

Stewardship Activities Report and Self-assessment (2017)

Nikko Asset Management (hereinafter “Nikko AM”), aims to fulfill its fiduciary duty as an asset manager by working to achieve each of its investment management goals to the fullest extent in accordance with its investment management policy.

On May 30, 2014, Nikko AM signaled its commitment to Japan's Stewardship Code by announcing the **Nikko Asset Management Stewardship Policy**. Japan's Stewardship Code is a set of principles for institutional investors to follow in order to meet their stewardship responsibility of maximizing the medium-and long-term investment returns of clients and beneficiaries. To meet this responsibility, institutional investors are required to promote enhanced corporate value and sustainable growth at investee companies through constructive engagement based on a deep understanding of the companies and their business environments.

Nikko AM updated the Nikko Asset Management Stewardship Policy in November 2017 following a revision to Japan's Stewardship Code on May 29 of that year. The renewed policy exhaustively covers major themes that were newly incorporated into the revised code, including management of conflicts of interest, engagement in passive investment management (goal-oriented dialogue) and enhancement of the public release of proxy voting records. Nikko AM's own assessment is that its policy updates, combined with the initial content of the policy, meet the requirements of Principle 1 of Japan's Stewardship Code ^(Note).

Since affirming its commitment to Japan's Stewardship Code in 2014, Nikko AM has been doing its utmost to fulfill its stewardship responsibility by engaging with firms and exercising its voting rights in order to enhance the corporate value of investee companies and potential investment targets.

Please refer to the report on Nikko AM's stewardship activities and other such initiatives provided below.

Management and Oversight Framework for Stewardship Activities

Nikko AM's internal Stewardship and Proxy Voting Committee (hereinafter the “Voting Committee”) is responsible for various decisions needed to execute Nikko AM's stewardship activities, including formulating its stewardship policy and revising or abolishing its Guidelines on Exercising Voting Rights. Nikko AM exercises voting rights on domestic stocks in line with the Guidelines on Exercising Voting

Note: Japan's Stewardship Code
Principle 1: “Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.”

Rights (stipulated by the Voting Committee) and the accompanying detailed rules in the Guidelines on Exercising Voting Rights - Standards of Practice for Japanese Stocks.

As Nikko AM believes that enhancing the medium- and long-term corporate value of investee companies through their sustainable expansion helps to grow the assets entrusted to it by clients and beneficiaries, it votes in favor of proposals that promote that goal and opposes proposals that go against it.

In order to enhance the transparency of Nikko AM's stewardship activities as led by the Voting Committee and to strengthen governance, in June 2016 Nikko AM also established the Stewardship and Voting Rights Policy Oversight Committee (hereinafter the "Oversight Committee"), which is comprised mainly of members from outside Nikko AM and is the first such committee to be established by a Japanese asset manager. As a third-party committee, the Oversight Committee is one of the elements of governance recommended under Japan's Stewardship Code. It also has a high level of independence given that its eight-strong membership includes five independent outside members. As an independent body with oversight authority, the Oversight Committee monitors and oversees whether Nikko AM's engagement with investee companies and exercise of voting rights are in line with **the Nikko AM Fiduciary and ESG Principles** as well as whether they truly meet the interests of investors. Moreover, the Oversight Committee is fully integrated into Nikko AM's governance framework as it is required to report on its activities to the Board of Directors. The oversight findings and advice provided by the Oversight Committee based on its intensive deliberations are highly effective in helping Nikko AM to improve and enhance its stewardship activities.

Main topics discussed in past Oversight Committee meetings:

- Report on exercise of voting rights and stewardship activities
- Revision of Guidelines on Exercising Voting Rights - Standards of Practice for Japanese Stocks
- Feedback from asset owners
- Strengthening stewardship activities
- Formulation of Code of Conduct for Fiduciary and ESG Principles
- Approach to governance risk stocks
- Management and oversight of proposals with potential for conflicts of interest

Management of Conflicts of interest

Managing Conflicts of interest when Exercising Voting Rights

Nikko AM envisages that conflicts of interest may arise when it exercises voting rights in regard to the entities listed below. In order to avoid conflicts of interest and enable objective decision making in its

exercise of voting rights, it has established the following control framework to maintain appropriate voting decisions pursuant to Item 4 of Article 3 of the Company's [Guidelines on Exercising Voting Rights](#).

