Introduction

3  Adapting quickly, responding well
   A message from the Co-CEOs

4  Staying on track in volatile times
   An interview with Yoichiro Iwama, Outside Director and Chairman of the Board of Directors

Investment Management

6  New opportunities to act on ESG
   A message from the Chief Investment Officer

7  A history of ESG investment at Nikko AM

8  Our ESG investment approach

10 Award-winning research

12 Japan Equity Team

14 Global Equity Team

16 Asian Equity Team (Ex. Japan)

17 Australian Equity Team

18 New Zealand Equity and Bond Teams

20 Japan Fixed Income Team

21 Australian Fixed Income Team

22 Global Fixed Income Team

24 Asian Fixed Income Team (Ex. Japan)

26 US Investment Team

28 Portfolio Solutions Group

30 Proxy voting and engagement

32 Our engagement: case studies

34 Advancing the sustainable finance conversation

Corporate Sustainability

36  Building on a solid foundation
    A message from the Global Sustainability Advocate

37 Sustainability Q&A

38 Gender diversity and career advancement

40 Globalising corporate sustainability

41 Embedding sustainability in our culture

42 Digital transformation

44 Working Group initiatives

Looking Beyond

53 Charting the road ahead

55 External commitments

56 Contact information
Adapting quickly, responding well

A message from the Co-CEOs

In 2020, our world changed profoundly and irrevocably.

Between the publication of our first Sustainability Report last March and the release of this edition, the Covid-19 pandemic upended daily life, business operations, and economies across the globe; protests in numerous countries against racial inequality brought unprecedented attention to the discrimination embedded in our societies; and the number of devastating extreme weather events continued to rise.

Sustainability is now more vital to our world than ever. At Nikko Asset Management, it is of fundamental importance to our business and our identity.

Although the pandemic and the ensuing market volatility posed many challenges, our entire firm adapted quickly and continues to respond with agility to the ever-changing situation. We have made it our highest priority to deliver consistent performance to our clients, while protecting our employees and acting sustainably. We have digitised more of our operations, turned increasingly to cloud-based solutions, and upgraded to the latest technologies — including those for videoconferencing and webinars — to better engage our clients and support their investments.

Remote work has been key to minimising business disruptions and keeping our employees healthy and safe. With more than 70% of our staff globally working from home, we have decentralised a number of functions to ensure our people are fully equipped to provide our clients with the swift and efficient service they require, but with the same high level of security Nikko AM has at its offices.

This work-from-home initiative has also helped us to further lower our environmental impact. Given that 80% of our carbon footprint comes from commuting and business trips, we substantially reduced our emissions in 2020. In addition, employees have reported that they appreciate the increased flexibility in their schedules.

As we work more from home and see less of everyone, it has become even more important to reaffirm our commitment to diversity and inclusion, which we have worked very hard to foster over the years. We continue to deepen our engagement with employees in various ways, one of which is women’s advancement within the firm. A significant step we are taking is to set a goal to raise the number of female managers firmwide to 30% by 2030.

The pandemic has also provided us with the opportunity to become more sustainable and to further promote digitalisation through our company events. As an example, FOREWORD, a client event Nikko AM holds every year in multiple global locations, was conducted entirely online. Since it was a virtual event, a record number of clients from many countries and regions were able to take part.

In our Sustainability Report for 2020, you will read about many other efforts across the firm to promote sustainable investing, as well as to support the three core areas of focus of our sustainability activities: diversity & inclusion, reducing inequalities, and environment & climate. We are extremely proud of all that was accomplished last year, despite all of the challenges.

At Nikko AM, we remain firmly committed to realising greater diversity at our company, supporting the vulnerable in society, and doing everything we can to be good stewards of our environment. We are convinced that each challenge we face is an opportunity to respond well.

Junichi Sayato
President and Co-CEO

Hideo Abe
Chairman and Co-CEO

A significant step we are taking is to set a goal to raise the number of female managers firmwide to 30% by 2030
Staying on track in volatile times

An interview with Yoichiro Iwama, Outside Director and Chairman of the Board of Directors

How have environmental, social, and governance (ESG) considerations and sustainability evolved globally in the past year? What progress has Nikko AM made in its ESG/corporate sustainability initiatives?

In 2020, the world accelerated its efforts to work towards a positive relationship between the economy and the environment. Japan played its part by pledging net zero carbon dioxide emissions by 2050. Also, revisions to Japan’s Stewardship Code actively encourage participants in the investment chain to incorporate ESG factors more widely and fully in their services as new sources of alpha.

At Nikko AM, we started to include sustainability goals in our personnel evaluations in 2020. I believe that the change has given Nikko AM employees around the world even more motivation to work sustainably by showing them how many different sustainability issues are embedded in the fabric of their everyday lives. It has been a pleasure to see awareness of the importance of sustainability grow even more strongly throughout the firm.

What should Nikko AM’s future goals be?

The mission of the asset management industry is to perform in a way that satisfies investors and clients. ESG investment and sustainability are an integral part of this, and they are essential to asset managers who want to earn the trust of society as good citizens. The close relationship between improvements in long-term corporate value and ESG factors shows that our investment departments hold the key to better performance, given how involved they are with engagement activities.

The biggest task facing asset managers is the need to work constantly to strengthen and enhance their asset management capabilities. Nikko AM’s willingness to take on that task shows that it is moving in the right direction, and translating that willingness into action is bound to deliver good results.

The COVID-19 pandemic brought great changes to working styles in 2020. Some of the changes in the way we do business seem to be here for good. What are your thoughts on this?

The asset management industry should keep providing clients with high-quality services and strong investment performance, no matter how challenging the environment is. I am pleased to say that Nikko AM continued to deliver investment solutions with a long-term horizon, even during the worst of the pandemic. The company demonstrated its ability to adapt and maintain smooth communication with clients and other stakeholders.

Furthermore, I get the sense that coordination among Nikko AM’s offices worldwide is now even stronger than before. It is true that we also found that there are some gaps between offices in terms of initiatives and awareness, but that just shows us how we can keep evolving further. Nikko AM will certainly get even better at giving clients what they want as we continue to enhance our ESG initiatives.

If we are to stay on the right track in hugely volatile times like these, it is of the utmost importance to be sensitive to new information and to embrace innovation. I remain committed to supporting Nikko AM’s senior management as they make the ongoing improvements needed to ensure that we continue to lead the industry in the sustainability and ESG space.

Yoichiro Iwama, Outside Director and Chairman of the Board of Directors

Staying on track in volatile times … coordination among Nikko AM’s offices worldwide is now even stronger than before

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Nikko AM Sustainability Report 2020

4 of 4
Investment Management
New opportunities to act on ESG

A message from the Chief Investment Officer

At Nikko Asset Management, environmental, social, and governance (ESG) principles are a pillar of our corporate identity and have been integrated into our investment process. In 1999 we launched Japan’s first socially responsible investment (SRI) fund, and for the past two decades we have made a concerted effort to link ESG factors with excess returns.

The concepts of ESG and the UN’s Sustainable Development Goals are both gaining a foothold in society. Through our ongoing engagements with companies, we have noticed that people are increasingly recognising that there is a connection between societal value, economic value, and corporate value creation. The COVID-19 pandemic has brought a greater sense of urgency for companies to integrate ESG into their business operations. Firms that have identified risks and opportunities related to the pandemic, and have responded with effective action, are attracting positive attention in the market.

Our ESG Global Steering Committee, which counts the heads of all our investment management teams among its members, is the engine that drives our ESG initiatives. The committee plans high-quality initiatives, based on information gathered from around the world, that enable us to respond appropriately to the ever-growing global interest in sustainability.

With Japan pledging to become carbon neutral and the new US administration re-joining the Paris Agreement, efforts to combat climate change are gaining new momentum everywhere. This has naturally fuelled our own actions to address the environmental aspect of ESG at the core of our initiatives, but we are also continuing to actively address other ESG issues.

The COVID-19 crisis has brought a new focus for companies to take action on social themes such as working styles, personnel development, labour productivity, and diversity; and we are seeing opportunities in this area. We are also continuing to address the governance aspect of ESG by engaging with firms ahead of revisions to Japan’s Corporate Governance Code. This includes discussions on board effectiveness; governance of group subsidiaries; capital efficiency, including cost of capital and cross-shareholdings; and protecting the interests of minority shareholders.

I believe that the role played by asset managers in solving ESG-related problems is taking on greater importance than ever before. We will continue to provide our clients with high-quality financial services that fully meet their needs by acting in accordance with our Fiduciary and ESG Principles and finding new and original ways to enhance our services.

The COVID-19 pandemic has brought a greater sense of urgency for companies to integrate ESG into their business operations.
A history of ESG investment at Nikko AM

Since the establishment of Japan’s first socially responsible investment (SRI) fund in 1999, we have put a priority on being environmentally friendly in our asset management operations. One of our environmental policies is to increase green investments, and we implement environmentally friendly initiatives by providing SRI funds in Japan.

In October 2007, we signed the Principles for Responsible Investment (PRI) to express our commitment to the conservation of the global environment and the development of a sustainable society through asset management. We also served as a co-chair of the UNPRI Japan Network from 2010 to 2014. More recently, we have continued to engage collaboratively by participating in initiatives such as the PRI Palm Oil Investor Working Group, which is an investor working group that promotes sustainable palm oil investment.

In August 2018, we became the first Asian-headquartered asset manager to support all four areas under The Investor Agenda, a platform aggregating investor initiatives relating to climate change. This includes signing and supporting the Global Investor Statement to Governments on Climate Change, Climate Action 100+, and the Task Force on Climate-related Financial Disclosures (TCFD). We are also an active member of the Asia Investor Group on Climate Change (AIGCC) Working Group.

In addition, we have posted on our website a report on our activities based on the TCFD’s recommendations in the period from January to December 2019. Please refer to the report for details on climate-related financial information.

In Japan, since 2011, we have participated as a member of the Principles for Financial Action for a Sustainable Society (also known as Principles for Financial Action for the 21st Century) operated by the Ministry of the Environment. We have also been a member of the TCFD Consortium since its launch.

In the months and years to come, we will continue to expand our ESG efforts through further participation in various organisations, as well as through collaborative engagement.
Our ESG investment approach

Fiduciary and ESG principles are among our key guiding themes as an asset management company. To make our group-wide commitment to these themes clear, we set out a Code of Conduct for Fiduciary and ESG principles and established our ESG Global Steering Committee in 2016.

The ESG Global Steering Committee oversees the fulfilment of ESG commitments and is chaired by the Global Head of Investment, who is also a member of the Global Executive Committee (GEC). The steering committee is mandated by the GEC and reports to the board of directors at least once every quarter.

The ESG Global Steering Committee comprises leaders from our investment teams worldwide, who are in charge of ESG implementation in their individual investment processes. The steering committee is responsible for evaluating the effectiveness of this implementation and improving our approach to ESG. It also drives our implementation of the six principles of the United Nations-supported Principles for Responsible Investment (PRI).

ESG specialists support the investment teams, primarily through internal capacity building, with the 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 legal changes related to ESG in countries around the world. Furthermore, each of the regional offices is required to present its ESG implementation activities regularly to its respective board.

At our Japan operations, the ESG framework is supplemented by our company’s stewardship and voting rights governance structure, consisting of the Stewardship and Proxy Voting Committee (Voting Committee) and the Stewardship and Voting Rights Policy Oversight Committee (Oversight Committee).

The Voting Committee is responsible for guidance related to Nikko AM’s stewardship activities, including formulating its stewardship policy, as well as amendments to the proxy voting policy.

"... we mandate that each investment professional undertakes ESG training"
Comprised mainly of independent members of Nikko AM Tokyo’s Board of Directors, the Oversight Committee is an independent body with oversight authority. It is responsible for monitoring whether Nikko AM’s company engagement and proxy voting activities are in line with its policies and truly meet investor interests at the firm’s Japanese operations. The Oversight Committee is also fully integrated into our governance structure as it is required to report on its activities and decisions to the board of directors.

We take multiple approaches to addressing ESG issues. Our firmwide ESG policy sets out how we manage and govern ourselves sustainably, and our Code of Ethics describes our core values, corporate social responsibility, and global citizenship. 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.

In 2019, we developed our Position Statement on Climate Change to reinforce our commitment and outline our approach to climate change. The statement addresses all areas of impact under The Investor Agenda.

We have a strong emphasis on internal training, and we mandate that each investment professional undertakes ESG training. A total of more than 80 people have participated in PRI Academy training sessions since we started providing them in 2017.

Through our proxy voting process and engagement with the companies we have invested in, we are an active owner. And, as a long-term investor, we believe that active dialogue and engagement with the management team, where appropriate, can improve ESG performance and sustainability, as well as help an investor to more fully understand these efforts.

