

# **Sustainability-related disclosures**

Nomura Funds Ireland – Japan High Conviction Fund (the “Sub-Fund”)

## **Introduction**

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) requires that firms publish information on environmental or social characteristics that their products promote (for Article 8 products) and on sustainable investment objectives that their products pursue (for Article 9 products), together with information on the methodologies used to assess, measure and monitor them.

**Nomura Asset Management U.K. Limited (“NAM UK”)** is the investment manager of the Sub-Fund.

**Nomura Asset Management Co., Ltd. (“NAM”)** is the sub-investment manager of the Sub-Fund.

## **Summary**

The Sub-Fund is an actively managed portfolio that will invest primarily in equity and equity-related securities listed or traded on a recognised exchange in Japan. The Sub-Fund promotes contribution to reduction of greenhouse gas emissions and sustainable, fair and inclusive business practices as its environmental and social characteristics.

NAM implements the strategies of 1) proprietary ESG ratings, 2) exclusions, and 3) ESG Metrics to promote environmental and social characteristics of the Sub-Fund.

- 1) Proprietary ESG ratings: NAM assigns a proprietary ESG rating which is based on its assessment on risks with regard to various ESG factors. The potential ESG ratings are “No Issues”, “Investible with Engagement” and “Uninvestible”. The Sub-Fund will be precluded from investing in companies that are rated “Uninvestible” and only allowed to invest in companies that are rated “Investible with Engagement” if NAM will actively engage with the company to address issues that attributed to the rating.
- 2) Exclusions in relation to the following areas:
  - Alcohol
  - Adult Entertainment
  - Gambling
  - Nuclear weapons
  - Thermal coal
  - Tobacco
  - Controversial weapons
  - UN Global Compact principles (UNGC) and Organisation for Economic Cooperation and Development Guidelines for Multinational Enterprises (OECD Guidelines)
- 3) ESG Metrics: When considering investment opportunities, NAM will consider ESG metrics including energy use, greenhouse gas emissions, sustainable sourcing, human rights, labour relations and diversity (“ESG Metrics”). When comparing two otherwise similar investment opportunities (e.g. similar sector, product, service and ability to sustain a high return on equity (ROE)), NAM will be obliged to select the investee company that displays better ESG Metrics.

NAM has set a binding obligation to make a thorough assessment of the governance practices of the investee companies (including sound management structures, employee relations, remuneration of staff and tax compliance).

In addition to the elements outlined above, the Sub-Fund considers certain principal adverse impacts (“PAIs”) indicators within its investment process.

To monitor adherence to the environmental and social characteristics of the Sub-Fund, NAM monitors sustainability indicators. Compliance with the exclusions above is ensured through pre-trade monitoring and post-trade checks. NAM also uses NAM UK’s oversight platform to monitor alignment with the environmental and social characteristics of the Sub-Fund within its periodic review.

NAM utilises data and analysis from various sources including but not limited to investee companies, in-house ESG specialists, third-party data providers and industry reports. NAM seeks to use reliable and actual data but where availability of such data is limited, it will also utilise estimates provided by data providers and other sources.

NAM has a well-established approach to engagement where engagement cycle is structured, managed and monitored with certain milestones. Each engagement activity is monitored and followed up by a dedicated team. NAM may engage proactively with issuers with weaker characteristics in various ESG topics. Such engagement activities may include direct dialogue with company management, such as through in-person meetings, phone calls, electronic communications /and letters or collaborative actions taken with external stakeholders. Should engagement be unsuccessful, NAM takes appropriate investment decisions dependent on the severity of the sustainability controversy or issue. NAM may also engage with investee companies to enhance its understanding on investee companies and encourage them to improve their disclosure on sustainability related information.

The Sub-Fund uses the TOPIX index (the “Index”) in the way that the PAIs of the Sub-Fund are compared against the PAIs of the Index, with the aim being to limit such portfolio average adverse impacts (weighted average adverse impacts of the companies held by the Sub-Fund) to be lower than that of the Index. The Index is not used for the purpose of determining the attainment of the environmental and social characteristics promoted by the Sub-Fund.