- (1) Parent company: Nikko AM refers to the opinions of external third parties when making voting decisions regarding its parent company. It also ensures that its judgments are neutral and transparent by having them deliberated over by the Stewardship and Voting Rights Policy Oversight Committee.
- (2) Distributors: The exercise of voting rights regarding listed financial institutions that distribute Nikko AM's products creates a risk of conflicts of interest regardless of whether Nikko AM has a capital relationship with the entity. When exercising voting rights regarding one of its distributors, Nikko AM not only refers to the opinions of external third parties, but also confirms whether its voting decisions give the highest priority to the interests of its clients and beneficiaries and fulfill Nikko AM's stewardship responsibilities by reporting all proposals it votes on to the Stewardship and Voting Rights Policy Oversight Committee in order to receive fair and neutral advice and oversight.
- (3) Clients with which Nikko AM has a business relationship: Exercising voting rights regarding listed clients and entities with which Nikko AM has a business relationship also carries the risk of conflicts of interest arising. Therefore, when voting regarding clients and entities with which it has a business relationship, Nikko AM also refers to the opinions of external third parties and reports all proposals it votes on to the Stewardship and Voting Rights Policy Oversight Committee in order to receive fair and neutral advice and oversight.

Nikko AM believes that thorough management of conflicts of interest not only maintains the trust of investee companies but also allows Nikko AM to carry out its stewardship activities more smoothly. Nikko AM's self-assessment is that, by continuously exercising voting rights in line with its policy on managing conflicts of interest, it meets the requirement of Principle 2 of Japan's Stewardship Code ^(Note) and treats the interests of investee companies and clients with paramount importance in its activities.

Engagement and Other Activities

Nikko AM's Engagement (Goal-oriented Dialogue)

Nikko AM's portfolio managers, research analysts and governance specialists endeavor to enhance corporate value through interaction with management and IR representatives of investee companies in respect of public information.

Note: Japan's Stewardship Code
Principle 2: "Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it."

Their engagement involves exchanging opinions with investee companies from a long-term perspective, not merely in regard to the firms' corporate earnings and financial strategies but also about other matters mentioned in non-financial information they disclose, including their management policies, business strategies and ESG issues. They engage with a large variety of people ranging from the top managements of firms to employees responsible for finance, corporate planning and other such business managers. The results of these activities are shared where appropriate between portfolio managers, research analysts and governance specialists, and can be useful in assessing corporate value when making investment decisions.

Nikko AM continuously implements education and training to prevent the acquisition of undisclosed material facts. In the unlikely event that undisclosed material facts are acquired, countermeasures are immediately implemented to prevent insider trading from occurring in accordance with Nikko AM's internal rules for the management of insider trading.

Based on the above policy, Nikko AM has worked to achieve closer engagement with investee companies in order to share an accurate understanding of their circumstances and help them to generate medium- and long-term corporate value.

In the period from April to December 2017, Nikko AM engaged with 1,270 companies 2,929 times.

In March 2017, Nikko AM also established a business unit called the Active Ownership Group within its Equity Fund Management Department, employed two new analysts in the Group and started full-scale engagement in passive fund management. Nikko AM believes that this helps it to meet the requirements in Principle 4 ^(Note) of Japan's Stewardship Code. The establishment of the Group enabled Nikko AM to expand the number of companies it engages with from about 950 (those in the active management investment universe) to approximately 2,000 companies (by adding investee companies that are managed passively). The Group engages with companies in an order of preference based on considerations including their earnings, capital efficiency and shareholder returns. The Group has already engaged with 355 passively held investee companies between its establishment and December 2017.

Note: Japan's Stewardship Code
Principle 4: "Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies".