We use external ESG research reports to augment our research. Ratings can highlight companies deemed to be high-risk. These companies would then undergo more in-depth analysis and debate within the team, as well as through our ESG Global Steering Committee.

That said, we do not believe an organisation’s commitment to do the right thing can be so easily captured by a rating alone. Ultimately, we believe that thorough research, vigorous debate, and direct engagement with companies to get a first-hand appreciation of the issues are still the best ways to evaluate ESG factors and judge their impact on an investment outcome.

Nikko AM’s Commitment to Responsible Investing

Principle 1
Nikko AM incorporates ESG issues in investment analysis and decision-making

Principle 2
Nikko AM is an active owner and incorporates ESG issues into its ownership policies and practices

Principle 3
Nikko AM seeks appropriate disclosure on ESG issues by the entities in which it invests

Principle 4
Nikko AM promotes the acceptance and implementation of the Principles within the investment industry

Principle 5
Nikko AM collaborates to enhance effectiveness in implementing the Principles

Principle 6
Nikko AM reports its activities and progress towards implementing the Principles
Awards-winning research

How investing in employees can create shareholder value

In Japan, a country that struggles with social issues such as an ageing and shrinking population, it is important from both an economic and social perspective to improve labour productivity by utilising human capital more efficiently.

...companies that can efficiently create economic value by providing employment have the potential to add shareholder value subsequently.

Yasushi Ishikawa, Ph.D., Head of Equity Fund Management Department, Head of Alternative Fund Management Department and Joint Head of Global Multi Asset, and Kyoji Hasegawa, Quantitative Analyst in the Technology Fund Management Department, co-authored an award-winning paper on this topic titled Efficiency of Japanese Corporate Investment in Human Capital and Shareholder Value.

Dr. Yasushi Ishikawa and Kyoji Hasegawa conducted a study examining the relationship between human capital investment efficiency and shareholder value. They found that high human capital investment efficiency positively affects shareholder value, and that this relationship is more apparent in companies with low labour productivity. In other words, the results imply that companies that can efficiently create economic value by providing employment have the potential to add shareholder value subsequently.

What inspired you to choose this research topic?

Konosuke Matsushita, the founder of Panasonic, famously said, 'A company is its people.' Management guru Peter Drucker wrote something similar. That said, there has been little empirical research on the relationship between human capital and shareholder value.

Academic studies in recent years have found that the stock prices of companies that increased investments tended to underperform. This has led to more attention on the quality of these investments rather than the amount being invested. In addition, with regard to corporate value, investing in intangible assets such as human resources has gained importance over capital expenditure on tangible assets. Focusing on these two points, we decided to examine how the efficiency of human capital investment affects shareholder value.
What do the results of the study imply from an ESG perspective?

The conclusion of this study was that the way companies invest in human capital affects their stock prices, and that this effect is especially conspicuous in companies with low labour productivity. It implies that companies that invest in human capital efficiently can generate economic value for investors in the form of excess returns.

The concept of Creating Shared Value (CSV) introduced by Professor Michael Porter of Harvard is a combination of economic value and social value. Human capital investment efficiency is closely linked to job creation, and thus relates to the “S” in ESG. In other words, our results suggest that ESG investment can indeed produce alpha.

Dr Ishikawa, you are the co-lead of the Women’s Working Group at Nikko AM. Does this study give you any insights on the advancement of women at Japanese companies?

Our study showed the positive effect efficient human capital has on corporate performance and shareholder value, but we didn’t distinguish between the performance of men and women. That said, in Japan, where the labour population is shrinking, it goes without saying that the labour participation rate of women is important. Ever since former Prime Minister Shinzo Abe’s second administration pushed for women’s advancement as a growth strategy, the labour participation rate of women has increased. However, a closer look reveals that much of the increase is in part-time positions, and that many industries have low ratios of female managers. Establishing an environment that supports working mothers and providing opportunities for women to progress within organisations will directly result in more efficient investment in human capital, in my view.

How do you think this research will be applied going forward?

If the link between human resource allocation and shareholder value is broadly acknowledged by companies, human capital investment efficiency could be used as a common language in dialogues between companies and institutional investors like ourselves. As an asset manager, it is especially encouraging that engagement with the management of companies with low labour productivity, as a way to improve their human capital investment efficiency, may lead to alpha. In fact, at Nikko AM, we have started company engagements focused on human capital investment efficiency from September 2020. If more companies start focusing on the efficiency of human capital, it will be a factor that contributes positively to the labour productivity of Japan as a whole.

Establishing an environment that supports working mothers and providing opportunities for women to progress within organisations will directly result in more efficient investment in human capital

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The paper, which was awarded the Securities Journalists Journal Prize for FY2019 can be accessed by visiting: [www.ss.or.jp/english/publications/2020_ishikawa_hasegawa.pdf](http://www.ss.or.jp/english/publications/2020_ishikawa_hasegawa.pdf)
Showing non-financial value

An increasing proportion of the value of companies comes from their intangible assets — such as human capital, technologies, intellectual property, and brand value. This is making it ever more important to assess companies’ intangible assets and integrate these into their financial value.

In light of the drastic work style changes that took place in 2020 as a result of the COVID-19 pandemic, we believe that efforts to enhance human capital will influence the competitiveness of corporates. Also, as governments, including Japan’s, have committed to reducing carbon emissions, it is becoming increasingly relevant to assess environmental opportunities and risks, especially those related to climate change.

As a growing number of companies seek to disclose their initiatives (including ESG) to promote sustainability, through means such as integrated reports, we have observed that, in recent years, they are becoming more aware of the connection between sustainability, future profits, and impact on corporate value. We are therefore constantly looking for ways to enhance our methods for assessing non-financial information based on our Creating Shared Value (CSV) evaluations, which provide us with a unique tool for comprehensively assessing firms.

written by Hiroki Wakita, Equity Analyst
Our approach to ESG

Our philosophy
To generate new growth, companies today must have a strong approach to ESG. By investing in the stocks of such companies, we believe that excess returns can be achieved over the medium to long term. The Japan Equity team aims to generate alpha by selecting companies with superior ESG practices through a stock selection process that combines both negative and positive screening, and an optimisation process that incorporates thorough risk management.

ESG implementation
When we conduct a historical comparison between leading ESG indices and the TOPIX (Tokyo Stock Price Index), it is apparent that ESG indices do not always outperform the market. This implies that investing in companies with superior ESG ratings on its own is insufficient for outperformance. Instead, a well-conceived approach is necessary when implementing ESG considerations. As with any investment, appropriate stock selection and portfolio management are crucial to improve performance and control risk within an ESG strategy.

The Japan Equity team believes that a superior ESG investment process should:
- pursue alpha through a combination of financial and non-financial information, including ESG factors
- focus on ESG factors that lead to future earnings and strengthen competitiveness
- involve consistent engagement with corporate management teams

CSV evaluations of individual stocks: Positive screening
All active Japan equity investment strategies incorporate Creating Shared Value (CSV) evaluations, which take ESG factors into consideration. It is a comprehensive score that was developed by applying the CSV theory proposed by Professor Michael Porter of Harvard University. The score assesses how companies balance their engagement of ESG issues with the pursuit of profitability and competitiveness, in order to create value for both society and shareholders. Our analyst research has incorporated CSV evaluations since 2013.

Approach to firms with governance risk: Negative screening
Firms that have been involved in criminal conduct, fraud, and/or accounting fraud, or that have caused environmental or social problems, are classified as having governance risk. The Japan Equity team excludes firms with perceptible corporate governance risk from its investment universe, while also seeking to promote better governance by engaging with the firms it invests in.

Operational flow for handling firms with governance risk
- **Emergence of governance risk**
  - Initial situation is serious from an enterprise value perspective, the investment team to discuss necessity of selling out of stock
- **Follow-up research by analysts**
  - Analysts estimate impact on corporate results, summarise related news, and convey this to portfolio managers
  - Governance specialists analyse from a governance perspective
- **Meetings by portfolio managers, analysts and governance specialists**
  - Initial ABC assessment* of firm with governance risk
  - Client-facing departments informed where necessary
- **Engagement with firms, actions taken with individual firms**
  - Engagement with firm, mainly undertaken by governance specialists; analysts also attend, if necessary
  - Monitoring to continue until measures are implemented to prevent reoccurrence, and a decision is made that governance risk has diminished
- **Upward revision of evaluation**
  - Monitoring to continue until measures are implemented to prevent reoccurrence, and a decision is made that governance risk has diminished
  - Firm is continuously evaluated based on how engagement develops

*ABC assessment (scoring of firms on governance risk):
A: Not deemed a governance risk firm (don't oppose director appointment proposals)
B: Deemed a governance risk firm (oppose director appointment proposals)
C: Deemed a governance risk firm and holding of stock not recommended from corporate ethics perspective

... [companies] are becoming more aware of the connection between sustainability, future profits, and impact on corporate value...
Purpose-led Future Quality

Retrospectively, 2020 will be seen as a watershed year. COVID-19 has highlighted the structural, social, and environmental inequalities within society, and it is now widely recognised that wealth can no longer be sustained without ensuring the welfare of citizens and the natural environment. Friedman’s doctrine of maximising profits has reached its natural end and, as policymakers try to rebalance the mistakes of the past, the need for corporates to provide solutions will only intensify.

The good news is that many management teams and companies have been aware of these issues for many years and have already directed resources towards solving these problems. These companies will be well positioned to benefit from this shift in attitudes and capital — and many form the core of our Future Quality portfolios.

The Global Equity team has been paying close attention to how our investments have behaved over the last several months. Clearly, for the vast majority, sales and profits are under significant stress as demand across most industries has collapsed. However, a crisis also provides opportunities for a firm to enhance their reputation and help win market share as the world exits the crisis. The firms we have invested in are behaving in the right way — by supporting their stakeholders. Here are a few examples:

**AIA**, the Asian life insurer, provided free COVID-19 insurance for millions of customers, employees, and representatives across its region. It has donated thousands of items of personal protection equipment, implemented initiatives to expedite approval for all COVID-19 health-related issues, and cancelled deductibles. It has also funded clinics and provided full risk protection policies for employees in many hospitals across the region.

**Progressive Corp**, the US auto and home insurer, returned USD 1 billion in premiums to customers to reflect the fact that most customers are not using their vehicle as frequently. It’s providing customers who cannot afford to renew or pay their premiums with relief by continuing coverage through this period. Agents are being supported with grants and, while the majority of employees can work from home, those who can’t are also being supported.

**Unilever**, the global consumer goods firm, donated over EUR 100 million in the form of soap, sanitisers, and food. It is also providing EUR 500 million in cash relief to customers and suppliers to help them manage their business through this crisis. And for

A sustainable business model must **look after all stakeholders** in good times and bad.

Doing the right thing in times of crisis: A COVID-19 special feature

A sustainable business model must look after all stakeholders in good times and bad. The quality of a company goes far beyond just balance sheet strength and profitability. The way companies behave also helps mark them out as long-term winners. Companies that do the right thing in times of stress are to be valued.
its employees, Unilever is offering three months of protection to the entire workforce as a result of this disruption.

**Philips**, the European healthcare company, donated a range of diagnostic imaging, patient monitoring, and respiratory equipment through the Philips Foundation. It has also provided financial support for the purchase of personal protective equipment in Italy. And while it has been busy ramping up production of ventilators and continuous positive airway pressure equipment, the company is ensuring fair access to these products for developing countries.

**Sony** established a USD 100 million coronavirus relief fund to help in three specific areas: 1) financial assistance for healthcare workers and first responders; 2) specific projects and technologies to assist delivery of remote schooling; and 3) financial support for artists in the entertainment sector affected by the closure of the industry and loss of income. For Sony to achieve its purpose to “fill the world with emotion, through the power of creativity and technology”, the creative industries — those that attract customers to Sony’s many products and platforms — need to flourish. The pandemic has undoubtedly hit the creative industries particularly hard, so Sony’s management has been proactive in providing support for what is a crucial part of their value chain.

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**Our approach to ESG**

**Our philosophy**

Society cannot solve the problems that it faces today without the private sector making a significant contribution. It is the Global Equity team’s view that businesses with solutions to environmental and social problems that provide value across all their stakeholder groups, will position themselves to be tomorrow’s winners.

Our investment philosophy focuses on purpose-led Future Quality businesses — those that can attain and sustain some of the best returns on capital available in the market.

We believe the market will increasingly allocate capital to companies solving society’s major challenges and that these companies will be best placed to sustain high returns, while creating value for all their stakeholders.

**ESG implementation**

As long-term investors, we focus on companies that not only behave appropriately but can actively provide solutions to the social and environmental problems we face. However, for this to be done sustainably, we believe it also needs to be done profitably.

Profits are essential for companies but the purpose of a business is far more than simply the generation of profit. The best businesses already understand this and, with purpose, consistently provide value to all their stakeholders.

