

## Stewardship Activities Report and Self-assessment (2018)

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 <sup>(Note)</sup>.

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.

In March 2018, Nikko AM performed self-assessments of its stewardship initiatives and other such activities, and publicly announced the status of its actions in line with each of the principles of the Stewardship Code. This report and self-assessment is intended to provide an update on Nikko AM's stewardship activities so far and a summary of its initiatives in light of other efforts undertaken in the past year, such as organizational and structural enhancements.

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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.”

## 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's proxy voting on domestic stocks is carried out in line with the Nikko Asset Management Group Proxy Voting Policy, which informs decision making on proxy voting and other such matters by all firms in the Nikko Asset Management Group. Based on that policy, the Voting Committee ensures that voting rights are exercised in accordance with the detailed decision-making criteria in the Guidelines on Exercising Voting Rights 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 seven-strong membership includes four independent outside members as of October 2018. 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 Oversight Committee Meetings in FY2018

Date Held	Topics
April 23, 2018	Eighth Meeting 1. Revisions to Guidelines on Exercising Voting Rights and other documents 2. Report on proxy voting on firms subject to conflict of interest concerns 3. Report on engagement activities 4. Report on proxy voting
June 12, 2018	Extraordinary Meeting 1. Details of proxy voting on firms subject to conflict of interest controls

Date Held	Topics
July 23, 2018	Ninth Meeting 1. Change in committee membership 2. Report on proxy voting on Japanese equities and report on stewardship 3. Report on proxy voting on foreign equities
October 22, 2018	Tenth Meeting 1. Establishment of Nikko Asset Management Group Proxy Voting Policy 2. Strengthening of controls over stock lending in Japan equity funds 3. Prohibition of investment in cluster munitions manufacturers 4. Report on proxy voting on Japanese equities and report on stewardship
January 31, 2019	Eleventh Meeting 1. Creation and public release of Stewardship Activities Report and Self-assessment (2018) 2. Establishment of Guidelines on Exercising Voting Rights-Standards of Practice for Japanese Stocks 3. Report on proxy voting on firms subject to conflict of interest concerns 4. Report on proxy voting activities 5. Report on engagement activities

## 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 <sup>(Note)</sup> 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.

Their engagement involves exchanging opinions with investee companies from a long-term perspective and in a manner that matches the growth phase of each company, 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, shareholder returns 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. They also work to enhance the impact of their engagement by proposing meetings with the top managements of firms that are particularly slow in providing information. 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.

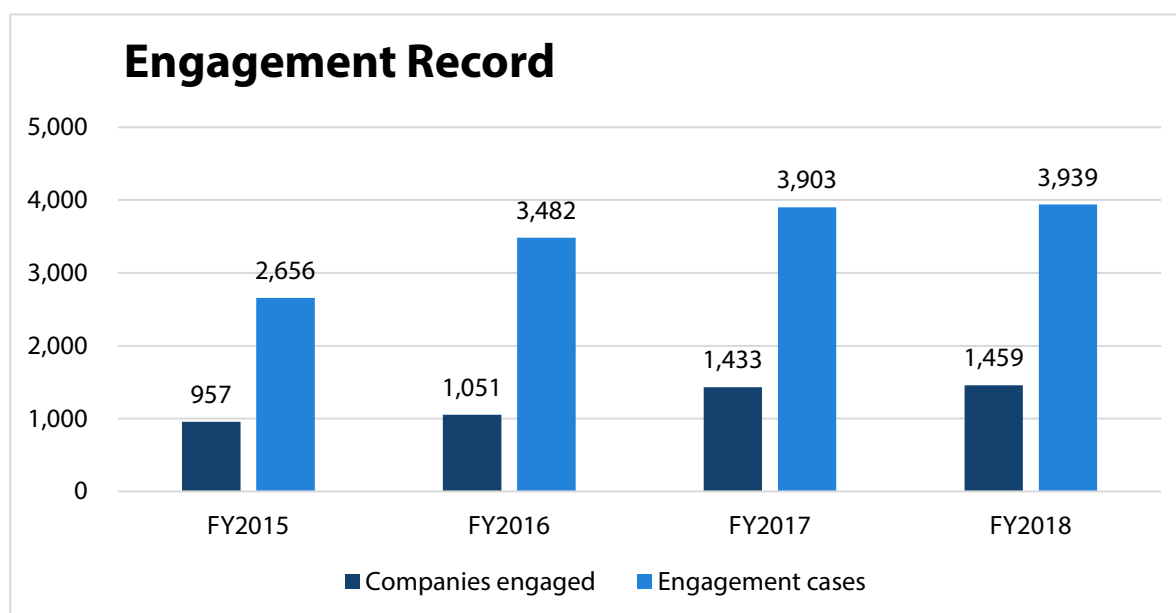
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Note: Japan's Stewardship Code  
Principle 2: "Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it."

