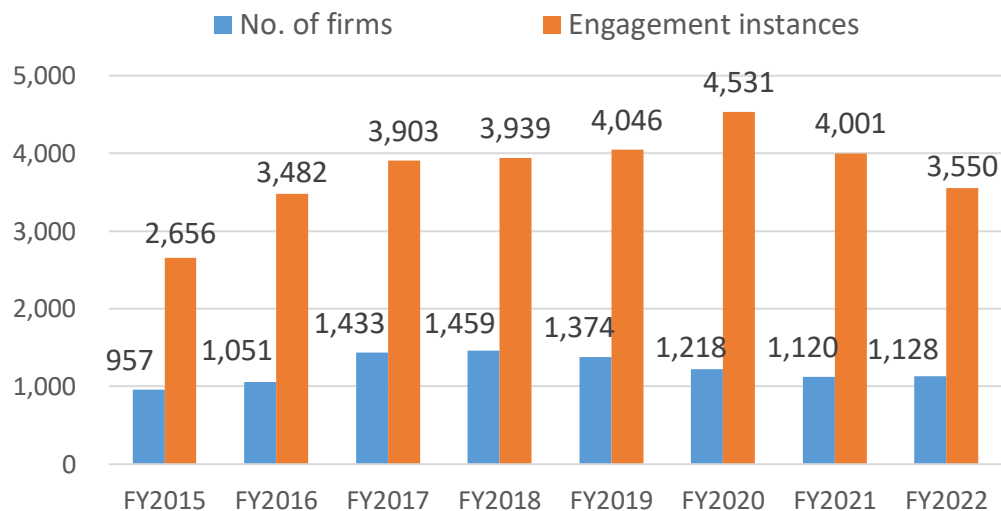
2. Activities for corporate clients

2.1. Stewardship Activities

We believe that engaging (holding constructive, objective-focused dialogue) with investee firms as well as proactively conducting stewardship activities including proxy voting are extremely important aspects of Nikko AM's responsibilities as a fiduciary trusted by its clients. Furthermore, we see ESG matters as an essential concept in fulfilling our fiduciary duty. We therefore incorporate ESG considerations in all areas of our investment management process and conduct assessments of investees' corporate value that include non-financial information in order to stimulate sustainable growth as well as medium- and long-term corporate value improvements. The results of these assessments are also reflected in our investment decisions. In order to spread these initiatives further throughout our overseas network, we have established an ESG Global Steering Committee composed of leaders from our investment management teams in Japan and elsewhere. The committee discusses and considers matters including ESG investment initiatives, ways of realizing them and new approaches to ESG, and works to share ideas on best practice.

Our initiatives and results to date in the above-mentioned areas are as follows.

2.2. Engagement results



* Figures are aggregations of firms listed in Japan

Our initiatives in fiscal year 2022 included working to enhance the effectiveness of our engagement activities by upgrading our method for managing milestones, selecting companies to target for engagement regarding climate change, revising our proxy voting standards in line with changes to the societal environment, and participating in various initiatives with the aim of acquiring ESG knowledge.

Our initiatives and results to date are as follows.

Engagement results:

Our fund managers and analysts have always been proactively involved in engagement and proxy voting in order to help firms in which our active strategies invest improve their corporate value. In fiscal year 2022 we engaged with 1,128 firms, and in the same period the number of instances of engagement we had was 3,550.

2.3. Voting track record

1. Company-generated proposals (July 2021– June 2022)

Proposal		July 2021 - June 2022			
		Yea	Nay	Subtotal	Nay ratio
Proposal on company	Election/dismissal of directors	15,185	2,915	18,100	16.1%
	(Reference) Number of companies	1,269	976	2,245	43.5%
	Election/dismissal of corporate auditors	1,285	119	1,404	8.5%
	(Reference) Number of companies	727	105	832	12.6%
	Selection of accounting auditors	81	0	81	0.0%
Proposal on executive remuneration	Executive remuneration	929	91	1,020	8.9%
	Retirement benefit payments	26	85	111	76.6%
Proposal on capital policy (Except proposals concerning the articles of incorporation)	Appropriation of surpluses	1,354	100	1,454	6.9%
	Restructuring	54	6	60	10.0%
	Introduction, update, abolition of takeover defense measures	0	61	61	100.0%
	Other proposals on capital policy	91	5	96	5.2%
Partial revision to articles of incorporation		2,155	74	2,229	3.3%
Other		1	2	3	66.7%
Total		21,161	3,458	24,619	14.0%