Our search for Future Quality focuses on researching and investing in some of tomorrow’s most profitable companies available in global markets. Given the scale of the challenges faced across the world today, we are finding an ever-increasing number of companies that can form part of the solution rather than be part of the problem, which is critical for both future financial returns and the wellbeing of future generations.

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**Purpose-led Future Quality**

- Multi-stakeholder model
  - Consumers
  - Customer
  - Employees
  - Planet
  - Shareholders
  - Society
- Strong financial performance
  - Growth
  - Cashflow
  - Return on capital

\[ \text{LONG TERM VALUE} \]
Evaluating a major transaction

In November 2019, the Asian Equity team voted against a major related-party transaction by one of the largest REITs in Singapore. The key reason for this decision was that the funding structure for the transaction was sub-optimal, with equity being issued at a greater discount to market price than necessary.

We calculated that a more favourable outcome for unitholders could be achieved with fewer equity units issued at a higher price. Our analysis differed from the company management’s recommendation as well as research by ISS, our proxy service provider.

In addition to casting our votes through ISS’s portal, we also attended the REIT’s extraordinary general meeting, where we spoke about our rationale for rejecting the transaction. While the transaction was eventually passed by a large majority, we believe that our actions were in line with applying our high standards of governance with regard to transaction structures by Asian REITs.

Our approach to ESG

Our philosophy

The Asian Equity team sees the Asian region as being comprised of diverse growth markets, where fundamental drivers can lead to substantial and rapid change. As such, our investment process is focused on applying rigorous fundamental research to identify companies that are capable of sustainable high returns and/or positive fundamental change. We believe that investing in companies with these characteristics will deliver superior performance over the long term.

Within this process, ESG is a key pillar of our assessment of the sustainable returns and fundamental change characteristics of the companies we research. As a result, we focus on ESG issues that are material to shareholder returns, for the foreseeable future.

ESG implementation

As ESG research is integrated into our fundamental research process, it is undertaken by our team of analysts and portfolio managers, and it is considered together with input from external ESG research and data providers.

Our ESG evaluation process starts with identifying the key issues that will be material for shareholder returns for each company we cover. These issues could be risks to returns, which include potentially disruptive events, and risks that lead to a gradual erosion of shareholder returns. The issues also include ESG opportunities, which could result in a material enhancement of shareholder returns.

Once the issues are identified, we evaluate the ESG performance of the companies with regard to each issue. We assess how firms are mitigating risks and accessing ESG-related opportunities. This evaluation then feeds into our overall rating of sustainable returns and fundamental change for the company. We also apply an ESG flag to companies we deem to be not investible, whether due to unacceptable risks or poor ESG performance with no evidence of improvement.

Finally, we identify key issues for continuing engagement with the companies we cover. These include outstanding ESG issues that companies are in the process of resolving or opportunities that are being developed. If appropriate, we will suggest options that best enhance shareholder returns.
Highlighting carbon risk

While the Australian Equity Team integrates ESG risks into our fundamental valuations, we are also very aware that high carbon output specifically represents an increasing risk to investment. There is currently no carbon tax in the Australian market, but the risk that carbon emissions will be taxed or otherwise penalised is high.

To ensure that portfolio managers are aware of the magnitude of this risk when comparing stocks, we take into consideration long-term earnings with a carbon tax levied on scope 1 emissions for all of the stocks under our coverage. We calculate this based on a carbon price of both USD 10 per ton and USD 20 per ton and include this impact in our primary stock selection tool.

This sensitivity analysis has led to portfolio managers deciding not to invest in stocks, since this would greatly increase the carbon risk of the portfolio. As this is a large risk, and one that is attracting increasing attention from our clients and investors generally, we have chosen to manage this risk at the portfolio level.

Our approach to ESG

Our philosophy

The Nikko AM Australian Equity team has a long history of investing based on fundamental research. All stocks have an intrinsic value that can be accurately assessed with expert and diligent research. In the short term, the market price frequently reflects factors other than this intrinsic value. Assessing the intrinsic value of an investment can reveal profit opportunities, as the market price will invariably move towards the intrinsic value. This thinking lies at the core of the Nikko AM Australian equity investment approach.

Investing in a responsible manner — where material issues including environmental, social, and governance (ESG) issues are considered — is a part of our duty to clients. Engagement with the companies held in our portfolios is an important component of the investment process, with the aim of improving the outcome for investors, as well as increasing the value of companies by addressing ESG issues.

ESG implementation

ESG factors often have a long-term impact that is overlooked by the market even though ESG risks can affect the long-term profitability of a company. Not only are direct ESG issues a concern, but society’s views and the consequent consumer, corporate, and government reactions also need to be considered.

As long-term, fundamental investors, the Nikko AM Australian Equity team considers ESG factors as having the same level of importance as more traditional factors, such as market structure, innovation, and industry growth. Any material ESG issues are incorporated into valuations, using the same methods for more traditional factors. This way, the impact is neither under- nor over-stated. It is important to note that we do not exclude particular asset types, industry sectors, or securities wholly on moral or ethical grounds, unless this is expressly built into the product’s investment strategy or client agreement.

Engagement with companies is a key part of the research process. Developing a superior understanding of companies to peers is a key method of producing higher returns. As shareholders, we have the capacity to influence better corporate behaviour. For companies held in our portfolios, this engagement is used to influence corporate practice to address ESG issues and to improve disclosure of ESG information.
The value of doing the right thing

New Zealand has seen many companies actively improve their ESG performance without significant pressure exerted by the investment community. This is due to the industry sectors in the investment universe not having mining or extraction industries, as well as a legal framework that supports a rising minimum wage rate and the enforcement of modern-day slavery legislation.

New Zealand’s government is also a strong advocate for protecting the environment and eradicating poverty, and it is committed to reducing inequity in the areas of health, education, and employment for underprivileged parts of the community.

An example of a New Zealand company doing its part is Fisher & Paykel Healthcare. Nikko AM New Zealand has invested in Fisher & Paykel Healthcare for a number of years. We know its business, understand its strategy, and respect its approach to balancing stakeholder interests.

Fisher & Paykel Healthcare’s hospital products, such as its innovative respiratory humidification systems for critically ill patients, have played an enormous role in combating COVID-19 globally, and have consequently driven profitability. The firm openly states its commitment to innovation, doing the right thing, and doing what is best for the patient, but it is its care for its staff that caught our attention. In essence, the company has rewarded the huge effort of its workforce during the coronavirus pandemic with both new initiatives and the extension of existing programmes. These included:

- paying discretionary bonuses, which were approximately double what they usually receive. This also included additional discretionary bonuses in countries where bonuses are legally mandated
- providing food parcels to workers, given both the hours worked and potential health risk of being out in food markets
- encouraging staff to simply take whatever paid leave they deemed necessary to recover from post-COVID-19 peaks, in addition to normal leave entitlements
- paying for private health assessments and treatment, transport, and home leave when COVID-19 risks emerged

We believe that the way Fisher & Paykel Healthcare is being socially responsible in putting staff first will further increase its reputation and profitability.

In summary...

… putting staff first will further increase reputation and profitability...
Our approach to ESG

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

We use our extensive experience to help us understand and evaluate the materiality of ESG factors. A specific understanding of ESG analysis can help us build a picture of the risks and opportunities faced by a company. However, there is no set formula for quantifying the importance of each ESG factor or adjusting how we value each company.

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

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

A higher MSCI rating does not alone dictate a higher investment weight. The primary driver of a company’s weight in our portfolios will still be determined by the relevant portfolio manager, given a range of both quantitative and qualitative factors. The current MSCI rating is explicitly assessed as a quantitative factor consistent with our established investment process. Companies that have higher ratings or are actively improving their ESG standards will ultimately be recognised by market participants, so our process is likely to highlight these opportunities.

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

The Japan Fixed Income team believes that ESG bonds (such as green bonds and sustainability bonds) contribute to performance. We regard the contribution they make as a clear investment criterion, which we integrate into our analyses of issuers’ creditworthiness, alongside regular bonds. When selecting ESG bond issuances, we engage with issuers to learn how they plan to use the bond financing, as well as the benefits they expect to see from the bonds, and focus on the securities that are likely to generate high returns.

An increasing number of Japanese companies have started to issue ESG bonds that are also hybrid bonds (subordinated bonds with equity attributes) in order to make ESG contributions while also strengthening their financial positions. We actively invest in such bonds in view of the positive synergies they bring to issuers’ fundamentals. We also intend to stimulate further market growth by encouraging companies that currently have no plans to issue such bonds to consider doing so based on the nature of their businesses and the attributes of the assets they hold.

Our approach to ESG

Our philosophy
In order to pursue excellent performance in domestic bond management, it is critical to evaluate creditworthiness by analysing both quantitative risks, such as debt repayment ability, and qualitative risks that cannot be captured by financial analysis. The environmental, social, and governance (ESG) viewpoint is positioned as an important factor in qualitative risk analysis.

In the Japan Fixed Income team, credit analysts who analyse creditworthiness perform both fundamental analysis and ESG factor analysis of individual issuers. ESG is incorporated into the investment process by comprehensively evaluating both the fundamentals and ESG of the industry/issuer and reflecting it in investment decisions.

ESG implementation
We have set out eight items (two items related to the environment, and three items each related to society and governance) in analysing ESG factors. Credit analysts are required to evaluate these ESG factors alongside fundamentals in the issuer report. In addition, we share ESG views within our team at monthly meetings attended by fund managers and credit analysts. We believe that frequent conversations on ESG support a process that allows us to promptly reflect a change in circumstances that negatively affects creditworthiness, including ESG events.

A framework that catches momentum change

- Continued company visits
- Access to unlisted issuers
- Fixed point observation of fundamentals
- Fixed point observation of ESG factors
- Evaluate creditworthiness
- News flow
- Fund managers
- Review of investment principle
- Proactive investment decisions

*This chart is for illustrative purposes only.
Monitoring ESG scores in our investment universe

ESG factors are an important consideration in our portfolio construction process to ensure that our portfolios do not face unnecessary volatility. This has led the Australian Fixed Income team to build tools that allow us to quickly summarise and display our ESG scores and information from our data provider.

With this information, we can identify industry laggards and question why certain issuers are rated the way they are. For example, the chart below shows MSCI’s governance scores across all financials in the Australian index. Interestingly, JPM (BB rated) has a far lower governance score than Wells Fargo (CCC) despite being two notches better in rating. This type of sector-level display allows our team to hone in on important details and ensure that investments are acceptable under our 5-point ESG scoring system.

written by Chris Rands, Portfolio Manager

Our approach to ESG

Our philosophy
For the Australian Fixed Income team, credit is a key pillar of alpha generation across all portfolios that we manage. Our process focuses on using credit to add stable income to portfolios, which means we endeavour to avoid shocks by avoiding “losers” in the credit markets. ESG is an important consideration in this respect as weak ESG practices lead to heightened risks, due to poor business practices, consumer blowback, and weak governance. As a result, ESG is essential to determining our investable universe with respect to credit.

ESG implementation
We implement ESG across our portfolios by first using a negative screen, removing issuers that we believe do not exhibit robust ESG practices. In order to do this, we assess each company across environmental, social, and governance factors, predominantly focusing on the issue that is most relevant to the industry the company operates in. A score is set for each issuer for all three ESG factors, and this is based on MSCI’s ESG ratings data, industry-wide risks, rating reports, issuer/management meetings, and additional analysis conducted by the credit team. Each company is assigned a rating from 1 to 5, with 5 representing best-in-class ESG practices and 1 meaning avoid.

Those securities that score a 1 in the ranking process will be excluded from portfolios based solely on ESG considerations. Historically, we have also excluded any issuer rated CCC by MSCI. We believe this process works as credit makes up less than 10% of the Australian composite investment universe, meaning we screen out only a small percentage (less than 0.5%) while also ensuring the exposures that make it into the fund are responsible ESG investments.

Our approach to ESG

• A Financials – MSCI Governance

ESG Ratings and data provided by:

MSCI
Incorporating ESG in Global Fixed Income

As we emerge from the COVID-19-induced recession, the planned recovery will be for a more sustainable global economy. As a result, one of the key themes the Global Fixed Income team has recently observed within credit markets has been the significant growth of green and sustainable issuance.

The Global Fixed Income team enhanced its capability by integrating its dedicated data scientist into the team to help with wider ESG implementation. Through data and machine learning research, we have been able to create a quantitative ESG scoring template that helps to ensure that bonds we are buying for our portfolios comply with ESG considerations.

Our commitment to sustainability

Earlier this year we purchased a Sustainable Development Bond issued by Enel, an Italian energy company that is active in electricity generation and distribution, as well as in the distribution of natural gas. The bond is linked to the UN’s Sustainable Development Goal 7 — Affordable and clean energy. When the bond came to market, Enel attached a written statement, noting that if it did not reach its goal of “installed renewable energy percentage of 55% of total consolidated installed capacity by December 31st 2021,” the bond will see an interest rate hike of 25 basis points. This helped to provide us with added assurance that Enel intends to meet its goals.

