
ENGAGEMENT REGARDING FIDUCIARY/ESG PRINCIPLES

Pursuing fiduciary principles and ensuring customer-first operations is the essence of the asset management business. Firms in the industry must also work to position Environment, Society and Governance (“ESG”) assessments, as well as stewardship activities, at the heart of their investment processes. Stewardship responsibilities regarding the companies in which asset managers invest, including the exercise of voting rights, form an important part of this work. Here at Nikko Asset Management (“Nikko AM”), in addition to doing our utmost to fulfil our responsibilities in these areas, we have established committees that are mainly comprised of outside officers to oversee our efforts.

We have fully taken on board the import of the Financial Services Agency’s “Principles for Customer-oriented Business Conduct” and constantly strive to apply the principles to all of our business activities, thus ensuring that they inform our future plans as well as our past and present efforts. Moreover, we aim not only to put into practice the Financial Service Agency’s new “Stewardship Code” in its entirety, but also to continue implementing many of our own initiatives in this area. We regard all of these efforts as ongoing goals that will never come to an end.

1. Customer-first Operations

- (1) “Regulations on Engagement and Compliance Regarding Fiduciary/ESG Principles” and “Code of Conduct Regarding Fiduciary/ESG Principles”

We pursue fiduciary principles as a set of basic concepts governing the asset management business, and we recently decided to clarify those basic concepts in the form of regulations and a code of conduct. At the same time, we intended to stipulate the ESG principles that form the core investment management concepts we need to follow in executing our fiduciary duties as an institutional investor. This led us to formulate regulations and a code of conduct that combine our approaches to both fiduciary principles and ESG principles, and resulted in the establishment of the “Regulations on Engagement and Compliance Regarding Fiduciary/ESG Principles” and the “Code of Conduct Regarding Fiduciary/ESG Principles” in November 2016.

At Nikko AM, we believe that fiduciary principles and ESG principles, combined together, form the overriding philosophy governing the asset management business. Our regulations and code of conduct incorporating this philosophy were approved by resolutions of our Board of Directors, and the status of their execution will be reported on and deliberated over at board meetings. We also disclose both sets of principles on our corporate website.

2. Specific Engagement

- (1) Enhancement of investment management

- a. Proxy voting rights and stewardship activities

- It is our responsibility as an institutional investor to help the companies we invest in to improve their value and grow sustainably through our stewardship activities, including the exercise of voting rights. As we engage with the executive teams of these companies, it is particularly important for us to exercise restraint and discipline in these activities. We understand the importance of strengthening our own governance and increasing transparency for those outside the company. With this in mind, we established the “Stewardship and Voting Rights Policy Oversight Committee” in June 2016. The committee’s chairperson is an outside officer and the majority of its members are from outside Nikko AM. The committee holds quarterly meetings, decides Nikko AM’s policy for the exercise of voting rights from a neutral standpoint, monitors our exercise of voting rights as one of its oversight responsibilities, and provides other forms of guidance.
- We engage in normal stewardship activities as an active investment manager. However, that alone is not sufficient. Because passive investment is by its very nature intended for long-term investors, stewardship activities are highly important in this area. This means that we also engage in stewardship activities as a passive investment manager. In order to enhance these efforts, in March 2017 we

launched a new specialized team that works to raise the corporate value and shareholder value of all stocks we hold, including those in passive strategies. This enables us to deepen our engagement with individual firms and to further advance our activities for exercising voting rights with the aim of expanding the shareholder value of companies we invest in. These initiatives allow us to fulfil our fiduciary duties as an institutional investor as such investors become increasingly sophisticated.

b. ESG (Environment, Society and Governance)

- We have been a signatory to the United Nations' Principles for Responsible Investment (PRI) since 2007. Our pioneering approach as an investment manager demonstrates our commitment to contributing to long-term corporate value and sustainable responsible investment. In November 2016, we launched our ESG Global Steering Committee in order to extend the global reach of our ESG approach. Comprised of leaders in our investment management operations in Japan and overseas, the committee deliberates over matters such as ESG initiatives, ways of putting them into practice and new approaches, and continually makes decisions as a group of investment management leaders.

c. Investment management division as a team of professionals

- We consider our investment division as a team of professionals in which fund managers and analysts forge their own career paths. We also implement an appraisal/compensation structure that emphasizes long-term investment performance. In addition, we not only try to create a desirable working environment for fund managers but adopt a global retention system for key fund managers.
- We attach a great deal of value to risk management, and have established a global risk management division in the company. This stems from our awareness that we can only invest the money entrusted to us by clients if we have a check and balance system in place.
- As well as supporting the investment division, we work to enhance the compliance division's ability to monitor them.

(2) Product development for the benefit of customers, and processes that protect clients from conflicts of interest

- In the course of developing products, we conduct thorough analysis and research on internal and external market environments, laws and regulations, product and risk characteristics, expenses and other matters from various viewpoints. We believe we can provide products that customers trust by developing products that serve customers' interests, and by incorporating a process that protects clients from conflicts of interest. We will continue applying these efforts in our daily operations.
- To help individuals with medium- and long-term asset formation, we also focus on developing equity funds with long-lasting themes, multi-asset funds that respond to changes in the market, balanced funds with risk diversification, index funds with better cost effectiveness, ETFs and no-load-type funds. We also work to provide customers with easily understandable materials using transparent and clear language including information such as investment policies, product risk characteristics and various fees.
- From a risk management perspective, we focus on collecting and analyzing information on geopolitical risks and believe it is important to provide understandable information. As part of this, we have a partnership with expert geopolitical risk analysis providers Eurasia Group. Based on our understanding that knowledge of geopolitical risk brings opportunities, we develop products that incorporate geopolitical insights. In order to make this useful for the investment decisions of our customers, we provide information through public investment management forums and other such means.