Engagement Examples

Investee	Engagement Topic	Timing, Company Contact, Method, Details, etc.	Assessment of Result and Investment Activity
Company A	Overall management strategy	Periodically discussed overall management strategy with president and other members of top management. In view of structural reforms nearing completion in final FY of medium-term management plan (FY2014-FY2017), discussed company's ability to invest in growth areas and strengthen shareholder returns going forward.	Management commented at results briefing that company aiming for profit increase in next fiscal year and intends to provide total return ratio of 30% as officially pledged. Nikko AM takes positive view of plan as will be company's first dividend increase in 10 years if realized.
Company B	Overall management strategy	Had quarterly discussions with senior management. Nikko AM proposed option of realizing value from sales of listed subsidiaries by investing cash received in focus areas.	Starting in 2016, company made series of announcements about selling all or some stocks of four listed subsidiaries. Nikko AM approves of company's steady rearrangement of its business portfolio.
Company C	Communication with outside directors	In interview with IR representative, requested for company to provide opportunities for communication with outside directors.	Soon after, had large meeting attended by outside directors. Although Nikko AM had skeptical view of company's management due to sluggish pace of restructuring, also had impression that outside directors are functioning better than expected. Expect that this change in attitude will feed into change in valuation of company's stock.
Company D	Usage of surplus cash flow	Asked company to provide stock market with explanations on usage of surplus cash flow and investment discipline following announcement of medium-term management plan.	Company indicated new capital allocation policy during earnings announcement one year after medium-term plan announcement. Also got opportunity to communicate directly with CFO. Nikko AM takes positive view on company's serious approach to meeting market expectations.
Company E	Balance between investments and shareholder returns	Having continuous discussions with management on balance between investments and shareholder returns. Company's stance on shareholder returns is improving (albeit gradually), and Nikko AM will continue to engage on this matter.	Although current dividend payout ratio is by no means high, has continued to rise steadily. Last fiscal year announced first buyback of own shares for eight years. Nikko AM believes company's stance toward shareholder returns is improving.

Approach to Companies Subject to Governance Risk

In view of increasingly strict scrutiny by investors regarding companies involved in anti-social conduct or fraud, accounting fraud, or environmental or social problems, Nikko AM strengthened its approach to companies subject to governance risk by introducing an investment process for active management of Japanese equity funds in which it avoids investing in such companies. Nikko AM believes that swiftly excluding companies that have been involved in antisocial conduct, fraud, accounting fraud, or environmental or social problems, helps it to improve the medium- and long-term performance of its actively managed domestic equity funds.

Goals and Effects of Process:

- ✓ Provide grounds for decision making when exercising voting rights
- ✓ Secure accountability when investing and enhance investment performance
- ✓ Promote improvements in governance of investee companies through prompt engagement after governance risks materialize.