This compelling SDG-aligned bond fit well into the Global Credit portfolio from a credit point of view, as it showed the company’s intention to connect its business strategy with sustainability. However, more prominence came from its strong ranking from our internal ESG scoring framework. This is conducted by analysts confirming their findings within the “ESG” section of the credit template and providing an ESG commentary snapshot of the credit name. By incorporating all material factors in our investment conclusions, ESG factors are consistently and comprehensively incorporated into the investment process. The purchase supports Nikko AM’s desire to be a participant in the evolution of sustainable fixed-income instruments.

-written by the Global Fixed Income team

The Chañares plant in Chile has an installed capacity of 40 MW and can generate up to 94 GWh per year. © Enel Group
Our approach to ESG

Our philosophy
The Global Fixed Income team believes in employing a consistent investment process that incorporates quantitative and qualitative inputs to generate ideas and construct high conviction portfolios, where we get suitably rewarded for the risk we undertake. At Nikko AM, we see ourselves as capital allocators and we intend to continue our efforts to provide the capital needed for issuers to implement a sustainable transition programme. As investors, we have a unique opportunity to identify risks, engage with issuers and build relationships that can influence positive sustainable change. We believe it is our responsibility to create innovative products and strategic partnerships across the capital market structure to establish pathways for meaningful flows into sustainable investments.

ESG implementation
ESG is considered across all our products. In the investment process, ESG is applied at the screening and research stage and at the portfolio construction stage. The scale and manner that ESG is integrated depends on investor-specific product expectations.

For example, our Global Green Bond strategy strictly invests in green bonds from global AAA-rated sovereigns, supranationals and agencies (SSAs) with the strongest sustainability credentials, such as the World Bank, the European Investment Bank, and KfW.

Another example is our Global Credit strategy. While most of our experienced analysts work with a best practice list for corporate governance, built on many years of experience in credit investing, it sometimes is more challenging to ensure that the environmental and social aspects of a business align with every one of our investors’ wishes. However, we take guidance and strive to do our best to make sure they meet the standards set out by the UN PRI. Corporate governance assesses mostly general management quality, which has a direct impact on the company’s performance, while environmental and social analyses tend to capture risks and opportunities linked to a specific industry or region. The investment team works hard to deliver a portfolio that is accountable to the ethical and social values of an increasing number of institutional clients. European asset owners, in particular, require that their values are reflected in their portfolios, alongside their performance goals.

Four steps of our ESG implementation framework

1. Market assessment
2. Investment themes
3. Screening and research
4. Portfolio construction
ESG gains traction in Asian Fixed Income

The topic of ESG and its application in the Asian fixed income context has been rapidly gaining traction over the past few years. The acknowledgement of its growing relevance — by both the investor and the corporate community — has been swift.

While the Asian Fixed Income team has long incorporated the qualitative aspects of ESG within our investment considerations, data providers’ increasing coverage of ESG data on Asian corporates and issuers’ improving disclosures standards are enabling more meaningful ESG analysis and tracking of companies. With increased awareness among corporate issuers, companies’ management teams are now more readily willing and equipped to hold deeper discussions on ESG issues with the investor community. We view this development positively. As corporate disclosures continue to improve through pressure from investor engagements and regulation, it remains early days for ESG in Asian fixed income, with more positive developments in store in the years ahead.

written by Tat Wei Kho, Head of Credit Research

Case Study: An Indonesian energy company

*ESG issues: Environment, greenhouse gas emissions*

Our analysis
The company is engaged in coal mining activities, which exposes it to transition risks. In recognition of climate change concerns, the company has implemented a group-wide environmental and risk management policy that encompasses all levels of management including the board of directors. In addition to improved disclosures and a commitment to reduce the intensity of its operations’ greenhouse gas emissions, the company’s management has also been directing a greater amount of its resources towards diversifying the company’s business away from coal-related revenues.

Outcome
We view the company’s proactive steps towards climate change mitigation favourably, as they help to address long-term concerns that will impact the sustainability of its business. We will continue to track the company’s environmental and risk mitigation efforts through regular engagement with the management.
Our approach to ESG

Our philosophy
Our Investment philosophy is premised on capital preservation, investing for the long-term, and value discipline. Our Asian Fixed Income team believes that markets are dynamic, often prone to economic “noise” and not always perfectly efficient. Therefore, outperformance can be achieved by applying a systematic approach to top-down macro and bottom-up credit research. Our team believes that all three factors of ESG — environmental, social, and governance — are inherent to long-term value creation, are core factors behind sustainable investment, and should be considered in investment decisions. The team applies this consistent investment philosophy across client portfolios.

ESG implementation
Our proprietary Fundamental, Valuation, and Technical (FVT) Framework, which is applied to our top-down and bottom-up research, is the foundation on which we construct high-conviction portfolios that seek to deliver returns through multiple sources of alpha. With regard to our robust credit research, the most important output from our team of dedicated credit analysts is the Internal Credit Rating (ICR) model. The ICR process is the first pillar of our bottom-up credit research and enables the credit research team to assess quantitative and qualitative aspects of each issuer, independently of external credit rating agencies. ESG risks and opportunities are assessed and scored as part of this qualitative assessment within the ICR. Considering ESG factors is an important way to identify potential downside risks that may impact the borrower’s credit profile.

At Nikko AM, ESG factors are an important aspect of the team’s credit analysis and an integrated part of the team’s investment process. The investment team researches and scores companies, taking into account both qualitative and quantitative factors. ESG factors are identified by their materiality and potential impact on companies’ credit profiles. The ESG factors of individual companies are determined by leveraging our research team’s keen knowledge through bottom-up fundamental analysis. Their ESG scores are then incorporated into our overall credit score, which will influence the final credit rating of a company. The credit rating of the company will help to determine the appropriate risk premium to apply to the bond valuations to justify an investment.
Agricultural land as an emerging asset class

Agricultural land is a critical asset class that sits at the intersection of climate change and sustainability, population dynamics, and changing food trends. Food security in more and more countries is being challenged by the effects of climate change, and there is a mismatch between population size and resource availability.

As the gradual change in climate puts pressure on the land available for farming, there is also a growing population and middle class that demands more food and specialty crops. It is becoming a growing challenge to meet demand as land, water, and other natural resources become increasingly stressed. Given this situation, farmers will need to use technology and innovation to meet demand for food and also increase sustainable farming practices that improve the precision with which inputs are used to reduce waste and environmental load. The US investment team sees this as an opportunity to invest in sustainable agriculture.

written by Lawrence Prager, Chief Investment Officer and Country Head, Nikko AM Americas

The US investment team sees … an opportunity to invest in sustainable agriculture

Circular irrigated fields, Colorado, USA
Our approach to ESG

Our philosophy
On the US investment team, we believe that the three core factors behind sustainable, responsible investing — environmental, social, and governance (ESG) — are inherent to long-term value creation. We view ESG analysis as both return-enhancing and risk-mitigating, so incorporating this appropriately in the investment process (when ESG factors are material to investor value) is consistent with our fiduciary duty. Sustainability means managing the challenges and risks facing all organisations to meet the needs of the present, without compromising future generations. We firmly believe it is our responsibility to consider ESG factors when making investment decisions on behalf of our clients.

ESG implementation
Implementation of this philosophy takes three forms.

First, the US investment team works with sub-advisers for non-discretionary investment advice to understand the short- and long-term risks on the business environment for each thematic fund, in order to help us make informed strategic decisions. Each sub-adviser has their own dedicated approach to analysing companies based on ESG. During monthly and ad hoc conversations with our sub-advisers, we discuss the potential risks to the investment strategies as well as the opportunities that may arise from the changing environment. The use of third-party scoring metrics helps us to identify potential risks in the portfolios.

Second, ESG oversight is implemented through proxy voting and engagement with companies in the portfolios. The investment team executes proxy ballot votes that decide board oversight, executive compensation, disclosures, and company policies to strengthen company governance. When engaging with each of these companies, the investment team focuses on their approach to managing ESG concerns.

Third, we look for opportunities for our investors to benefit by helping to create new investment ideas. Recently, we have made it our aim to generate alpha by identifying the risks and opportunities that surround climate change and the energy transition.
Dedicated ESG evaluations for external managers

In 2020, the Portfolio Solutions Group (PSG) implemented a dedicated ESG evaluation for external managers. Since this was our first time conducting these evaluations formally, we held extensive internal discussions to determine the best possible approach and the most suitable questions to ask. Going forward, we will continue monitoring various laws, guidance, and market trends to review and refine our ESG evaluation framework.

It is not only companies but also asset managers that are increasingly being rated by investors and investment consultants on how they approach ESG in portfolio management. We will continuously work to improve our ESG evaluation framework to ensure we are meeting our clients’ needs.

written by Naoyuki Murota, Portfolio Manager

We embrace ESG as a means to better manage investment risk

● How the PSG evaluates and scores managers on ESG

<table>
<thead>
<tr>
<th>Company</th>
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<tbody>
<tr>
<td>Company-wide ESG philosophy and process</td>
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<tr>
<td>Level of commitment of the manager to ESG</td>
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</tbody>
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<table>
<thead>
<tr>
<th>People</th>
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<tbody>
<tr>
<td>Dedicated ESG team/specialist resources</td>
</tr>
<tr>
<td>Skill set of ESG professionals</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Research</th>
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</thead>
<tbody>
<tr>
<td>Robustness of ESG data sources</td>
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<tr>
<td>Value-add of ESG-related research</td>
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<table>
<thead>
<tr>
<th>Investment process</th>
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</thead>
<tbody>
<tr>
<td>Level and consistency of integration into investment processes</td>
</tr>
<tr>
<td>ESG risk management and controls</td>
</tr>
</tbody>
</table>
Our approach to ESG

Our philosophy
The Portfolio Solutions Group evaluates, selects, and monitors external managers at Nikko AM. We believe that investing by considering ESG factors is inherent to long-term corporate value creation and realizing sustainable economic growth. We embrace ESG as a means to better manage investment risk, deliver better quality long-term investment returns, do good in our communities, and be good stewards of our environment. We uphold a high standard in integrating ESG considerations into our investment process.

When evaluating managers’ ESG approach, we combine discretionary assessment and quantitative scoring to achieve consistency and rigour across asset classes and strategies. We are constantly updating our ESG framework as industry best practices continue to mature.

ESG implementation
In our investment manager due diligence framework, we evaluate and score investment managers across four categories:
- investment considerations
- operational considerations
- level of transparency
- ESG factors

Each assessment category is individually important, but not sufficient on its own in helping us to understand the manager’s idiosyncrasies, strengths, and weaknesses. By skilfully amalgamating information from all four categories, we can better assess the investment manager in a complete manner and better manage the associated risk partnering with the manager, therefore delivering desirable investment outcomes to our clients.

At the initial due diligence stage, we send the manager our dedicated ESG questionnaire. We review their answers and other relevant policies, documentation, and past practices to assess their ESG integration across both their investment and operational processes. We supplement this questionnaire-based information gathering process with additional discussions with the investment managers, and we conduct further checks whenever necessary.

We evaluate the managers on ESG according to four pillars:
- company: overall ESG philosophy and policy, and its level of commitment to ESG integration
- people: the ability and stability of the investment professionals in charge of ESG at the investment manager
- process: the consistency and repeatability of the investment manager’s investment process in integrating ESG factors, as well as the degree of integration
- research: the ESG research ability, quality, and unique value-add of the investment manager

Four pillars of the ESG assessment framework
An ESG score, aggregated across these four evaluation pillars, is given to the investment manager or strategy with additional assessment insights written whenever appropriate. The ESG score is independently assigned, separate from the investment and operational assessment categories. This is because we consider ESG a unique element in our manager evaluation. We use the ESG score as additional information in our total assessment of managers.

The share of global investors that have applied ESG criteria has been increasing dramatically. However, there are also several challenges in ESG investment. For example, there are too many ESG rating and scoring providers with no clarity on the underlying methodology, and with no clear-cut criteria about factors such as what makes a company ESG investable, the quality of ESG data, and the potential for “greenwashing”. Legislators and regulators have started stepping up to deal with these challenges but it may take time to solve these problems. We intend to keep monitoring any improvements in the situation.

We believe ESG investment should be aimed at contributing to a better environment, society, and workplace, and at generating better quality long-term investment returns. Although there are several challenges in ESG investment, we evaluate external managers for whether they manage their portfolios to carry out these missions.
Proxy voting and engagement

The Nikko Asset Management Group Proxy Voting Policy establishes our group-wide approach to proxy voting decisions. One objective of the policy is to underscore our focus on ESG in proxy voting decisions that are undertaken by Nikko AM and all of its overseas investment management subsidiaries. Another objective is to make it clear that proxy voting by each of the investment management teams in the group is based on the same approach.