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 FY2018, Nikko AM engaged with 1,459 companies on 3,939 matters.

In March 2017, Nikko AM also established a business unit within its Equity Fund Management Department called the Active Ownership Group, which currently includes three analysts and facilitates engagement in passive fund management. Nikko AM believes that this helps it to meet the requirements in Principle 4 <sup>(Note)</sup> 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 2,200 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.



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

<b>Case 1</b>	Takeover defense measure
Timing, person in charge at company, method, details, etc.	Expressed opposition to takeover defense measure set for renewal at next regular general shareholders meeting. At results briefing, urged company to communicate with stock market on management strategy.
Assessment of results and investment conduct	Company announced discontinuation of takeover defense measure before regular general shareholders meeting. Newly announced medium-term management plan that was more detailed and had more management indicators as targets than past ones. Also showed signs of improving communication with market, for example by holding briefing.
<b>Case 2</b>	Medium-term management plan
Timing, person in charge at company, method, details, etc.	Stock price showed large drop for reasons including business tie-up and dilution from capital increase through third-party allotment. Considered miscommunication between company's management and stock market to be one reason behind drop, so had engagement multiple times. Explained Nikko AM's views on points to assess in medium-term management plans, provided good examples from other companies and demanded detailed disclosure of benefits of business tie-up in company's next medium-term management plan.
Assessment of results and investment conduct	Company announced new medium-term management plan in March 2018. Plan was convincing as it contained more detailed figures on profit and investment plans. Judged new plan to be forward-looking one that demonstrates aim to grow profits while also strengthening shareholder returns.
<b>Case 3</b>	Growth strategy, capital policy
Timing, person in charge at company, method, details, etc.	Had continuous engagement with management team about capital efficiency and shareholder return approaches.
Assessment of results and investment conduct	As management team appeared more determined to switch to growth-focused approach, company looks likely to realize intermittent growth through utilization of assets including cross shareholdings. Management also seems to have switched to more forward-looking capital policy, for example with announcement of buyback of own shares at end-March 2018.
<b>Case 4</b>	Communication with market
Timing, person in charge at company, method, details, etc.	Company seemed to become less willing to engage with investors following change in president. Company failed to show strong determination to grow profits in future despite announcing numerous business launches, leading to large stock price fall. Informed company of Nikko AM's view that its failure to share medium- to long-term vision with investors is problematic.
Assessment of results and investment conduct	At Q1 results briefing, company provided relatively convincing explanations on objectives and details of its forward-looking investment as well as company's vision for future. Although continued monitoring of company will be required going forward, see this company as an example of engagement having achieved certain amount of improvement.

**Case 5**

Work style reform, etc.

Timing, person in charge at company, method, details, etc.

Explained Nikko AM's belief that improving work-life balance of employees helps companies enhance productivity by retaining talented employees and growing their workforces. Also asked company about possibility of looking into publicly releasing minutes of its briefings, broadcasting briefings live and other such means of achieving fair disclosure.

Assessment of results and investment conduct

Company sees improving work-life balance as serious issue and is working to address it. Company also indicated intention to enhance information disclosure and improve its public image. Detailed initiatives include company's establishment of a homepage providing ESG information. Company also decided to look into changing approach to briefings going forward.