2. Shareholder proposals (July 2021– June 2022)

Proposal		July 2021 - June 2022			
		Yea	Nay	Subtotal	Nay ratio
Proposal on company	Election/dismissal of directors	2	44	46	4.3%
	(Reference) Number of companies	1	19	20	5.0%
	Election/dismissal of corporate auditors	0	9	9	0.0%
	(Reference) Number of companies	0	5	5	0.0%
	Selection of accounting auditors	0	0	0	0.0%
Proposal on executive remuneration	Executive remuneration	0	10	10	0.0%
	Retirement benefit payments	0	0	0	0.0%
Proposal on capital policy (Except proposals concerning the articles of incorporation)	Appropriation of surpluses	3	20	23	13.0%
	Restructuring	0	1	1	0.0%
	Introduction, update, abolition of takeover defense measures	0	0	0	0.0%
	Other proposals on capital policy	1	24	25	4.0%
Partial revision to articles of incorporation		3	180	183	1.6%
Other		0	1	1	0.0%
Total		9	289	298	3.0%

We revise our proxy voting standards annually in consideration of environmental changes and the responses of companies regarding our engagement annually. Given lack of progress in improvements in the ROE of Japanese companies, the revisions we announced in March 2023 were intended to motivate investee companies to work harder than ever to enhance their awareness of the issues and improve their conduct. As a key part of the revisions, we tightened our requirements for matters such as shareholder returns, earnings standards and cross-shareholdings. We also addressed issues associated with the independence of outside directors by switching our focus away from the detailed independence checks performed until now to notifications of independent officers submitted to the stock exchange. The change was made in view of the challenges involved for investees in responding to differences in the criteria used by different asset managers. Furthermore, we are working to integrate our sustainability standards in our engagement by establishing detailed standards. We will continue considering further revisions to our proxy voting standards going forward.

We also intend to push for improvements in areas in which we vote against proposals by providing feedback on them to investees during engagement in addition to the disclosure on our proxy voting decisions we provide on our website. In addition, we will respond to developments including the recent increase in shareholder proposals by ensuring that we scrutinize proposals in detail before deciding on them, for example by engaging with investees before voting.

2.4. ESG initiatives as an Institutional Investor

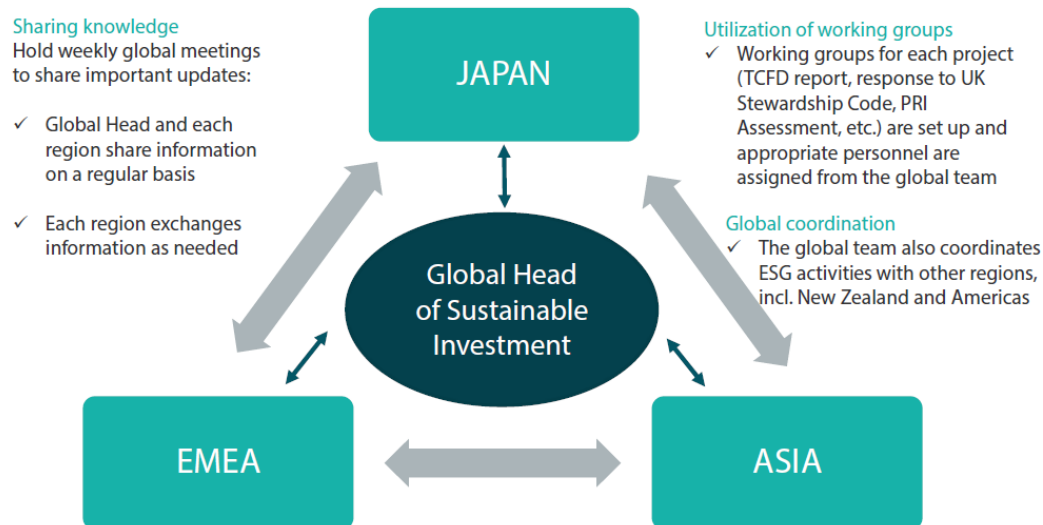
Nikko AM launched the Nikko Eco Fund, which invests in companies with strong environmental initiatives, as Japan's first SRI fund (*) in 1999. We have been incorporating ESG factors in all our investment management process since then based on our view that they contribute to medium- and long-term enterprise value. Furthermore, we consistently introduce innovations in our approach to ensure that we invest responsibly. In fiscal year 2022 we strengthened our investment product offerings that help to address ESG issues with initiatives such as submitting new applications for some of our Japanese equity active funds to be Article 8 funds under the EU's Sustainable Finance Disclosure Regulation (SFDR). We also established our new Japan Sustainable Investment Department in our Japan office April 2023 with the aim of conducting stewardship activities and deepening ESG integration across multiple asset classes. Going forward, the department's mission is to enhance the degree to which ESG issues are addressed for each of our investment products by supporting our various investment management departments' ESG integration efforts. We will also augment our ESG initiatives to ensure that they are of a high quality that meets the expectations of customers around the world. As part of this, we will strengthen coordination among our global offices with our Global Sustainable Investment Team in our Singapore office taking a central role.