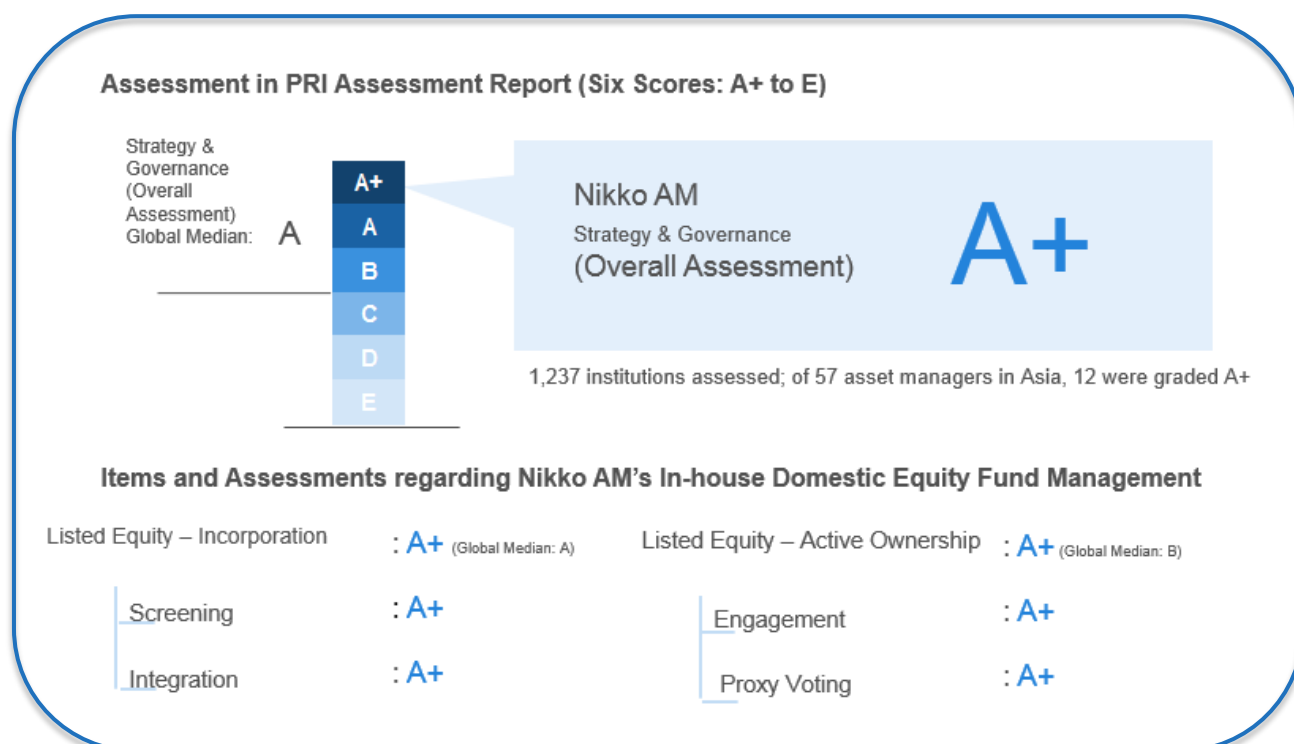
ESG Initiatives

Alongside fiduciary principles, Nikko AM positions Environment, Social and Governance (ESG) principles at the highest level of its corporate philosophy and business activities. In November 2016, Nikko AM established the **Code of Conduct for ESG Principles** and also launched the ESG Global Steering Committee. Comprised of leaders in its investment management operations in Japan and overseas, the committee discusses and explores matters such as ESG initiatives, ways of putting them into practice and new approaches.

Moreover, Nikko AM has been applying the principle of Creating Shared Value (CSV; the practice of generating value both for society and for the firm by allying the firm's interests with solving societal issues) since August 2013. Nikko AM's in-house research analysts put this into practice by formulating unique CSV scores based on comprehensive assessments of companies' financial positions, market competitiveness and ESG approaches, and using the scores when selecting stocks. CSV assessments are currently applied to 500 stocks listed on the Tokyo Stock Exchange and their range is being expanded. Nikko AM's research analysts work daily to enhance the ESG value and other forms of corporate value of the 500 companies whose CSV they assess by maintaining close engagement with the companies. They have already built up a four-year track record of making assessments and engaging with companies.

United Nations' Principles for Responsible Investment (PRI)

Nikko AM became a signatory to the United Nations' Principles for Responsible Investment (PRI) ahead of the rest of the asset management industry in 2007. In the yearly assessment for 2017, Nikko AM received the top score of A+ (out of six score bands) in three of the items assessed: the overall evaluation of "Strategy & Governance", as well as the evaluations of "Listed Equity – Incorporation" and "Listed Equity – Active Ownership".



Nikko AM's self-assessment for this area is that above-mentioned measures and achievements demonstrate the many efforts it is undertaking in order to understand the circumstances of investee companies as required in Principle 3 ^(Note) and Principle 4 of Japan's Stewardship Code, and to maximize sustainable growth for investee companies as well as the interests of Nikko AM's clients based on its understanding of investees.

Exercise of Voting Rights

Strengthening Exercise of Voting Rights

Nikko AM has strengthened the following initiatives in the past year:

Note: Japan's Stewardship Code
Principle 3: "Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies."

(1) Tightened the assessment criteria for investee companies that have low capital efficiency or insufficient shareholder returns.

- Raised the minimum level expected from companies.
- Conducted multi-faceted and detailed examinations of investee companies meeting criteria but judged to be making insufficient use of operating resources and opposed proposals where appropriate.

(2) Started full-scale engagement in passive investment management

- Started full-scale exercise of voting rights through engagement for passively held names.

Examples of Voting Decisions

Company	Proposal Type	Details	Proposer	Nikko AM Vote	Result	Nikko AM's Rational for Vote
Company F	Change to Articles of Incorporation	Partial change to Articles of Incorporation	Shareholder	Yea	Rejected	Shareholder proposal to abolish consultants/ advisors. Voted "yea" as not convinced by company's explanation of necessity.
Company G	Appropriation of surplus	Approval for appropriation of surplus	Company	Nay	Passed	Skeptical about company stance on shareholder returns given long period of low dividend payout ratio. Also voted "nay" in previous year.
Company H	Appropriation of surplus	Appropriation of surplus	Shareholder	Yea	Rejected	Dividend increase proposal. Given company's positive net cash and low dividend payout ratio, judged that shareholder proposal would boost shareholder value. Same proposal was made in previous year. Voted "yea" partly as judged company not taking positive approach.