**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:

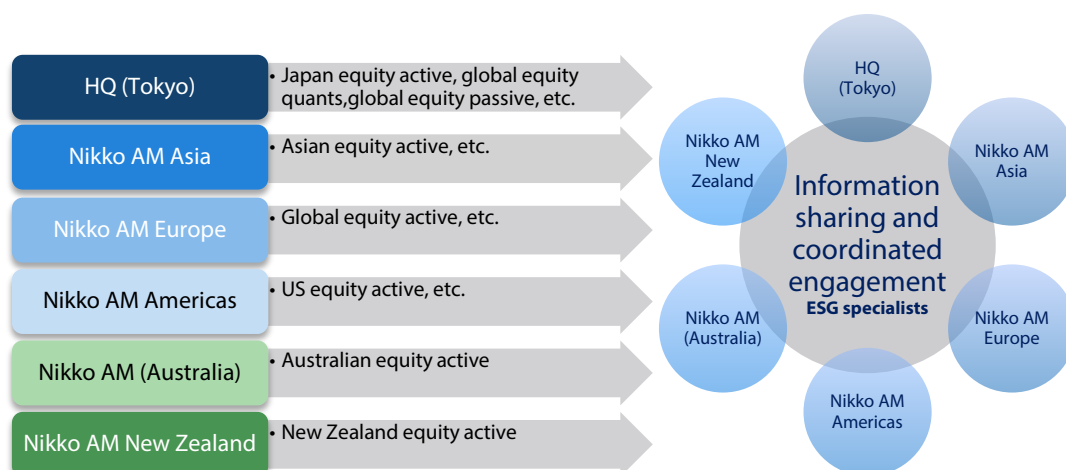
- ✓ Provide grounds for decision making when exercising voting rights
- ✓ Secure accountability when investing and enhance investment performance
- ✓ Promote improvements in governance of investee companies through prompt engagement after governance risks materialize.

**ESG Initiatives**

Alongside fiduciary principles, which it considers to be the paramount elements of its philosophy and activities as a firm, Nikko AM has formulated Environment, Social and Governance (ESG) principles as the approach it needs to follow in order to put its corporate philosophy into practice. Nikko AM established a code of conduct for ESG principles and launched its ESG Global Steering Committee in November 2016. Consisting of a large number of observers and members drawn primarily from leaders in Nikko AM's investment management locations around the world, the ESG Global Steering committee meets quarterly to discuss and look into matters including ESG investment initiatives, ways of putting them into practice and new approaches to them, and works to determine and realize such initiatives. The committee also reports the details of its activities to the Board of Directors.

In addition, the Nikko Asset Management Group brought in its first dedicated ESG specialists in order to further strengthen coordination on stewardship activities among the Group's investment management

locations around the world. An ESG specialist started operating at the Singapore office in May 2018 and an ESG specialist started working on ESG activities at the Tokyo office (Nikko AM) in December 2018. The work of the ESG specialists includes supporting the ESG activities of the Group’s investment management teams, establishing the Group’s ESG policies, considering whether to participate in various ESG initiatives and supporting related activities, coordinating joint engagement, and operating the ESG Global Steering Committee.