The policy expresses our basic approach to proxy voting decisions, company engagement, and matters such as conflicts of interest. Additionally, each overseas investment management subsidiary within the group may also stipulate its own detailed proxy voting criteria, and disclose its own proxy voting results.

Global voting results 2020

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of meetings</th>
<th>Number of resolutions</th>
<th>Votes with management (%)</th>
<th>Votes against management (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>APAC (ex. Japan)</td>
<td>2,466</td>
<td>20,824</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>EMEA</td>
<td>1,141</td>
<td>18,075</td>
<td>91%</td>
<td>9%</td>
</tr>
<tr>
<td>Japan</td>
<td>2,390</td>
<td>23,562</td>
<td>88%</td>
<td>12%</td>
</tr>
<tr>
<td>Latin America</td>
<td>237</td>
<td>2,020</td>
<td>91%</td>
<td>9%</td>
</tr>
<tr>
<td>North America</td>
<td>1,036</td>
<td>11,417</td>
<td>92%</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7,270</td>
<td>75,898</td>
<td>90%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Reasons for voting against management, 2020

- Routine/Business: 541
- Reorg. and mergers: 625
- Non-salary comp.: 1,234
- Director related: 800
- Capitalisation: 117
- Anti-takeover related: 4,009

The policy expresses our basic approach to proxy voting decisions, company engagement, and matters such as conflicts of interest.
Examples of engagement

Under our proxy voting policy, Nikko AM’s head office has in place Guidelines on Exercising Voting Rights, which give details about proxy voting criteria, and Standards for Exercising Voting Rights on Japanese Stocks, which include numerical criteria for proxy voting on Japanese equities. All of these documents are disclosed on our website.

We make specific proxy voting decisions based on the rules mentioned above, and we incorporate the results of our engagement activities in our overall assessments. Below are some examples of our Japan investment team’s engagement activities with companies before and after exercising our voting rights, as well as the results of our proxy voting in 2020.

Example 1
Engagement on a proposed appointment of an outside director prior to a general meeting of shareholders

Before our investee company’s 2020 annual general meeting (AGM) of shareholders, we discussed with management its proposal to appoint an outside director. Given that the candidate was from the top management of a major lender to the company, we expressed our concern about the independence of the candidate. The company’s management responded that they intended to bring an experienced director with financial and accounting knowledge onto the board of directors and they wanted a candidate who currently held an active management position. In light of this explanation, we comprehensively considered matters including the following: (1) the candidate was currently not an executive officer, (2) the investee company’s finances were sound and it was not at a high risk of having to be highly dependent on its lenders, and (3) the possibility for the candidate to bring significant knowledge and experience to the role given their position as a member of a bank’s top management. Based on those considerations, we voted in favour of the proposal.

Example 2
Engagement following an AGM regarding our vote against a proposed director appointment

We voted against an investee company’s proposed director appointment at its June 2019 annual general meeting. After the AGM, we held an investor relations interview to explain the reasoning and background behind our opposition to the proposal. Specific points included the fact that the company’s dividend payout ratio was low despite its extensive cash reserves, and our views on management’s information disclosure and communication with its stakeholders.

Example 3
Our perspective on a proposed anti-takeover defense measure

The management of an investee company was intending to propose an anti-takeover defense measure at its next AGM. We communicated our concerns that the measure could be used to protect the firm’s management, and that it could damage shareholder value. Furthermore, we believed that the measure was not designed well enough to stop it from being used arbitrarily and we informed management that we would vote against this proposal. The anti-takeover defense measure was proposed as initially planned, but the company indicated it would take Nikko AM’s opinion on board and would reflect it in future considerations.
Our engagement

Our portfolio managers and research analysts endeavour to enhance corporate value by interacting with independent directors, management, and investor relations representatives of the companies we invest in.

Our discussions with investee companies are conducted with a long-term perspective that takes into account the growth phase of the company. These discussions do not merely cover the firms’ corporate earnings and financial strategies, but also other matters mentioned in the non-financial information they disclose, including their management policies, business strategies, shareholder returns, and ESG issues. Fund managers and analysts use the details of these engagement activities within their investment process, as part of an assessment of corporate value that ultimately informs their investment decisions.

In March 2017, we established a business unit within our Japan Equity Fund Management Department called the Active Ownership Group. This group currently includes three analysts who facilitate engagement in passive fund management. We believe that this helps us to meet the requirements in Principle 4 of Japan’s Stewardship Code. The establishment of this group enabled us to add investee companies that are managed passively to the number of companies we engage.

We have worked to achieve closer engagement with investee companies in order to share an accurate understanding of their current situation and help them to generate medium- and long-term corporate value. In FY2020, Nikko AM engaged with 1,264 companies on 4,553 matters.

In order to grow medium- and long-term returns on the assets customers entrust to us, our intention when engaging with investee companies is to help them enhance their corporate value and achieve sustainable growth. Our focus on this task has not been changed by the COVID-19 crisis. In May 2020, we set up a contact window for conveying messages and inquiries to investee companies in order to keep track of their situations and maintain engagement with them. Given that each company is on its own journey towards enhancing corporate value in a sustainable way, we recently started engaging with independent directors to deepen our understanding of each company’s governance, as well as to make our engagement with firms more genuine and constructive. By continuing to emphasise real corporate value in our communication with investee companies, we strive to increase their corporate value and maximise client returns.
Case studies

CASE 1
A multinational mining company listed in Australia

ESG issues
Community Engagement
Ethical conduct

Background
In May 2020, the company blasted a section of an iron ore mine, which demolished two 40,000-year-old Aboriginal rock shelters that were culturally and historically significant. The incident caused public outcry and resulted in an Australian parliamentary enquiry. It became a catalyst for rapid change in Western Australia’s outdated legislation, which was in process prior to the incident. The event highlighted the company’s systematic failures in engagement with traditional owners over the last five years, and resulted in the eventual resignation of the CEO and two other senior executives.

Our analysis
There is inherent human rights and community engagement risk for mining companies in Australia, so it is important to analyse the company’s risk management system and structure. Through our engagement, we exchanged opinions on the handling of the incident with the chairman of the board and on the CEO’s lack of engagement with shareholders.

Outcome
This case will bring greater scrutiny around heritage site destruction in the future and how community engagement is handled by other companies in the same industry. Due to this case, we held several engagements, not only with the affected company, but with other mining companies, independent experts, and our clients. This has heightened the importance of a sound and effective risk management system. From this case, we have learned how to better identify and communicate these matters in our future engagements.

CASE 2
PRI Palm Oil Investor Working Group

ESG issues
Climate change
Biodiversity
Human and labour rights

Background
PRI created an Investor Working Group (IWG) on Sustainable Palm Oil to unify investor voices in support of sustainable palm oil practices. Previously, engagement was focused on palm oil producers, but the initiative has widened to include consumer groups and buyers of palm oil. The PRI Palm Oil IWG has organised sustainability meetings with palm oil producers, traders, refiners, financiers, and consumer goods companies over the years.

Our analysis
We have participated in the IWG’s coordinated engagements since 2019 to explore where we can support and collaborate with other investors concerned about sustainability issues, especially given our presence in the region. Recently, there has been a notable increase in the presence of other Asian asset managers and we are excited by the increased visibility of the initiative. In 2020, one of our portfolio managers spoke on a panel with representatives from MSCI and PRI on ESG risks in palm oil and stewardship.

Outcome
Nikko AM’s voting policies generally support the majority-of-votes-cast standard for election of directors and the declassification of the board, meaning that the directors would be up for re-election annually. This would give shareholders the ability to address any potential issues with the board immediately. Right now, the company’s board members have a three-year term and only three or four directors are up for re-election at a time. We did consider that a classified board structure could be used to protect new emerging technology companies from activists or a takeover.

In June 2020, prior to the annual meeting, the US Investment team had a meeting with the firm’s investor relations team to discuss the proxy items. The management admitted that they were busy with other issues in 2020 but aim to address the board issues in 2021.

Outcome
A substantial number of “withhold” votes will not prevent a candidate from getting elected, because of the plurality vote, but this can sometimes influence future decisions by the board of directors. The proxy adviser has recommended for the last five annual meetings to withhold votes from the board, indicating that the company has continued to neglect shareholder concerns. While it appears the company is starting to engage with its shareholders and taking a step in the right direction, we felt it had not done enough to deserve our approval of the candidate up for re-election.

CASE 3
An American education technology company

ESG issues
Governance
Proxy voting
Board composition

Background
The company’s board members received low approval from shareholders in 2019, but it did not address the issue of plurality votes or classified board structure.

A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected. Implementing a majority vote for directors would mean that the director is only elected if they receive a majority of the shares voted. The company has not adopted a majority vote standard for director elections, despite the proposal receiving support from a majority of voters at the 2018 annual meeting.

Our analysis
We felt it had not done enough to deserve our approval of the candidate up for re-election.
Advancing the sustainable finance conversation

Responsible Investor Conference 2020

In 2020, Nikko AM participated in the Responsible Investor Conference for the second year in a row. This ESG-focused event brings together institutional investors, asset managers, NGOs, data providers, and corporates to discuss the future of sustainable finance. Our investment professionals spoke at the RI Digital Festival Summer, RI Digital Japan, and RI Digital USA editions of the conference, which was held virtually as a result of COVID-19.

The RI Digital Festival Summer was held from 15–19 June and attracted over 4,500 participants, a five-fold increase from 2019. Nikko AM hosted a virtual booth to introduce participants to the firm’s investment capabilities and sustainability activities. In addition, Global Equity Portfolio Manager Greig Bryson spoke on a panel discussion titled “Responsible Investment in pharma, bio-tech, and healthcare.”

“The panel discussion was very much in line with our Global Equity team’s Future Quality approach to investment,” Greig commented. “With panellists Clare Griffin of GlaxoSmithKline and Damiano de Felice from Access to Medicine, we were able to have an active conversation on how industry, investors, and the non-profit sector can better engage to improve patient outcomes.”

The digital event in Japan took place from 28–29 October. The Head of Equity Fund Management in Japan participated in a panel discussion titled “Deep dive: A focus on the ‘S’—good workplace diversity and inclusion as a boost to corporate success”. He shared that human resource evaluations should be a priority in assessing the “social” component of ESG and noted a correlation between enhancing employee satisfaction and labour productivity.

Asked whether diversity and inclusion efforts can contribute to investment performance, he responded, “We believe that companies that cannot promote diversity have no future. Empirical research increasingly shows connections between diversity and corporate value, which we aim to demonstrate through engagement in the years ahead.”

Building on the momentum from the RI Digital Festival Summer and RI Digital Japan events, we also participated in the RI Digital USA held from 2–3 December. Head Portfolio Manager for Global Core Strategies Steve Williams spoke on a panel discussion titled “New approaches to ramp up investment in sustainable infrastructure”.

“The panel discussion on sustainable infrastructure aligned nicely with our Global Green Bond strategy’s core focus on providing clients with sustainable returns that contribute to achieving the objectives of the Paris Agreement,” Steve said. “While 2020 has been a difficult year, it has proven that when there is a collective will and the needed capital, great things can be achieved. In this sense, I am optimistic about the future of sustainability.”

With this year’s online format increasing accessibility and allowing for a greater number of attendees, the Responsible Investor Conference heightened awareness about ESG investing and allowed industry players to share information about their socially responsible investment endeavours.

As asset managers, we see growth in our business increasingly linked to ESG. We look forward to continued participation in such forums, which are a valuable opportunity to not only share our investment capabilities, but also to collaborate with members of the investment management industry in promoting and implementing best ESG practices. We look forward to further advancing the sustainable finance conversation while engaging with stakeholders across various industries.
Corporate Sustainability
Building on a solid foundation

A message from the Global Sustainability Advocate

In last year’s Sustainability Report, we first announced our three core areas of sustainability at Nikko Asset Management: diversity & inclusion (D&I), reducing inequalities, and environment & climate. Throughout 2020, we built on that solid foundation and set even higher goals for ourselves.

The Global Sustainability Department was created last June to take the lead on all of our sustainability activities. It is responsible for implementing and overseeing corporate sustainability initiatives, supporting working groups and their activities at offices around the world, and ensuring that sustainability is woven into every aspect of the firm’s objectives. The team’s passion for sustainability is already more fully energising everything we do.

The coronavirus pandemic has not stalled our efforts to achieve greater sustainability. Rather, it has presented us with the imperative to do more — and driven us to further action.

In one of last year’s most exciting developments, we established the Global Racial Equality Working Group, our first global working group, to better support our initiatives into reducing inequalities. It is a diverse group with the mission of promoting deeper understanding of racial issues and ending discrimination both within the firm and in our communities. Working group members will also propose internal policies that could be introduced to support greater racial equality.