Company	Proposal Type	Details	Proposer	Nikko AM Vote	Result	Nikko AM's Rational for Vote
Company I	Appointment of directors (including outside directors)	Appointment of directors	Company	Yea	Passed	Although some expressed opinion that should oppose as company has low shareholder returns, voted "yea" as expect change in future based on engagement with management. Will continue to engage in order to realize change.
Company J	Appointment of directors (including outside directors)	Appointment of directors	Company	Nay	Passed	Although demanding for company to explain thinking on investment and returns, no sign of change in approach. Voted "nay" as performance (ROE within industry) in previous FY continued to be low.

Disclosure of Voting on Individual Proposals

In response to requirements such as Principle 5 ^(Note) of Japan's Stewardship Code, Nikko AM started to disclose records of how it voted on individual proposals regarding domestic investee companies on its website. Nikko AM will continue making these individual disclosures of its voting results every quarter. Nikko AM firmly believes that continuing the individual disclosures will help to increase the transparency of its stewardship activities and ensure that no conflicts of interest occur when it exercises its voting rights.

Illustration of Disclosure Material:

Individual Disclosure of Voting Results (Votes Cast in mm yy - MM YY)

● Nikko AM's voting decisions are disclosed for all proposals on which it has voted.

● Voting decisions based on Nikko AM's Guidelines on Exercising Voting Rights are shown as "Nikko AM Voting Decision". If a vote cast based on a guideline stipulated by a client differs from Nikko AM's voting decision, an asterisk (*) is shown in "Comments".

Issuer Code	Issuer Name	Meeting Type	Meeting Date	Item No.	Sub-Item No.	Category	Proposed By	Nikko AM Voting Decision	Comments
XXXX	Company K	Annual	20170829	1		Allocation of Income	Company	FOR	
XXXX	Company K	Annual	20170829	2	1	Director	Company	FOR	
XXXX	Company K	Annual	20170829	2	2	Director	Company	FOR	

Note: Japan's Stewardship Code

Principle 5: "Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies."

Exercising voting rights is one of the major elements of stewardship activities, and Nikko AM takes great care to ensure that its voting serves the interests both of investee companies and minority shareholders. Nikko AM makes comprehensive voting decisions that not only comply with its Guidelines on Exercising Voting Rights and the practical standards in the accompanying detailed regulations but also take into account the results of its engagement. At the same time, the Oversight Committee (mentioned above) provides independent oversight and advice on matters including the appropriateness of Nikko AM’s voting decisions.

Nikko AM’s self-assessment of its framework and activities in regard to the exercise of voting rights is that it is engaged in a variety of initiatives and efforts that meet the requirements in Principle 5 of Japan’s Stewardship Code to “have a clear policy on voting” and exercise voting rights in a way that is “designed to contribute to the sustainable growth of investee companies”.

Overview of Past and Present Initiatives

Self-assessment of Efforts to Address Each Principle

Principles of Japan’s Stewardship Code	Nikko AM’s Self-assessment
<p>Principle 1 “Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.”</p>	<p>Nikko AM’s self-assessment of its stewardship policy is that it meets the requirements of Principle 1 as it exhaustively addresses the main themes newly incorporated in the revised Code including management of conflicts of interest, use of engagement in passive investment management, and fuller public disclosure of the way it exercises its voting rights.</p>
<p>Principle 2 “Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.”</p>	<p>Nikko AM envisages that conflicts of interest may occur when it exercises voting rights in regard to its parent company, distributors and clients, and has established policies to address each of those possibilities. Nikko AM’s assessment of its conduct is that it meets the standard demanded in Principle 2 and prioritizes the interests of investee companies and clients.</p>