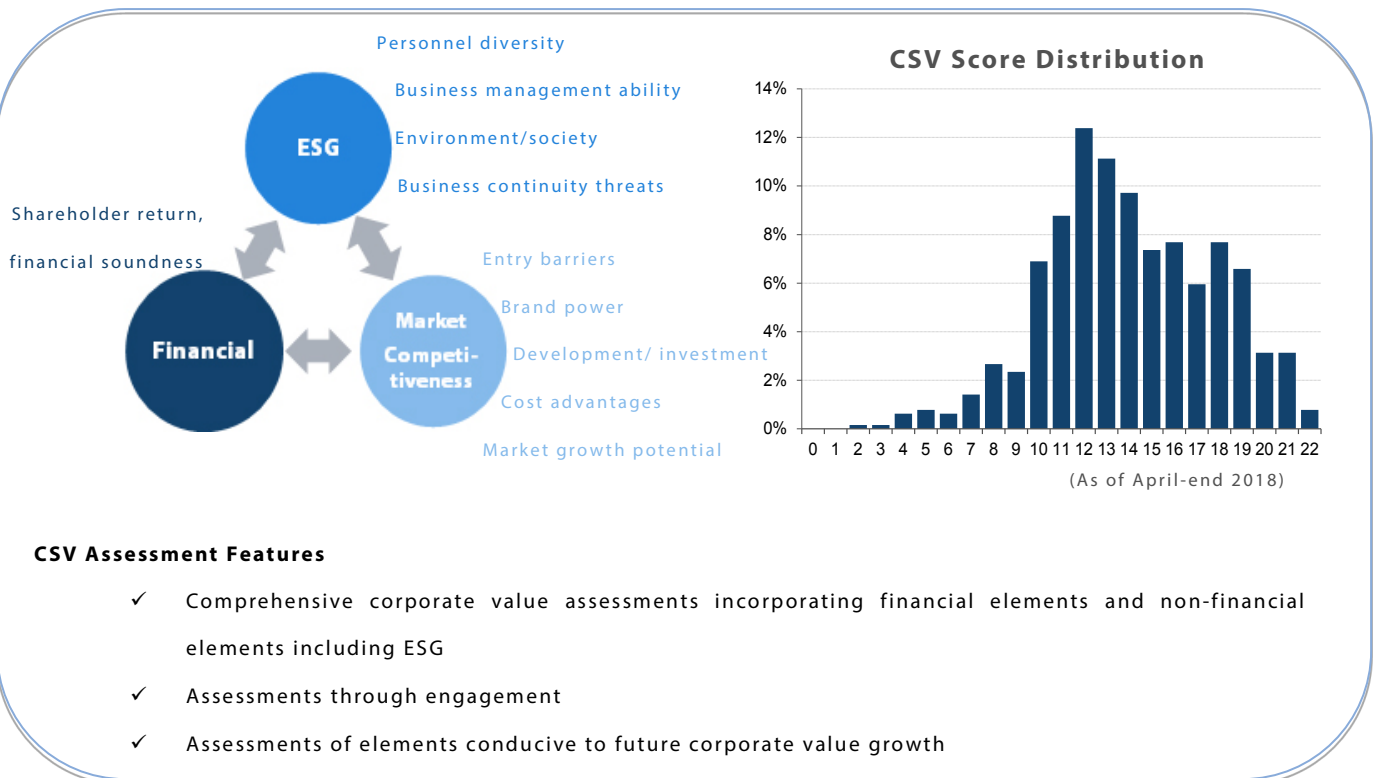


Engagement by active investment teams around the world is centered on ESG specialists and is achieved through information sharing and mutual teams’ participation.

### **Stewardship Activities Aimed at Creating Shared Value (CSV)**

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 with a medium- to long-time focus are currently applied to 600 stocks listed on the Tokyo Stock Exchange. Nikko AM’s research analysts work daily to enhance the ESG value and other forms of corporate value of the 600 companies whose CSV they assess by maintaining close engagement with the companies. They have already built up a five-year track record of making assessments and engaging with companies.





**ESG Considerations in Fixed Income Investments**

Nikko AM assesses the creditworthiness of bond issuers by analyzing both quantitative risks such as debt servicing capability and qualitative risks that can't be reflected fully by financial analyses, and considers ESG to be an important factor in qualitative risk analyses. Nikko AM's bond analysts consider focusing on and analyzing ESG perspectives to be essential items among Nikko AM's unique assessment items. They also endeavor to share information with fund managers by checking those elements every month. Any ESG-related change with a negative impact on an issuers' creditworthiness is immediately reflected in Nikko AM's investment conduct.

**United Nations' Principles for Responsible Investment (PRI)**

Having become the first in the asset management industry to sign the Principles for Responsible Investment (PRI) in 2007, Nikko AM received the top score of A+ (out of six score bands) in the main of items assessed in the annual PRI assessment for 2018, including "Responsible Investment Policy".

	2018	2017	2016
<b>Responsible Investment Policy</b>	A+	A+	A+
<b>Listed Equity - Incorporation</b>	A+	A+	A
<b>Listed Equity – Active Ownership</b>	<b>Engagement</b>	A+	A
	<b>Proxy Voting</b>	A+	A+
<b>Fixed income – Government Bonds</b>	A+	A	B
<b>Fixed Income – Corporate Bonds (Financial Industry)</b>	A+	B	—
<b>Fixed Income – Corporate Bonds (Non-financial Industry)</b>	A+	B	B

### Strengthening of Environment (E) Initiatives

In August 2018, Nikko AM announced its support for initiatives to address the four areas of importance mentioned in The Investor Agenda, which provides guidance on the climate change issues faced by global institutional investors: investor disclosure, corporate engagement, policy advocacy and investment. Specifically, Nikko AM is stepping up its initiatives to address climate change issues by such means as affirming its support of the Task Force on Climate-related Financial Disclosures (TCFD), signing up to Climate Action 100+ and becoming a signatory to the Global Investor Statement to Government on Climate Change.