## **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

The Sub-Fund does not commit to making sustainable investments.

## **Environmental or social characteristics of the financial product**

The Sub-Fund promotes contribution to reduction of greenhouse gas emissions and sustainable, fair and inclusive business practices as its environmental and social characteristics.

In order to promote environmental and/or social characteristics described above, NAM will focus on the environmental and social characteristics of the investee company (dependent on the type of company under review), including but not limited to the following:

- Whether products and/or services support the reduction of emissions (e.g. renewable energy technology or electric vehicles) or not.
- The use of energy and/or greenhouse gas emissions, including any targets the company may have set and progress towards those targets.
- The sustainability of sourcing and consumption of raw materials, for example, deforestation issues and water consumption.
- Whether products and/or services contribute to improving living standards and livelihood (e.g. diapers, feeding bottles, and foods to improve hygiene and nutrition).
- Whether products and/or services contribute to improve industrial productivity (e.g. IT equipment and components, factory automation equipment, research and development products).
- The treatment of employees, including diversity (e.g. gender), customers (e.g. fair pricing and treatment) and suppliers (e.g. avoiding coercive sourcing practices).
- The adherence to societal norms such as anti-bribery, anti-child or other forced labour and appropriate treatment of local communities, including within their supply chain.

## **Investment Strategy**

### ***What investment strategy does this financial product use to meet the environmental or social characteristics promoted by the financial product?***

The Sub-Fund is an actively managed portfolio that will invest primarily in equity and equity-related securities listed or traded on a recognised exchange in Japan. NAM integrates ESG considerations in the strategy in the following manner; i) proprietary ESG ratings, ii) exclusions and iii) ESG Metrics.

#### **i) Proprietary ESG ratings**

NAM will assign a proprietary ESG rating in respect of each potential issuer. The ESG rating is based on its assessment on risks with regard to various ESG factors. In assessing ESG ratings, NAM will utilise data and analysis from NAM's in-house team of ESG specialists and sector analysts, external data providers ("Data Providers"), such as MSCI ESG, ISS ESG and Sustainalytics and various third party Non-Governmental Organisations (NGOs) such as NGOs whose mission is relevant to the

company in question as well as data from other sources (such as company reports, industry reports and other third party research reports).

The potential ESG ratings are “No Issues”, “Investible with Engagement” and “Uninvestible”. NAM will be precluded from investing in companies that are rated “Uninvestible” and only allowed to invest in companies that are rated “Investible with Engagement” if NAM will actively engage with the company to address issues that attributed to the rating.

#### ii) Exclusions

- Alcohol: Exclusion of companies for which alcohol represents more than 10% of the company’s revenue.
- Adult Entertainment: Exclusion of companies for which adult entertainment represents more than 10% of the company’s revenue.
- Gambling: Exclusion of companies for which gambling represents more than 10% of the company’s revenue.
- Nuclear weapons: Exclusion of companies for which nuclear weapons represents more than 10% of the company’s revenue.
- Thermal coal: Exclusion of companies for which thermal coal represents more than 10% of the company’s revenue.
- Tobacco: Exclusion of companies that produce tobacco, or companies whose core business is tobacco distribution (core definition = 50% or more of sales).
- Controversial weapons: Exclusion of companies involved with controversial weapons, including anti-personnel mines, cluster munitions, chemical weapons, and biological weapons.
- Exclusion of companies that NAM deems to be in violation of the UNGC and OECD Guidelines.

#### iii) ESG Metrics

When considering investment opportunities, NAM will consider certain ESG metrics. Depending on the nature of the company, these metrics will include but are not limited to energy use, greenhouse gas emissions, sustainable sourcing, human rights, labour relations and diversity (“ESG Metrics”) both in the relevant company’s own operations and those of the company’s supply chain. When comparing two otherwise similar investment opportunities (e.g. similar sector, product, service and ability to sustain a high return on equity (ROE)), NAM will be obliged to select the investee company that displays better ESG Metrics.