In the area of D&I, we are committed to fostering a work environment that supports all employees who care for children or elderly parents, and those who have similar responsibilities, by offering flexible schedules across all offices. Hiring and advancement decisions are made with transparency, based on competency and merit. And, globally, we encourage women to take on managerial and leadership roles. In our Asia ex-Japan offices, in particular, 36% of the department head roles are held by women. We look to further this through new initiatives to expand our female talent pipeline.

With regard to environment & climate, we offset 6,275 tonnes of CO₂ last year — equal to our emissions across the firm globally — through participation in the India Solar Project, as well as through renewable wind energy generation in other parts of Asia, including China.

For the future, our focus is on further reducing our emissions. Our efforts in this area include plans to switch to renewable energy sources in our offices, the continued promotion of remote meetings and conferences to avoid unnecessary air travel, and a search for other offsetting solutions to help us become carbon negative. With offices in the UK already operating 100% on renewable energy, and more employees, clients, and other stakeholders holding a favourable view of increasing the use of videoconferencing, we are well on the way.

In the face of a global pandemic, we have stepped up our efforts to keep sustainability a central part of what we do. We are confident that greater sustainability can be achieved at our firm, in our communities, and for our world.

The team’s passion for sustainability is already more fully energising everything we do.

Stefanie Drews,
Senior Corporate Managing Director, Global Executive Committee Member
Stefanie speaks about leading a more sustainable life

What aspects of sustainability are you most passionate about?

I care deeply about sustainability, and the concept is central to how I live and work. But some specific aspects really move me to action.

I am passionate about being responsible for the environment, specifically, supporting ways to fight global warming and increase biodiversity. I am passionate about reducing inequality, particularly racism, sexism, and disability-based discrimination. I am passionate about the protection of rights for all, including those who are often overlooked, such as refugees.

I am also not afraid to ask the difficult questions about our own sustainability. One I regularly need to ask is, are we truly making an impact or just ticking a box to feel good about ourselves? Addressing sustainability directly and honestly is very hard work.

How have you made your lifestyle more sustainable?

I have made many changes over the years. As a family, we have significantly reduced the use of our car; we recycle aggressively, including clothes and all household goods; we only minimally use air conditioning in the summer and heating in the winter; and we are careful about our water usage. But the biggest lifestyle change we made was becoming vegan. Today, we abstain from eating all animal products.

A few years ago, my daughter did a lot of research into the impact of animal agriculture on the planet and decided to become vegan, then my sons and I joined her. This is important, not just for our health, but mainly because animal agriculture is the single most environmentally destructive industry in the world today. According to the World Health Organization, it is responsible for emitting more greenhouse gas than the exhaust from all of the world’s vehicles combined. It also harms nature in other significant ways, such as by endangering species and destroying their habitats.

Environmental movements generally focus on fossil fuels, but we need to do so much more. Reducing the production of methane from livestock would have a much faster impact, because methane has a global warming potential 86 times greater than CO₂.

Becoming vegan was hard for the first few weeks, but now it is part of our lifestyle and it feels right.

Which aspects of sustainability are easiest to achieve?

Anything that is in your control is the easiest to achieve. It is fully within your control to stop eating animal products and go vegan — bearing in mind that part of sustainability is about accepting a certain level of discomfort for a greater purpose. But that is a personal choice, and where others are involved, I simply share the facts, set my own example, and step back.

What is harder to achieve is a goal that needs the support of those around you. One example is realising true gender equality at work. Policy directives alone are not enough, bottom up support is critical too. It is therefore not just my job to implement policies, but also to ensure all those around me understand the positive contribution that, in this instance, gender equality makes towards a more creative, sustainable, fair and successful workplace.

For issues that require broader support — such as equal pay and equal promotion of women — it is my job to ensure others understand the positive contribution they could make and how they could contribute to making our workplace more sustainable. It’s easiest to find buy-in that way.

... part of sustainability is about accepting a certain level of discomfort for a greater purpose ...

Sustainability Q&A

Stefanie with her 19-year-old rescue dog, which she saved from euthanisation and adopted 10 years ago.
Gender diversity and career advancement

Perspectives from female investment professionals

With a far greater number of men than women in the investment industry, asset managers are looking for ways to increase gender diversity. But how do the women who currently work in the context of this male-skewed sector feel about their careers and their treatment in the workplace?

“The asset management industry is one that is relatively more numbers-driven,” says Yii Hui Wong from Singapore. “If you produce results and your clients are happy with your performance, there is little reason why gender should hinder your career.”

This is affirmed by Yukiko Hanai in Japan who adds, “I do not feel that my career has ever been hindered, nor has there been a difference in treatment or pay, because I am female.”

Four of Nikko AM’s female investment professionals from different regions share their thoughts on how they have seen the industry changing and what more needs to be done to improve gender diversity.

What progress have you seen made in the industry as a whole, or at firms you have worked with, in terms of the advancement of women?

Lisa Edmundson (Scotland): In my 25 years or so in the industry, the workplace has evolved to become a more diverse place from both a gender and cultural perspective. This change has been gradual, but initiatives to narrow pay gaps, encourage return-to-work schemes, and promote flexible working have helped. It has been positive, but there is more that can be achieved through other initiatives.

Yii Hui Wong (Singapore): I think it has been acknowledged that, besides sales, women can also perform well within investments, in areas such as research, quantitative finance, dealing, and portfolio management. Firms are generally more open to female candidates now, and are increasingly considering them for managerial roles. During meetings, views from women are seen in the same light as men. Personally, I haven’t encountered a situation where I was prevented from giving my view when I wanted to. Women themselves are becoming more proactive in helping other women and sharing their experiences, which then helps encourage other women to move forward.

Yukiko Hanai (Japan): For the industry as a whole, the number of female analysts seems to be increasing both on the sell and buy sides. However, the number of fund managers has not increased much. Progress for women is especially significant in foreign-affiliated companies, but I feel that efforts to advance women vary among companies. At Nikko AM, there has been an increase in the number of female employees in middle office and back office positions, but not in investment management since the time I joined the company in 2002. It could be that the number of female candidates for investment professional roles has not increased.

Linda Luo (Australia): There was already a big push for advancement of women across all industries when I graduated from university, but this has definitely picked up over my tenure in the finance industry where a greater focus and commitment have been placed on achieving gender diversity targets. The other encouraging sign is the increasing number of industry leaders actively promoting and engaging in gender parity discussions.
How can the industry do better at attracting and retaining female talent?

Lisa: Attracting the best talent is crucial to any industry. Integral to this is the cultural shift to greater all-round inclusivity and diversity. An important way for firms to do this is to ensure that they are providing an environment that can attract the best young talent. Equal opportunity and rewards based on skill and professional qualities can help, but workplaces need to continue to build on the progress made so far in areas like diversity, pay gaps, personal development, and flexible working conditions.

Yii Hui: Work–life balance is important and this can only be achieved if management is setting the example. Women with children or who are taking care of parents have a hard time juggling home and career if they constantly need to work long hours in the office. The flexibility to work from home from time to time is a good start, while the attitudes and actions of supervisors in reducing the need for face-time will help to set the tone.

Hiring practices are key. There should be a conscious effort to try to place suitable candidates of different genders in front of decision makers. This helps to feature female employees in different roles across the firm. Through channels such as social media, we can let other women know that the industry has female participants who are active in their roles — and enjoying themselves in their roles.

Yukiko: In Japan, raising awareness that the doors are open for female candidates can help to increase the number of women joining the industry. I feel that many investment professionals really enjoy their jobs. It is important to let people know that this is an interesting and intellectually stimulating field that is also enjoyable.

It may be difficult to understand what analysts do because many people don’t know about their day-to-day work and training is mainly done on the job. So, making it clear that investment firms can offer them a clear educational and career development path would remove any anxiety young people might have about successfully pursuing a career in investment management.

Women in the investment management industry should partner with universities to give them a platform to share their expertise. And investment education from a young age would also be a good way to increase the number of female investment professionals over the long term.

Linda: An enormous amount of effort and resources have already been funnelled into attracting female talent over the last decade, so I think we need to widen our focus on retaining them and engaging with all of our young talent.

I believe we need to try and understand what motivates both young women and men and highlight to them the benefits of working in the asset management industry. Other than the monetary aspect, we need to showcase how diverse the industry is, and that they can find purpose and make an impact. Engaging with younger employees in these ways will help rebrand the industry and should naturally attract more female talent.

Another key aspect we need to focus on is ensuring young talent has access to senior leaders, who can then provide sponsorship or mentorship to these less-experienced employees as they navigate through the challenges of their early careers. I was fortunate enough to have mentors early in my career who guided and helped with my development, which led to me feeling more engaged and motivated.

Lisa: Attracting the best talent is crucial to any industry.
Globalising corporate sustainability

Nikko AM creates the Global Sustainability Team

As corporate sustainability gained momentum at Nikko AM, the firm formed its own global sustainability team in May 2020. This is a testament to the firm’s commitment to drive sustainability in everyday business operations.

The global sustainability function is helmed by two global co-heads, one based in Japan and the other in Singapore. In addition to the co-heads, the team consists of five members who are called sustainability advocates. Based in both our Tokyo and Asia offices, the advocates execute global corporate sustainability initiatives and support working group activities.

The team reports to global sustainability advocate Stefanie Drews and the co-CEOs, and it also provides quarterly updates to the Global Sustainability Advisory Council. On the council are the chairman of the board of directors, regional CEOs, an external adviser, and representatives from senior management, investment management, and global human resources.

Establishing a global sustainability function has been critical to setting the firm’s sustainability strategy and ensuring that global initiatives are well-coordinated and effectively implemented. The global sustainability team aligns local initiatives with the firm’s focus on diversity & inclusion, reducing inequalities, and environment & climate. It actively encourages inter-office idea sharing, promotes awareness of sustainable practices, and, most importantly, inspires colleagues to make a difference wherever they are. The global team also provides central funding to support local initiatives, so that worthy causes do not have to be passed over due to resource constraints.

Prior to the creation of the global team, the firm already had a strong network of working groups at all offices. These on-the-ground voluntary working groups grew organically from individuals’ passion to make sustainability a way of life, at work and at home.

A total of 12 working groups from Japan, Australia, UK, New Zealand, Singapore, and the US join the global network in bimonthly meetings to share ideas and help solve challenges they face in implementing initiatives. The newest group is the Global Racial Equality Working Group, formed in October. This most recent addition is truly global, with participants from all regions, spanning different cultures and races.

Daisuke Kono, Global Co-Head of Sustainability, says, “If we look across the firm, about 10% of our colleagues are volunteering in various working groups, not counting those who provide additional support during implementation. The newest group is the Global Racial Equality Working Group, formed in October. This most recent addition is truly global, with participants from all regions, spanning different cultures and races.

Joyce Koh, Global Co-Head of Sustainability, observes, “The Nikko AM team has the intrinsic desire to do good and to do what’s right. The way all working groups collaborate — and with each being self-motivated to make a difference in their region — really inspires me in this journey.”

Establishing a global sustainability function has been critical to setting the firm’s sustainability strategy…

The move to make corporate sustainability a global function underscores Nikko AM’s commitment to embed sustainability as a core value in the way we operate as a global investment manager.

Daisuke Kono, Global Co-Head of Sustainability, says, “If we look across the firm, about 10% of our colleagues are volunteering in various working groups, not counting those who provide additional support during implementation. The new structure, we combine global direction with an on-the-ground network to really propel corporate sustainability to a globally connected function.”

The global team also provides central funding to support local initiatives, so that worthy causes do not have to be passed over due to resource constraints.

Prior to the creation of the global team, the firm already had a strong network of working groups at all offices.
Embedding sustainability in our culture

A conversation with Taka Miyawaki, Global Head of HR

Starting last year, the Human Resources (HR) department at Nikko AM has led an initiative to include sustainability in each employee’s annual goal-setting exercise. The Global Sustainability team had a virtual chat with Taka Miyawaki, our global head of HR, to learn why these sustainability goals were introduced and to hear his views on sustainability at our firm.

“The simple aim of adding a sustainability goal to the 2020 performance management exercise was to introduce a greater awareness of sustainability to employees’ day-to-day performance,” Taka explained. “It is important for each and every one of us to understand that through our performance we can contribute to the firm in making sustainable improvements in our workplace. This will enable us to achieve our business goals, maintain our branding, and serve our customers in a sustainable manner.”

Depending on each employee’s function, they had to set a goal specifying how they wanted to implement sustainable practices in their role at the firm. These could range from developing ESG-related products or enhancing ESG-related reporting in client materials to promoting the work-from-home initiative, encouraging digitalisation in business processes, or reducing paper usage at client events.

According to Taka, setting a sustainability goal not only gave our staff the opportunity to think about how they could practise sustainability daily in their jobs, but it also sparked in-depth discussions with their managers on how this could be achieved at the departmental level.