Nikko AM's self-assessment for this area is that the 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 <sup>(Note)</sup> 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

#### Establishment of Nikko Asset Management Group Proxy Voting Policy

The Nikko Asset Management Group Proxy Voting Policy was posted on the Nikko AM website in December 2018 as a policy on proxy voting decisions common to all firms in the Group. The objective of the policy is to show that the Group's basic approach of focusing on ESG is reflected in proxy voting undertaken by Nikko AM and all of its overseas investment management subsidiaries. It is also intended to make it clear that proxy voting by each of the investment management firms in the Group is based on the same common approach.

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."

The policy expresses the Group’s basic approach to proxy voting decisions and touches on related matters such as engagement and the policy on controlling conflicts of interest. All investment management locations in the Group, including Nikko AM, also disclose their own respective proxy voting guidelines that stipulate detailed proxy voting criteria as necessary in accordance with the overall policy.

### Strengthening Exercise of Voting Rights on Domestic Equities

Nikko AM anticipated the revision of Japan’s Corporate Governance Code in April 2018 by strengthening the following initiatives in the past year:

- (1) Clarified its stance on cross shareholding and indicated its practical standards for making proxy voting decisions on domestic equities, including as follows.
  - Worked to confirm the situations at investee firms by such means as demanding explanations on the purpose of cross shareholdings and the capital efficiency impact of such shareholdings.
  - Worked to ensure that its proxy voting decisions reflect the results of its checks and other such information.
  
- (2) Clarified its basic stance of opposition to takeover defense measures.
  - Revised statements on responding to takeover defense measures and other such issues in documents such as the Proxy Voting Guidelines, and made clear that Nikko AM is opposed in principle to takeover defense measures.

### Examples of Voting Decisions

Proposer	Proposal Type	Details	Nikko AM Vote	Result	Nikko AM’s Rationale for Vote
Company	Takeover defense measure	Renewal of takeover defense measure	<b>Against</b>	Passed	Although engaged with company before proposal was submitted, opposed renewal as company did not sufficiently justify the need for the renewal from the perspective of enhancing shareholder value.
Company	Appropriation of surplus	Approval for appropriation of surplus	<b>Against</b>	Passed	Although company had accumulated cash flows through profit growth, shareholder return still failed to match that as actual dividend ratio for previous fiscal year was only around 5%. Engaged with company but opposed appropriation of surplus, as the company was unlikely to change.

Proposer	Proposal Type	Details	Nikko AM Vote	Result	Nikko AM's Rationale for Vote
Shareholder	Appropriation of surplus	Approval for appropriation of surplus	<b>For</b>	Rejected	Proposal was for dividend increase. Judged that shareholder proposal would help increase shareholder return given that company has positive net cash but low dividend ratio.
Company	Appointment of directors	Appointment of directors (including outside directors)	<b>For</b>	Passed	Infringed Nikko AM's internal voting guidelines due to recording large impairment loss in the previous fiscal year. However, based on engagement with management, judged that impairment was correct action in order to recover company's medium- to long-term corporate value. Therefore, voted in favor.
Company	Appointment of directors	Increase in number of directors, etc.	<b>For</b>	Passed	Proposal called for increase in number of board members and large increase in number of directors in company. Although it was not a simple circumstance, at the company engagement they provided adequate reasons and discussed its background and purpose. Therefore, voted in favor.

## Disclosure of Voting on Individual Proposals

In response to requirements such as Principle 5<sup>(Note)</sup> of Japan's Stewardship Code, Nikko AM discloses records of how it voted on individual proposals regarding domestic investee companies on its website. Nikko AM will continue collecting its voting results and disclosing all of them every quarter. Nikko AM also 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".