#### ***What is the policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance?***

NAM has set a binding obligation to make a thorough assessment of the governance practices of the investee companies (including sound management structures, employee relations, remuneration of staff and tax compliance) and votes any proxies issued by such investee companies taking into account their governance practices.

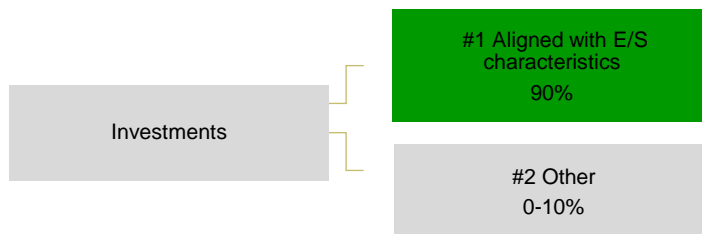
NAM has a proprietary assessment process for the assessment of governance practices of investee companies. Within this assessment, NAM will utilise data from third party data providers as well as other sources (such as company publications) which focuses on four primary areas as follows:

1. Environmental, Social and Governance attitude: NAM will assess the culture and attitude of the board and management of the investee company towards fair treatment of all stakeholders of the investee company, to include the avoidance of environmental damage and conduct breaches (e.g. bribery). NAM also assesses effective governance reaction and remediation steps taken by the investee company in the face of any issues concerning such stakeholders. This assessment may include the use of data from Data Providers, in particular, to identify issues that have occurred in the past or are ongoing.
2. Skill in capital allocation: NAM will assess the track record of the management and the board of investee companies in allocating capital to high return investments that will benefit shareholders in the long term. NAM believes that inappropriate capital allocation is indicative of poor corporate governance.
3. Skill in operational management: NAM will assess the track record and likely capability of the management and the board of investee companies in optimising the operations of an investee company.
4. Remuneration policy: NAM believes that the nature of the management reward policy, set by the investee company board, is likely to drive behaviour. As such, NAM will evaluate the acceptability of the remuneration structure in detail.

If the assessment results of a company are unsatisfactory, NAM will encourage improvement through engagement and the company will either be put on a watch list or removed from consideration depending on whether the company shows intent to solve the issue.

NAM is a signatory to the Japan Stewardship Code, which sets out principles of effective stewardship. NAM is also a signatory to the UN Principles for Responsible Investment (the “UNPRI”), since 2011.

### Proportion of investments



NAM commits to invest a minimum of 90% of the Sub-Fund's assets in investments which are aligned with the environmental and/or social characteristics being promoted, which will be obtained through direct exposure to investee companies.

### Monitoring of environmental or social characteristics

***How are the environmental or social characteristics promoted by the financial product and the sustainability indicators used to measure the attainment of each of those environmental or social characteristics promoted by the financial product monitored throughout the lifecycle of the financial product and what are the related internal or external control mechanisms?***

NAM will use the sustainability indicators to measure the attainment of the environmental and social characteristics. The sustainability indicators will include but not limited to:

Contribution to reduction of greenhouse gas emissions:

- Greenhouse gas emissions per unit revenue

### Sustainable, fair and inclusive business practices:

- Management remuneration
- Percent women on the corporate board
- Compliance with UN Global Compact
- Exposure to controversial weapons

To monitor adherence to the environmental and social characteristics of the Sub-Fund, NAM monitors the sustainability indicators, as above. Compliance with the exclusions above is ensured through pre-trade monitoring and post-trade checks. Engagement progress and results are periodically assessed and unsuccessful engagement may lead investments to exclusion.

NAM also uses NAM UK's oversight platform to monitor alignment with the environmental and social characteristics of the Sub-Fund within its periodic review.

### **Methodologies for environmental or social characteristics**

#### ***What are the methodologies to measure how the social or environmental characteristics promoted by the financial product are met?***

The methodologies to measure the attainment of the environmental and social characteristics of the Sub-Fund are set out under "Monitoring of environmental or social characteristics" above.