Given how essential obtaining ESG knowledge is to engagement, we actively participate in a wide range of initiatives such as CA100+ and the 30% Club. We are working to share the knowledge we acquire from these activities internally and to use it to enhance the quality of our engagement and investment management methods.

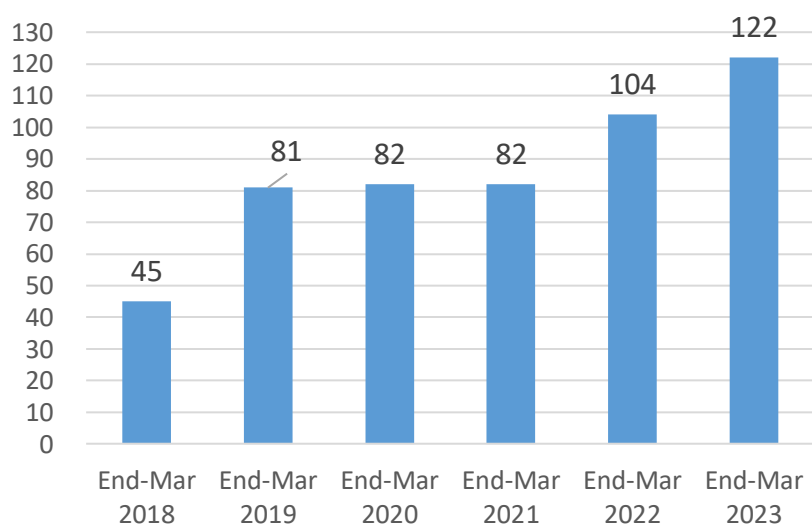
- SRI stands for Socially Responsible Investment, which is an approach (method) for investing in companies in which traditional investment criteria (economic aspects of companies) are combined with assessments of companies' environmental and social initiatives (their responsibilities and contributions).

COLLABORATION WITH THE GLOBAL TEAM

We are working very closely



(Other references) Number of accounts utilizing risk management tool for institutional investors



Our starting point for institutional investors is to find out our customers' needs, and to work hard to meet those needs. In our sales activities, we then propose products in line with each customer's level of risk tolerance. As a part of these efforts, in December 2017 we launched a tool and used it to start providing support to help our corporate investor customers improve their risk management. As of March-end 2023, the support tool was being used for 122 accounts.

3. Appropriate management of conflicts of interest (Principles for Customer-Oriented Business Conduct Principle 3 & [Note])

Nikko AM's Conflict of Interest Control Policy sets out its approach to conflicts of interest as an asset manager. We impose strict controls on transactions with potential conflicts of interest to prevent unfair harm to client interests based on the policy. Given that proxy voting is identified in our internal regulations as a form of transaction in which influence is exercised, we take a particularly intensive approach to controlling our proxy voting activities to ensure that they do not unfairly compromise client interests. Controls on conflicts of interest in our stewardship activities are discussed based on the principle of putting client interests first by our Stewardship and Voting Rights Policy Oversight Committee, whose membership mainly consists of outside directors including its chair.