When asked if employees or managers faced any challenges during the goal-setting process, Taka said: “Actually, we found that everyone was receptive, and staff took the new requirement seriously. Not everyone immediately understood how these objectives could be measured, and it was more challenging to some departments than others in defining their sustainability goals. The HR department’s role is to continuously engage staff to become more involved with the concept of sustainability, and we aim to encourage and guide managers and staff to have more conversations around their sustainability objectives.”

Taka sees the goal-setting exercise as the start of a multi-year process of weaving sustainability into our culture.

“As sustainability becomes inherent to our work culture, our plan next year is for the sustainability goal to be embedded in each employee’s business-as-usual or growth goals. We want to truly assimilate sustainable practices into our day-to-day performance,” he said.

As for his long-term vision for the firm on other aspects of sustainability, diversity is critically important.

“Nikko AM’s global footprint and diverse workforce are among our core strengths,” he stated. “Diversity and sustainability are key to our business. With our collaborative culture, I believe that if everyone takes small steps and raises their voices together, we can achieve our goals.”

“… through our performance we can contribute to the firm in making sustainable improvements in our workplace.”
Digital transformation

Rapid acceleration in response to the pandemic

Over the years, we have seen an increase in the use of digital technologies in almost every aspect of the investment industry, but nothing nearly as dramatic as what we witnessed in 2020. The adoption of digital platforms to help to reduce the need for face-to-face interaction was greatly accelerated by the COVID-19 pandemic. As lockdowns were imposed in most of the cities where we operate and safe distancing measures became necessary, our Global Technology Division, along with others, responded by digitising more of our operations and upgrading to the latest technologies.

Office of the future

In our Tokyo office, plans were already underway before the pandemic to reconfigure some of the physical space to prepare us for the future. Some areas have been designated as “activity-based working zones” where employees do not have a fixed desk and, instead, can choose the best location for the type of work they are doing. A digital studio was also built to enhance our in-house photography and filming capabilities, and individual videoconferencing booths were set up with state-of-the-art equipment.

In addition to these changes, further steps were taken to ensure the safety of employees at Nikko AM globally with a virtual town hall meeting. The global town hall in 2020 marked our first use of a new digital events platform, which was later used for our external events. This allows for events to be held sustainably and safely, by eliminating travel and the risk of the spread of the coronavirus.

Rising to the challenge

In tandem with this project to create an office of the future — which would better facilitate business while ensuring the safety of employees — we sought to better engage our clients and support their investments in the face of various challenges.

Navigating a complex digital transformation journey in a compressed timeframe was not easy. Over the past several years, digital transformation in investment management has been driven by the rise of machine learning and AI, the demand for greater personalisation in investing, and a broader appreciation for ESG. Adapting to these changes has been stressful, but it was nothing in comparison to the stress and time pressure that the pandemic put on our organisation.

We found that addressing these digital challenges demanded a diverse talent pool and an inclusive work culture. It also called for supportive leadership with great agility, as there was little opportunity to stress test digital platforms with carefully planned pilots.

Optimising remote engagement with clients

When we were no longer able to hold regular face-to-face meetings with clients, we quickly pivoted to the use of already established modes of teleconferencing and videoconferencing, while also striving to add other digital platforms used by different clients. The videoconferencing booths in Tokyo immediately became an asset in communications with clients.
The beauty of virtual platforms is that they connect people over great distances while greatly reducing their carbon footprint. Most people acknowledge that it could never totally replace actual face-to-face interaction, but it certainly raises the question of whether virtual events could become the norm, rather than an exception, in a post-pandemic world as we pursue sustainability.

This is a question that we must continue to ponder and debate in order to strike the right balance between social and environmental sustainability. Nikko AM is committed to investing the resources required to further equip the firm digitally — so we can continue to connect with clients and staff most effectively and make the necessary changes to contribute to the good of the environment.

For interaction with bigger groups, webinars became the norm and, for the first time, annual events were conducted through virtual platforms.

For both Tokyo and the Asia ex-Japan region, our flagship annual investment forum, FOREWORD, was held virtually and allowed for larger-than-ever participation. In Tokyo, 130 institutional clients attended. The Asia event saw a record number of participants with guests from Indonesia, Brunei, Cambodia, Hong Kong, South Korea, Malaysia, the Philippines, Thailand, Taiwan, Maldives, China, Singapore, and Japan. The immersive platform we used allowed clients to ask questions to speakers on the various panels, respond to polls, download materials, watch videos, view speakers’ profiles, and even use a carbon calculator to see the amount of CO₂ emissions that was reduced by attending the event virtually instead of travelling to it in person.
Striving for a society where everyone shines

Working group initiatives – Japan

Japan Women’s Group
Promoting women’s participation in the workplace is an important part of our D&I efforts. One of the ways we do this is through the Japan Women’s Group, which was informally established in 2015 and officially launched in January 2018. As one of their first activities, members prepared and conducted a company-wide survey to better understand the status of women in our workplace. Based on the results of the survey, the group established three goals:

1. Increase awareness of the value of more women in the workplace
2. Engage and motivate our female employees
3. Expand our support systems

We have worked diligently towards accomplishing these aims.

Our efforts to increase awareness of the value of women’s active participation in our workplace have been well received. We have held seminars for employees at every level of the firm, inviting senior-level executives and HR managers from companies that are committed to diversity and inclusion (D&I).

Education and discussion have also been foundational to our efforts to engage and motivate our female employees. We have invited women in leadership positions to participate in our Lunch and Learn series, where they spoke about their experiences in the workplace, including the barriers they have faced and their goals for the future. Many male employees have also taken part in these Lunch and Learn sessions, giving them a chance to reevaluate their own work styles. Over the years, we have also held many training sessions to help our female employees gain more relevant experience, become more confident at work, and broaden their expectations about what is possible.

In order to expand the company’s support systems, we worked together with the HR Department to formulate targets for D&I. Apart from looking to increase the number of female employees, managers, and executives, we also aim to build a larger support network where we have more women in senior management positions mentoring the growing number of female employees. Together with the HR Department, we presented these targets to management along with points on the kind of systemic support that would be necessary to facilitate positive movement, as well as how we could better support employees who are trying to balance work with childcare or elderly care.

LGBT Working Group

Launched in March 2017, the LGBT Working Group was the first of Nikko AM’s D&I efforts. We began by assessing the company’s internal policies in Japan and found they lacked protections for LGBT employees. Working closely with the HR Department, we reformed these policies by adding “LGBT” to the anti-discrimination clause and enabling employees in Japan in same-sex relationships to receive the same benefits as those in opposite-sex marriages.

In addition to efforts to change internal policies, we also strive to help raise awareness of LGBT issues in Japanese society at large. In November 2020, for example, Nikko AM announced its support for the movement to recognize marriage equality in Japan. We did this by signing the American Chamber of Commerce in Japan’s Viewpoint on Marriage Equality, which recommends that Japan extend “the right to marry to LGBT couples,” becoming the first Japanese asset manager to do so.
The LGBT Working Group operates under the slogan “Creating a workplace where you can be yourself.” To help us make this a reality, we host many internal seminars with the goal of increasing the level of understanding of LGBT issues and the number of LGBT allies. We also often work with LGBT Finance, a network of financial institutions in Tokyo that share resources to support the larger community. Through this collaboration, we have organised several events, including the LGBT Ally Summit, where Executive Director Maho Nakada talked about the necessity of teaching children from a young age that we should not think differently about those who are part of the LGBT community, but rather accept them.

Abilities Working Group

Even before Nikko AM launched the D&I programme, we were actively engaged in supporting special needs individuals. We have been a sponsor of the Japan Wheelchair Rugby team since 2013 and have an athlete programme through which we sponsor athletes on the team. Also, for many years, we have been committed to hiring those with special needs for our workforce. Takahisa Yamaguchi is one of those employees. In addition to winning bronze at the 2016 Summer Olympics, he also co-founded and co-leads our Abilities Working Group.

The group focuses not only on physical disabilities, but also on mental disabilities, and used 2020 to start conversations with employees on mental health. In particular, we hosted a seminar on panic disorder and depression, and invited the founder of an online community where people with mental health conditions, or those supporting family and friends with these conditions, can come together to share experiences and get expert advice. This seminar was valuable for employees in Japan especially, as mental health is often not discussed openly. They were also given the opportunity to ask candid, anonymous questions.

We hosted three sign-language lessons over Zoom with a sign-language teacher. The event was well received by everyone who took part, with employees expressing excitement over the fact that the company was giving them the opportunity to learn a new skill that is not directly related to their work.

We also hosted a unique seminar blending rakugo (traditional Japanese storytelling) with the topic of elderly care, a pressing theme in a rapidly ageing society. The discussion will be continued monthly in smaller interactive sessions.

Nikko AM is also one of the founding companies of Abilities in Finance, a group of companies in the financial industry in Tokyo that work together and share resources to support initiatives that help improve the lives of those with disabilities at our companies and in society.

Environment Working Group

Nikko AM’s Environmental Policy, created in 2010, stipulates that our Tokyo office must prioritise environmental conservation and contribute to the UN SDGs in our business operations. In February 2019, we established an internal Environment Working Group to further promote these activities.

The Environment Working Group aims to encourage environmental management through office activities such as energy and resource conservation. In 2020, an expert in environmental protection who works with the UN Environment Programme Finance Initiative and the World Wildlife Fund Japan spoke at an internal seminar, giving employees an opportunity to learn from someone at the forefront of the movement.

In addition, after the COVID-19 pandemic forced us to shift to telecommuting, we conducted a company-wide survey to gauge our progress on going paperless and learn how our reduced use of planes, cars, and trains for travel and business trips has benefitted the environment. This gave us an opportunity to reevaluate how we are using resources and consider how the habits formed while working from home could continue when we return to the office.

Many respondents who had cut down on printing when working from home said that they would be able to conserve resources by printing less, even when allowed to return to the office.

We believe that addressing environmental issues is important for us, both as a corporate citizen and as an asset manager.
Giving back in challenging times

Working group initiatives – Asia

As social distancing became the norm amid the COVID-19 outbreak, we stopped eating out, travelling, and even going to the office. In a year that made it easy to feel isolated, the Singapore Sustainability Working Group focused on bringing staff together to offer help to the wider community.

In May 2020, as the Singapore office went into its second month of mostly working from home, the working group kicked off a fundraiser for two causes: Daughters of Tomorrow and Free Food for All.

Daughters of Tomorrow supports low-income women, many of whom lost jobs during the coronavirus pandemic. By providing jobs training and skills workshops, the organisation aims to help these women attain financial independence and improve social mobility for their families.

Free Food for All provides free food for the less fortunate, particularly the elderly, disabled, and financially distressed. During the pandemic, it delivered sanitising kits with masks and hand sanitiser to families in need, in addition to the food aid it already provided.

Two private campaigns were set up on Giving.sg, an online platform, ensuring that all donations went directly to the chosen beneficiaries. The charity drive ran from 21–30 May 2020, and employees in the Singapore office generously contributed a total of SGD 14,590. The firm then added SGD 5,000 to employees’ donations, bringing the total raised to SGD 19,590.

At the end of the year, the working group organised an “Adopt-A-Lego” initiative with ReadAble, an organisation working to promote literacy by running reading and language classes for underprivileged children. Staff sponsored 43 Lego sets as an education aid for children aged 3–11 years old. They were distributed to children in time for Christmas. A ReadAble core team member also joined us for a lunchtime Zoom talk to tell us about their initiatives and the community they work with.

The group also worked to keep staff connected through internal initiatives. It launched a bi-monthly email newsletter to help everyone stay up to date on sustainability initiatives in the Singapore office and featured the sustainability habits of various staff members. These included composting, upcycling and crafting, and even wildlife photography. The working group also ran a sustainability story contest, inviting staff to submit photos or videos of sustainable habits they had picked up while in lockdown. These initiatives aimed to inspire others and spark conversations among staff, even while most of us were working remotely.
Charity begins at home

Working group initiatives – Europe

The year 2020 did not turn out as any of us expected. For the Nikko AM Europe Sustainability Working Group, that meant a major change in plans as we redirected our efforts to more pressing causes. Our original intention to build on the environmental sustainability initiatives we started in 2019 — many of which related to our office — could no longer be carried out since the first UK lockdown was initiated in March and staff began working from home.

After observing that many of the worst effects of the pandemic and lockdown were felt by those already disadvantaged — despite government programmes aimed at alleviating some of the impact — the working group decided to concentrate on raising awareness of the work of Trussell Trust, which supports a nationwide network of food banks. Statistics published by the Trussell Trust showed that demand for emergency food parcels in April 2020 was 89% higher than in April 2019, and, between April and September, food banks in the organisation's network provided more than 1.2 million emergency food parcels.