(3) Sales activities for the benefit of customers, and processes that protect clients from conflicts of interest

- As an asset management company, our paramount mission is to be useful to our customers in their long-term asset building. The asset management business is one in which firms can only grow if they also grow their customers' assets. In our business activities, we therefore assess the performances of individuals and responsible departments in light of their comprehensive efforts to help customers to

- build their assets, as well as the results of such efforts.
- Although we do not sell products directly to individual customers, our products are sold by the salespeople of distributors through sales channels such as the internet. By fulfilling our own role within this extensive framework, we contribute to the final investment decisions of individual customers by providing them with information, giving salespeople appropriate information and training, and producing advertisements. These kinds of activities not only apply to cases that are directly relevant to selling our products, but also include general awareness-raising efforts. Our remuneration structure for Nikko AM sales employees therefore incorporates comprehensive performance evaluations rather than a percentage pay framework.
- With regard to institutional investors, we first make efforts to discern and meet our customers' needs, and then propose investment products in line with the degree of risk they are willing to take. Given the form that our sales activities take, our remuneration system for our salespeople in this area also incorporates comprehensive performance evaluations rather than a percentage pay framework.
- As an asset management company, we belong to an industry that is required constantly to prioritize the interests of clients, whether they are retail customers or institutional investors. We will continue to ensure that we always prioritize the interests of our customers through our daily operations as well as constant in-house training and efforts to raise awareness.

(4) Clear disclosure and awareness program to secure correct understanding of products

- We strive to contribute to the asset building of customers by providing investment information that is as neutral as possible. Since 2008, under the "Nikko AM Fund Academy" brand, we have been providing the information that we think provides the essential knowledge and information about investment and funds needed not just by individual customers, but also by distributors with whom we don't have a business relationship, and ordinary people including current students who may invest in funds in the future. We hope that this kind of extensive information provision not only answers the questions of past and future investors but also makes a contribution, however small, to the sound functioning of the fund industry as a whole.

Nikko AM Fund Academy:

<http://www.nikkoam.com/fund-academy>

- (a) *Rakuyomi (Kuchikomi)*
Timely release of information and explanations on economic indicators and market trends. Each page covers one theme for ease of understanding and use.
 - (b) *Koyomi (Call Center Mini Report)*
A series that clearly explains questions frequently asked of Nikko AM's call center presented using forms such as comics.
 - (c) *Gokuyomi*
A report that explains basic economic, investment and fund terms, not in the form of a "dictionary of terms" but through a story in which the reader joins Nikko AM and studies alongside new employees.
 - (d) *Fund Instruction Manual Series*
A booklet intended to provide beginner information to those new to investment. Existing titles include What to know First when Choosing Funds, Understanding Risk, Understanding Currency Hedging and Understanding Resources.
 - (e) *Hot Topics Series*
A series that stresses the importance of responding to large changes in the market environment as well as long-term, diversified and accumulated investment.
- We will continue working to provide clear disclosure to investors.

(5) Continued strengthening of corporate governance, compliance and administrative functions

- Nikko AM is run by a management team that is well versed in the capital markets and asset management industry both inside and outside Japan. Long experience with those industries is not essential by itself, but the experience and networks built up in an extensive career facilitates good operations. The Board of Directors, which consists of a number of independent outside directors, oversees the teams engaged in operations. We have maintained our corporate governance structure for a long time, and we will work to make our board of directors more effective and further strengthen our governance function by continuing to enhance the function of reporting to the Board of Directors, including its outside members.
- Together, fiduciary principles and ESG principles constitute an important philosophy that governs our activities to promote customers' interests. We intend to manage the company with both sets of principles positioned as our overriding philosophy, and we have already implemented a system to maintain the independence of the operational teams that are needed to put this into practice. We are also completely free from interference from outside the company when we select investment targets and exercise voting rights at the general meetings of shareholders of the companies we invest in. The investment management division has the maximum degree of independence under the check and balance governance system. This framework gives us a great deal of independence in our corporate management. We enable our outside directors to exchange information and opinions confidentially in order to maintain a check function on management and to secure management transparency, and we will continue to do so.
- As a company, we value our distributors for the important role they play in the investment chain and, as a result, our distributor relationships are wide-ranging and diverse. This allows us to maintain a healthy competitive environment with other asset managers, and while competition can be tough, the environment gives us further motivation to develop and supply products and provide information from a customer-first perspective.
- Our management team and employees work together daily to foster a company environment and create processes that ensure compliance. As a company, our constant aim is to create and maintain a compliance framework that is at the highest level in the industry.
- As of last fiscal year, we started regularly holding our global management meeting, which is attended by responsible people from all management departments as well as those responsible for front-office management functions. This enables us not only to strengthen the soundness, transparency and continuity of our operations, but also to thoroughly manage the quality of our operations for the sake of our customers.

3. In Conclusion

Engagement regarding fiduciary principles and ESG principles are continuous efforts that will never come to an end, and all officers and employees at Nikko AM will continue making their utmost efforts to put the principles into practice.