4. ESG Initiatives as a Firm

As an asset manager engaged in ESG initiatives directed at investee companies, we also believe in the importance of implementing our own ESG activities as a firm.

4.1 Governance

Our role as an asset manager is not only to seek improvements in the governance of investee companies but to continuously ensure that our own governance is at a world-class level. To achieve this, we work on the three governance areas shown below.

4.1.1 Management governance

Our governance framework is distinctive in the Japanese asset management industry for its extremely high levels of independence and transparency. Specifically, our Board of Directors is chaired by an outside director, and as of March-end 2023, 7 of its 9 members are outside directors, six of whom are independent directors with no capital relationship with Nikko AM.

In June 2019, we transformed Nikko AM into a company with an Audit and Supervisory Board in order to strengthen the auditing and supervision of our Board of Directors, to further enhance our corporate governance framework and to boost our corporate value. The transition has enabled us to incorporate monitoring-board-style governance in our management, to separate management monitoring from business execution more clearly, and to speed up management decision-making. Furthermore, in August 2021, the Nomination and Corporate Governance Committee, an advisory committee to the Board of Directors, was reorganized as the Nomination Committee to establish a future-oriented and sustainable management structure to realize our vision of placing the highest priority on client interests and strengthening management capabilities as a global asset management company. Specifically, the committee is led by an independent outside director, and the committee has established a system to carefully discuss management personnel who will lead the Company from various perspectives.

4.1.2 Voting rights governance

We established the Stewardship and Voting Rights Policy Oversight Committee in June 2016 as a way of improving transparency in our stewardship activities such as engaging with firms and exercising voting rights as well as strengthening our governance. Drawing the majority of its members from outside the company, the committee is the first such third-party body to be established at a Japanese asset management company. It holds meetings once a quarter in principle and provides a venue for outside committee members to have lively discussions on how Nikko AM exercises its voting rights. The committee has held a total of 30 meetings so far (seven meetings in FY2022). Please refer to [the Appendix \(PDF\)](#) for details of its activities.

4.1.3 Fund governance

We established the Fund Advisory Board, whose members are also mostly from outside Nikko AM, in September 2017. The Fund Advisory Board meets every quarter in principle. The board has met a total of ten times so far and its outside members The board has met a total of fourteen times so far and its outside members participate in debates at its meetings (four meetings in FY2022). Please refer to [the Appendix \(PDF\)](#) for details of its activities.

4.1.4 Appropriate frameworks for motivating employees (Principles for Customer-Oriented Business Conduct Principle 7 & [Note])

As of FY2021 we enhanced our employee evaluation process by adding efforts to pursue best practice and make improvements (as well as simple compliance with laws, regulations and internal rules, consideration of whether employees have operated appropriately in the interests of clients and stakeholders and have consistently worked to make improvements) as an assessment criterion for all employees. We also introduced a mechanism by which employees' final evaluations are deemed not to meet the required standard if they are found to have any compliance areas that need to be improved, regardless of other evaluation items. We will continue working to ensure that our employees correctly understand these performance criteria.

4.2. Environmental

We are committed to contributing to the sustainability of the environment by reducing our greenhouse gas emissions, creating environmentally friendly workplaces and implementing employee-led environmental initiatives. Considering Nikko AM's status as an asset manager that has agreed to the Task Force on Climate-related Financial Disclosures ("TCFD"), we also understand the importance of promoting awareness of climate change and other such environmental issues in our investment and business activities. We have been conducting climate change-related disclosures through our annual [TCFD Report](#) since 2018.

In 2021, we renewed our [Environmental Policy](#) regarding Nikko AM's environmental approach in its business operations by expanding its content and extending its coverage beyond the areas that currently attract the most attention. We regard our setting of a group-wide target for reducing greenhouse gas emissions (including overseas offices) as a particularly important effort in this area. Specifically, we are aiming to reduce our firm-wide greenhouse gas emissions per employee by 40% from the 2019 figure by 2030. (Note) The target is based on a measurement of Nikko AM's greenhouse gas emissions coupled with an offsetting process that we established ourselves. For several years, we have been aggregating data on Nikko AM's energy usage and business travel, and having external consultants convert the figures into equivalent greenhouse gas emission figures. These actions demonstrate our ongoing commitment to contributing to environmental sustainability through efforts including the creation of environmentally friendly workplaces, the implementation of employee-led environmental initiatives, and reductions in greenhouse gas emissions.