### **Data sources and processing**

The Sub-Fund will utilise the following data sources:

- data provided by investee companies in annual sustainability reports and through engagement directly with the investee company.
- data and analysis from NAM's in-house team of ESG specialists and sector analysts.
- data and analysis from external Data Providers, such as MSCI ESG, ISS ESG and Sustainalytics and various third party Non-Governmental Organisations (NGOs).
- data from other sources (such as industry reports and other third party research reports).

NAM scrutinises the data quality and coverage of Data Providers on an ongoing basis. This includes, but not limited to, reviewing the data model, comparing data between providers and evaluating coverage.

Where data is sufficiently available, NAM prefers to use primary sources reported by investee companies. For calculation of PAIs indicators, NAM will utilise data from Data Providers and monitor on an ongoing basis. NAM will also combine primary sources, data from Data Providers and other sources in the course of its ESG strategy.

NAM seeks to use reliable and actual data but where availability of such data is limited, it will also utilise estimates provided by Data Providers and other sources. In such cases, NAM aims to complement such estimates with internal analysis and/or engagement.

### **Limitations to methodologies and data**

#### ***What are limitations to the methodologies or data sources and how do such limitations not affect how the environmental or social characteristics promoted by the financial product are met?***

The primary limitation to the methodology or data source is the lack of corporate disclosure. As is the case with industry peers, NAM faces challenges in obtaining adequate and sufficient data on certain PAIs and other sustainability related metrics. Where lack of data or data credibility may affect its ability

to make informed decisions, NAM may resort to options such as using multiple data providers for certain data, having a direct dialogue with investee companies, setting a dedicated engagement plan or taking a decision against holding companies in order to ensure alignment of the Sub-Fund with its environmental and/or social characteristics.

## **Due diligence**

### ***What due diligence is carried out on the underlying assets of the financial product (including the internal and external controls)?***

Portfolio managers and analysts are primarily responsible for conducting due diligence on investments on a continuous basis to ensure the attainment of the Sub-Fund's environmental and social characteristics through the binding requirements including 1) proprietary ESG ratings, 2) exclusions and 3) ESG Metrics set out above under "Investment Strategy". Portfolio Managers and analysts are also required to make a thorough assessment of the governance practices of investee companies (including sound management structures, employee relations, remuneration of staff and tax compliance). They are supported by the aforementioned oversight platform within NAM UK where any new investments and material changes to the Sub-Fund's portfolio will be presented and scrutinised on a periodic basis.

## **Engagement policies**

### ***What is the engagement policy implemented, in the case that engagement is part of the environmental or social investment strategy (including any management procedures applicable to sustainability-related controversies in investee companies)?***

NAM places strong emphasis on engagement to maximise its influence on investee companies. NAM has a well-established approach to engagement where engagement cycle is structured, managed and monitored with certain milestones. Engagement target companies and themes are identified and prioritised based on top-down and bottom-up approaches. Each engagement activity is monitored and followed up by a dedicated team.

NAM may engage proactively with issuers with weaker characteristics in topics such as, but not limited to, human capital management, board composition and environmental impacts management. Such engagement activities may include direct dialogue with company management, such as through in-person meetings, phone calls, electronic communications /and letters or collaborative actions taken with external stakeholders. Should engagement be unsuccessful, NAM takes appropriate investment decisions dependent on the severity of the sustainability controversy or issue.

In addition, as mentioned above, the Sub-Fund may also engage with investee companies to enhance its understanding on investee companies and encourage them to improve their disclosure on sustainability related information.

## **Designated reference benchmark**

The Sub-Fund uses the Index in the way that the PAIs of the Sub-Fund are compared against the PAIs of the Index, with the aim being to limit such portfolio average adverse impacts (weighted average adverse impact of the companies held by the Sub-Fund) to be lower than that of the Index. However, the Index is not used to define the portfolio composition of the Sub-Fund and is not used for the purpose of determining the attainment of the environmental and social characteristics promoted by the Sub-Fund. The Index is a broad market index and not consistent with the environmental and social characteristics promoted by the Sub-Fund.