The Global Equities team in Edinburgh volunteered at the Edinburgh Food Project, a member of the Trussell Trust’s network, to help get food to people in desperate need. The team also held a Christmas drinks fundraising evening in aid of the project, which raised GBP 825 and was matched by Nikko AM, bringing the total to GBP 1,650.

At the end of November, the working group sent out a request to support the Met Police’s Annual Christmas Tree Appeal, a toy drive held in association with The Childhood Trust that moved entirely online due to the COVID-19 pandemic. Staff made 20 donations of toys or vouchers, each of which helped make a child’s Christmas special — something that was especially needed during this difficult time.

While it was a challenging year on many levels, we remain optimistic about our ability to make a difference. One of our most recent initiatives was to implement a payroll giving scheme, which makes charitable giving more efficient for both staff and their selected charities. Within a month of going live, a number of staff members had signed up, with many others expressing interest. The working group is aiming to receive a Gold Payroll Giving Quality Mark from the Charities Aid Foundation in 2021.
Making an impact on the future

Working group initiatives – Australia

In Australia, Nikko AM has three sustainability working groups. Each of these focuses on one of the key themes of diversity & inclusion (D&I), reducing inequalities, and environment & climate.

Diversity & inclusion

In July 2018, Nikko AM Australia became a partner of the Future IM/Pact programme, an initiative born out of the need for more diversity in investment teams. Future IM/Pact’s main goal is to grow the pipeline of female talent through programmes that engage and encourage university students to choose a career path in investment management.

As a result of our involvement in Future IM/Pact, our D&I Working Group’s focus for 2020 was on increasing the number of engaged female candidates through three key initiatives: a virtual internship, an investment competition, and mentoring.

Together with Future IM/Pact and other industry partners of the programme, Nikko AM Australia created a virtual internship that began in March 2020. The Virtual Internship walks students through case studies, videos, and everyday scenarios of various sectors within investment management. We created a Fixed Income module. Since the Virtual Internship was launched, a total of 16,477 students* have enrolled globally, with 170 Australian women completing the programme as at September 2020. This has created a pool of engaged local women who are ready for opportunities.

Five local female students, who completed the Virtual Internship, were selected to take part in three interactive sessions of a Fixed Income team-led Mentoring Circle.

*data as of 30 September 2020

In September 2020, Future IM/Pact, along with Nikko AM Australia and the programme’s other industry partners, conducted a National Investment Competition for university students for the second year running. The competition aims to inspire diverse talent to consider a career in investment management by showcasing the breadth of the industry and its impact on the economy, business, and society. The finalist teams who chose the Nikko AM Australia Fixed Income case study were invited to attend a mentoring session with the team.

Nikko AM Australia became a partner of the Future IM/Pact programme, an initiative born out of the need for more diversity in investment teams.

A Reconciliation Australia activity

*Nikko AM Sustainability Report 2020*
Another one of the D&I working group’s activities is our participation in the Reconciliation Australia movement. We have pledged to promote and facilitate reconciliation by building relationships, respect, and trust between the Australian community and Aboriginal and Torres Strait Islander peoples. The working group will lead initiatives with the aim to create educational opportunities internally and making meaningful contributions to the community. Our vision for reconciliation is for all employees in Australia to acknowledge, honour, and celebrate the rich culture and heritage of Australia’s First Peoples.

Reducing inequalities

In 2020, the Nikko AM Australia offices in Sydney and Melbourne committed to “being philanthropic from home” in an initiative led by the Philanthropy Working Group. Individual employees have been generously running school charity drives, donating to those in need in their local communities, and raiding their pantries to support family, friends, and neighbours through charitable giving.

In Sydney, a successful Australian Football League footy tipping competition was held to raise funds for charity. Staff members’ donations were matched by the managing director. The offices in both Sydney and Melbourne participated in a gingerbread house raffle at our Sydney office Christmas party, raising funds for partner charities.

In 2020, more than AUD 1,000 was raised for Australia’s partner charities: Orange Sky, which supports vulnerable Australians living on the streets, and the Alice Springs Women’s Shelter, which supports domestic violence survivors and their children.

Environment & climate

The members of the Nikko AM Environmental Awareness Team (NEAT) believe that we must use our knowledge to empower employees. We share practical ways to ensure that each person is equipped to make a difference to our world by making just small changes in their lives.

Global initiatives, such as Zero Waste Week, have been used to demonstrate the results that are possible through collective efforts. In 2020, Zero Waste Week reported that 326 million participants (including Nikko AM staff) avoiding creating 900 million kilograms of plastic waste.

Through NEAT’s initiatives over the past year, we have seen a dramatic increase in staff engagement, greater openness to discussions on environmental topics, and, most importantly, increased action. Some of the actions we have taken include:

**UNICEF Water Walk**
Through staff participation, Nikko AM Australia raised AUD 1,444 for this initiative. Our contribution went towards the purchase of 140 buckets to help children in need transport and store clean water.

Participation came in the form of walking 7km per day over seven days, walking 49km over one month, or through donations.

**Sustainable Gifting**
During the holiday season, we shared a “cheat sheet” for sustainable gifting, with suggestions for fun sustainable gift options and alternatives to wrapping.

**Real People, Real Stories**
NEAT has paved the way for staff to openly share the ways they are living more sustainably at home. The stories we have shared include staff and their children composting, building backyard worm farms, and growing their own vegetables.
Thinking out of the box to make a difference

Working group initiatives – New Zealand

Sustainability is not a separate consideration from business considerations. This is what our New Zealand office learned while we were upgrading our servers. The server room is the part of our business that consumes the most power by far, so it made sense — both commercially and environmentally — to ask questions about the impact of changing equipment.

What the team discovered was that the amount of power consumed more or less correlates with the number of physical boxes in the server cabinet. Also, each box emits some heat, so increasing the number of boxes will require the cooling system to work much harder to cope.

The standard approach to improving equipment configuration, which is often to add to the existing configuration, would have resulted in our having approximately 10 different boxes and other pieces of equipment. This would have meant a vast uptick in power consumption in order to bring equipment up to standard.

Fortunately, at the New Zealand office, our Swedish IT specialist was able to solve the problem by compressing data that is not being used. This technique, called hyper-converged infrastructure, is about 90% more energy efficient from a data storage perspective than a standard set up. More importantly, our server power consumption is now about a third to a half of what it otherwise would have been.

Other environmental gains for our office, and most other Nikko AM offices, in 2020 were the unintended consequences of COVID-19, such as significant reductions in both travel and the amount of paper printed. The fact that we were able to operate without these is challenging us to ask whether some of these reductions can be permanent going forward.

Reducing inequality

During a difficult year of lockdowns, we received training on modern slavery from Tear Fund. This brought home the unpalatable truth that people in wealthier, first-world countries can still be contributors to the problem through both consumer choices and how the internet is used. The training we received, and the steps the New Zealand office has taken against modern slavery, reflect the fact that a number of jurisdictions, including the UK and Australia, are requiring that anti-slavery practices be included as part of their legal framework.

"our server power consumption is now about a third to a half of what it otherwise would have been"

Marcus Rameke working on improving our server power consumption
Helping our neighbours in need

Working group initiatives – Americas

In 2020, the New York office focused on helping communities that had been hardest hit by the COVID-19 crisis. In the first half of the year, we held two food drives and donated a total of over 22kg of food to the Bowery Mission Food Kitchen. We also had two beach cleanup sessions in Brooklyn, where staff removed more than 11kg of garbage from local beaches and waterways.

In the second half of the year, as the weather grew colder, Nikko AM Americas donated USD 4,000 to the New York Cares Coat Drive in partnership with the Salvation Army. The New York office’s donation provided 200 coats to communities that have been disproportionately affected by the pandemic. Since 1988, New York Cares has donated more than two million coats. We all feel strongly about this cause as each coat distributed represents a warm commute, protection from the cold, and one less expense for those having to choose between groceries or other necessities and a warm coat.

Separately, Nikko AM Americas supported the Classical Theatre of Harlem (CTH) with a USD 5,000 donation. Founded in 1999, CTH puts on theatrical productions and provides theatre-based educational and literary programmes at little or no cost to underserved communities in Harlem and surrounding areas. With diversity, equality, and inclusion as its core values, CTH attracts one of the most racially, generationally, and socio-economically diverse theatre audiences in New York City. CTH engages with Harlem residents, businesses, schools, and community-based organisations to directly benefit some 18,000 people each year. Our donation went towards funding CTH’s digital production hub, Behind the Curtains, which will allow it to reach out to audiences throughout the country and around the world, at a time when people are unable to attend live theatrical performances.

We also supported the Neighborhood Youth Association by participating as a Gold Investor for its 2020 event.
Looking Beyond
Looking beyond
Charting the road ahead

As an investment firm, we are committed to continually re-examining and re-evaluating our processes to stay abreast of developments in the market and ensure that ESG is firmly integrated. With respect to environmentally responsible investing (the “E” in ESG), we will adhere to our Position Statement on Climate Change, further develop our internal capabilities, and extend our collaborative work with the investment community.

We will build on the insights we have gained during this pandemic and focus even more on social (“S”) themes such as greater employee diversity and more flexible working style reform. In the area of governance (“G”), we will continue to engage with...

“... we recognise that a material difference we can make at Nikko AM is to increase gender diversity”
For a greener environment

Protecting the environment where we live and work is key to our well-being. We take a pragmatic approach to lowering our carbon footprint and creating a greener future by further enhancing our ability to work from home and reducing business travel when possible.

For broader environmental issues, we are exploring how we can increase our engagement in programmes for reforestation and clean water. Regarding clean water, Nikko AM has worked with the Singapore International Foundation to participate in Water for Life in Cambodia, a programme that also reduces inequalities by giving poor families access to safe drinking water. Our intention is to step up our involvement in this initiative once the coronavirus pandemic is under control.

In an ever-evolving world, we acknowledge that we will need to keep striving to achieve the goals we have set. In each of these three core areas of focus, we will also continue to refine our initiatives to ensure that we are making a difference for the future.

For a more inclusive community

In an industry that employs a much higher number of men than women, we recognise that a material difference we can make at Nikko AM is to increase gender diversity. We have set a goal to increase the number of women in managerial positions to 30% from the current 18.4% firmwide by 2030. We will work through Human Resources to enhance our ability to do more for women in the hiring process and to level the playing field in career development and progression. A highlight for 2021 is a programme we have implemented called Power Chat that gives us greater opportunities to discuss issues women face in their careers.

For greater equality

In 2020, we started an important conversation on racial equality through the formation of our Global Racial Equality Working Group. This was a major step that we plan to complement with training in unconscious bias. We also aspire to do our part for greater equality for the external community. One initiative that our Tokyo office has already embarked on is an internship programme to prepare students from refugee families for work, and we hope to expand this to our offices in other regions.
## External commitments

### Our participation in external initiatives

Where specific to an office, the office is indicated in parentheses.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Investor Group on Climate Change (AIGCC)</td>
<td></td>
</tr>
<tr>
<td>CDP</td>
<td>(Carbon, forests, water) CDP Science Based Targets campaign</td>
</tr>
<tr>
<td>Climate Action 100+</td>
<td></td>
</tr>
<tr>
<td>International Corporate Governance Network (ICGN)</td>
<td></td>
</tr>
<tr>
<td>United Nations-supported Principles for Responsible Investment</td>
<td>- Principles for Responsible Investment (PRI) - PRI Statement on ESG in Credit Ratings - PRI Palm Oil Investor Working Group</td>
</tr>
<tr>
<td>Task Force on Climate-related Financial Disclosures (TCFD)</td>
<td></td>
</tr>
<tr>
<td>The Investor Agenda</td>
<td></td>
</tr>
<tr>
<td>Global Investor Statement to Government on Climate Change</td>
<td></td>
</tr>
<tr>
<td>Japan Association of Value Creating ERM (Nikko AM Tokyo)</td>
<td></td>
</tr>
<tr>
<td>Principles for Financial Action for the 21st Century (Nikko AM Tokyo)</td>
<td></td>
</tr>
<tr>
<td>30% Club Investor Work Group (Nikko AM Tokyo)</td>
<td></td>
</tr>
<tr>
<td>ESG Research Australia (Nikko AM Australia)</td>
<td></td>
</tr>
<tr>
<td>Future IM/Pact (Nikko AM Australia)</td>
<td></td>
</tr>
<tr>
<td>TCFD Consortium</td>
<td></td>
</tr>
<tr>
<td>Stewardship Codes</td>
<td>- Japan Stewardship Code (Nikko AM Tokyo) - Singapore Stewardship Principles (Nikko AM Asia)</td>
</tr>
<tr>
<td>Women’s Empowerment Principles</td>
<td></td>
</tr>
</tbody>
</table>
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Introduction

Investment Management

Corporate Sustainability

Looking Beyond

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