Breakdown of Nikko Asset Management Group Carbon Footprint

NAM Group Carbon Footprint	2019	2020	2021	2022	% change on previous year
Total Tonnes CO2 Emissions	5,477.4	1,822.8	1,127.3	1,658.1	-69.7%
Tonnes of CO2 / Employee	5.9	2.1	1.2	1.7	-71.1%

*2022 data: full time employees and permanent employees of Nikko AM Group (As of 31 Dec 2022)

We offset our calculated greenhouse gas emission figures by purchasing carbon credits through a certified project. Our plan is to develop this initiative further by working to minimise Nikko AM's carbon footprint (i.e., its greenhouse gas emissions) and only offsetting emissions for which a reduction is not possible. Our efforts will be focused on the two areas that account for most of Nikko AM's carbon footprint: emissions from energy usage in our office buildings and from business travel.

In order to deepen our employees' understanding of environmental issues, we have been operating our Environmental Working Group, in which employees can voluntarily participate, since 2019. The working group discusses themes of interest to Nikko AM and works to improve employee awareness by inviting external experts to deliver talks for online events that are open to all employees.

4.3. Social

We strive to enhance social causes, both within the company by supporting a diverse and inclusive environment, and outside of the company through hands-on initiatives and charitable donations.

◆ Establishment of Global D&I Policy

We established our Global D&I Policy in 2021 in order to nourish a culture of diversity and inclusion among employees and underscore Nikko AM's commitment to maintaining that culture. The policy expresses our commitment to strengthening our organization by developing a sound work environment in which all employees can contribute based on their differences. In addition to ensuring that our corporate culture promotes respect for diversity, we will continue to contribute to the furthering of social causes through other efforts including external charitable activities and donations. We are involved in addressing societal issues from a range of perspectives as part of our efforts to increase our employees' awareness of diversity and inclusion, from acting as a venue for transformation to taking the lead in initiatives.

◆ Increase in ratio of female managers

We recently stepped up our efforts to enable women to thrive at Nikko AM by setting a new target of raising the ratio of female managers throughout the Nikko AM Group, including overseas offices, to 30% by 2030. Clarifying our target for females in managerial positions is intended to enhance the transparency of disclosures on our progress in this area, further expand our efforts to promote career progression for women, and further improve our employees' diversity awareness.

◆ Sustainability Working Group activities

Nikko AM counts the Sustainability Working Group among its internal meeting bodies. The working group, in which employee participation is voluntary, discusses sustainability issues and launches bottom-up sustainability initiatives. In the area of diversity and inclusion, the group addresses matters related to women, people with disabilities, the LGBT community and racial equality. It works with departments such as the Human Resources Department and the General Affairs Department to ensure that as many kinds of employees as possible can thrive at Nikko AM.

◆ Donations and support activities for charitable organisations

We also support organizations and participate in charitable activities that help to address a variety of societal issues. Employees can directly contribute portions of their monthly wages to charitable causes through our Employee Charity Program, in which the company matches their contributions. Given that we have also considered and provided one-off donations for aid and humanitarian assistance following major disasters, our track record of charitable activities is wide ranging and extends beyond Japan.

Please refer to Nikko AM's [2023 Sustainability Report](#) for more information on our environmental and social initiatives.

In conclusion

Throughout the many changes we have experienced—including changes in the business environment, technological innovations, and growth in financial products—we have consistently striven to act in the best interests of our customers. We strongly believe that continuing to do so is our mission as a firm.

The emergence and global spread of COVID-19 made recent years in which society as a whole and all of our lifestyles went through great changes, and we were forced to transform the way we think about many different aspects of life. We are sure that all of us—including our clients—will continue to face a challenging environment going forward. At Nikko AM, we have been given an even keener awareness of the importance of adapting to different environments by continuing to give clients ways to carry on building their assets as well as enabling them to continue investing for their long-term goals regardless of short-term turmoil in the market.

We will continue to ensure that Nikko AM earns the trust of customers and attracts praise for its performance by fostering investment management innovation, developing products that fully serve the interests of customers, and strengthening our corporate governance.