Principles of Japan's Stewardship Code	Nikko AM's Self-assessment
<p>Principle 3 "Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies."</p> <p>Principle 4 "Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies."</p>	<p>In addition to continuing its active engagement efforts, Nikko AM established a business unit for engaging with investee companies in its passively managed funds and started to practice such engagement before it was required in the revised Code. It also strengthened its handling of ESG issues with the launch of its ESG Global Steering Committee. Nikko AM's self-assessment in this area is that these measures and achievements demonstrate the many efforts it is undertaking to address Principle 3 and Principle 4, thereby maximizing sustainable growth for investee companies as well as the interests of Nikko AM's clients.</p>
<p>Principle 5 "Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies."</p>	<p>Nikko AM has started disclosing records of its voting activity on individual proposals regarding the stocks of domestic investee companies on its website. It makes comprehensive voting decisions in line with its Guidelines on Exercising Voting Rights and in view of the results of its engagement. The Oversight Committee provides independent oversight and advice on matters including the appropriateness of Nikko AM's voting decisions. Nikko AM's self-assessment of its framework and activities in regard to the exercise of voting rights is that it is engaged in a variety of initiatives and efforts that meet the requirements in Principle 5.</p>
<p>Principle 6 "Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries."</p> <p>Principle 7 "To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities."</p>	<p>Nikko AM is working to enhance its reporting on its stewardship activities by disclosing its activities to clients and beneficiaries. Nikko AM recognizes the importance of finding opportunities to engage with the managements of investee companies and is also strengthening its efforts to engage with companies that do not actively seek engagement. Nikko AM considers its disclosure of its voting activity on individual proposals to be an important way of enhancing the corporate value of investee companies through meetings and engagement both before and after exercising its voting rights. It will continue its efforts to meet the standards required in Principle 6 and Principle 7 by seriously addressing its stewardship activities going forward.</p>

Continuous Efforts to enhance Investee Companies' Corporate Value

Nikko AM's portfolio managers, research analysts and governance specialists continue to make unified efforts to engage domestic investee companies on their medium-term management strategies, shareholder return policies and ESG strategies in accordance with their corporate growth phases. They also propose meetings with the managements of companies that are particularly sluggish at providing information in order to boost the effectiveness of Nikko AM's engagement.

Issues to Address

Now that over three years have passed since the formulation of Japan's Corporate Governance Code, many Japanese listed companies have made a certain amount of progress in developing their governance by such means as appointing multiple outside directors. Nikko AM intends to further deepen its discussions with investee companies with a focus on how effectively their governance is increasing their corporate value. It will also engage investee companies on issues such as cross-shareholding and the appointment of advisors and consultants, as it believes that they are important discussion points for deepening governance reforms.

Given the importance Nikko AM attaches on creating opportunities to engage with company managements as part of its stewardship activities, it also recognizes the need to step up its engagement with the considerable number of investee companies that still take a passive approach to engaging with the stock market.

Moreover, Nikko AM believes that disclosing records of how it exercises its voting rights on individual proposals is not simply a case of showing whether it has voted for or against a proposal, and sees such disclosure as an important way of improving the corporate value of investee companies alongside the exercise of voting rights through meetings and engagement before and after voting.

Nikko AM recognizes that securing the personnel and other resources needed to push ahead with the new efforts described above is also an issue to address. As reported above, Nikko AM previously took a business decision to strengthen its engagement and related efforts by such means as newly establishing the Active Ownership Group and increasing the number of analysts it has. It also intends to steadily build on this progress by developing the organizational and personnel framework needed for its stewardship activities with continued efforts including increasing personnel numbers and establishing new business units where necessary. At the same time, Nikko AM recognizes that enhancing its stewardship activities is not simply a case of quantitative growth and that it is important to ensure that its efforts in this area are efficient and cost-effective. Given that the Oversight Committee has also

pointed out as part of its oversight findings that stewardship activities should take efficiency and cost into consideration, Nikko AM intends to incorporate such considerations into its approach.

Nikko AM will continue to step up its reporting on its stewardship activities to clients and beneficiaries with the use of disclosures similar to this report.

Message from Stewardship and Voting Rights Policy Oversight Committee

In the more than six meetings it has held since its establishment, the Stewardship and Voting Rights Policy Oversight Committee has discussed a variety of topics in regard to Nikko AM's stewardship activities. The committee discusses topics from diverse standpoints based on the wide-ranging knowledge and experience of its members and does its utmost to help Nikko AM put the spirit of stewardship into practice.

The committee deliberated over the suitability of the contents of this "Stewardship Activities Report and Self-assessment (2017)" for public release, and found the respective explanations and assertions in the report regarding Nikko AM's compliance with the requirements in Principles 1-7 of Japan's Stewardship Code to be a faithful representation of the reality.

The committee will continue to monitor and oversee whether Nikko AM is properly performing its stewardship activities to the benefit of its customers, including responding to any future revisions to Japan's Stewardship Code, changes or updates of laws, regulations, rules or guidelines, or updates of Nikko AM's internal framework.

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