## **Nikko AM's Own Corporate Governance**

In addition to requiring investee companies to address ESG issues and enhance their governance as an asset manager, Nikko AM also recognizes the need to constantly implement its own ESG initiatives and ensure that its own governance is of a world-class level.

### **Independence of Board of Directors**

Nikko AM appointed Mr. Yoichiro Iwama, a former Chairman of the Japan Investment Advisers Association, as an outside director and Chairman of the Board of Directors in May 2018, and Ms. Mari Yamauchi, a visiting professor at Doshisha University, as an outside director in July 2018. With these appointments, half (five) of the ten members of Nikko AM's Board of Directors, which consists of three full-time directors and seven part-time directors, are now outside directors, ensuring that its top-level decisions are taken by an independent Board. Having truly independent outside directors has given Nikko AM high levels of independence and transparency in its business management and operations as an asset manager.

### **Establishment of Corporate Sustainability Department**

In September 2018, Nikko AM established the Corporate Sustainability Department in order to strengthen its commitment to ESG in its own management and investment approaches. The new department works to ensure not only that Nikko AM is committed to ESG but also that it puts its commitment into practice. Specific areas addressed by the Corporate Sustainability Department include the promotion of diversity and inclusion in order to respect Nikko AM's diversity as a firm, monitoring compliance with corporate governance codes at each of Nikko AM's offices and working to minimize Nikko AM's environmental impact.

As a firm responsible for managing assets entrusted to it by customers, Nikko AM has always had a strong conviction that having a business management framework that is centered on a management team with extensive knowledge of the asset management industry gives the firm its stable foundation, and endeavors to retain its management talent based on that belief. Based on various initiatives led by the Corporate Sustainability Department, Nikko AM's management team works to realize business management that fosters the long-term sustainability of the firm, and strives to contribute to the interests of all people with an interest in Nikko AM's business, including stakeholders such as its customers, employees and shareholders. Nikko AM's corporate governance initiatives, as well as the above-mentioned work to strengthen its stewardship activities as an asset manager by such means as appointing ESG specialists this fiscal year, demonstrate its continued efforts to comply with Principle 7 <sup>(Note)</sup> of Japan's Stewardship Code (to have the ability to fulfill its stewardship responsibilities).

Nikko AM also constantly works to provide reports to customers and beneficiaries as required under Principle 6 <sup>(Note)</sup> of the code by such means as using its website to disclose its proxy voting policy, its proxy voting record and other such detailed information, as well as reports on its stewardship activities.

Nikko AM will continue working to ensure that it fully meets the requirements in Principle 6 and Principle 7 of Japan's Stewardship Code.

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Note: Japan's Stewardship Code

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."

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."

## 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 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>
<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." 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>Having strengthened its engagement with the establishment of a new, specialist department, Nikko AM engages with approximately 2,200 companies, including investees in passively managed portfolios. It has also strengthened its ESG activities on a global level by newly appointing two ESG specialists. 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 discloses 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 rules it has stipulated itself 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>

Principles of Japan's Stewardship Code	Nikko AM's Self-assessment
<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 works to enhance the independence of its own Board of Directors, proactively participates in international ESG initiatives, and is deepening its commitment to ESG and enhancing the way it puts it into practice. It believes that these efforts, combined with constructive engagement with investee companies, are helping it to achieve its objectives. Nikko AM will continue to focus on exploring opportunities for engagement with companies' management teams, including outside directors, and will continue to instigate dialogue with companies that are less proactive about engagement. It is also working to enhance its reporting on its stewardship activities by disclosing its activities to clients and beneficiaries. Nikko AM will continue working to meet the requirements of Principle 6 and Principle 7 by steadfastly implementing its stewardship activities.</p>

### Issues to Address

Nikko AM intends to further deepen its discussions with Japanese listed companies with a focus on how effectively their governance is increasing their corporate value with particular reference to their efforts to appoint multiple outside directors. Given the importance Nikko AM attaches on creating opportunities to engage with company managements—including outside directors—as part of its stewardship activities, it also intends to continue seeking opportunities for dialogue 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 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 appointing ESG specialists and strengthening its analyst framework. 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.

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**

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 (2018)" 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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