

**Basic Policy for Responsible Investment Management**

**NOMURA ASSET MANAGEMENT**

**Responsible Investment Committee**

**April 1, 2017**

## **1. Basic Principles for Responsible Investment**

The mission of NOMURA ASSET MANAGEMENT ("NAM" or "we" hereafter) is to continuously offer our clients high-quality asset management services to meet the needs of our clients, thereby contributing to the development of society and gaining strong trust through the asset management business.

As a fiduciary asset manager, NAM is committed to act at all times in the best interest of our clients based on our expertise with care required to carry out the duties. We ensure that conflicts of interest are handled ensuring independency and in such a manner so that client interests will never be damaged.

We have been entrusted with our clients' proxy rights and other rights on securities investment, as well as with securities transactions. We must properly exercise these rights in an effort to maximize the interests of our clients. We cannot achieve the growth of our clients' assets over the medium to long term unless investee companies achieve sustainable growth and create corporate value. To this end, we are committed to performing stewardship-related activities, including purposeful dialogue with investees (engagement) and proxy voting, to assume the important responsibility as a fiduciary asset manager.

ESG (Environmental, Social and Governance) issues are basic concerns to be addressed by companies to continuously engage in business activities as a member of society and create corporate value. ESG considerations are integral to our investment stewardship. Thus, we must strive to have a dialogue with investee companies to constantly identify how they respond to ESG issues and encourage them to properly take on these challenges through stewardship-related activities.

NAM understands and recognizes that the overall actions as stated above are practices to be performed as a "responsible investor" and these actions will eventually realize the establishment of a sound and sustainable society and efficient and stable capital markets. From this perspective, NAM defines investment involving these actions as "responsible investment" and will make active efforts to ensure such responsibility.

## 2. Concrete Actions

NAM specifies concrete actions that help attain the basic policy for responsible investment:

### (1) Understanding Investee Companies

- Strive to deepen understanding on business model and strategy, business environment, business management and other important conditions of investee companies.
- When conducting fundamental research and analysis of a company, focus not only on financial information, but also on non-financial information such their ESG practices and the background to certain strategies and management philosophy.
- Render investment judgments on asset management and perform stewardship-related activities, such as engagement with investee companies which includes proxy voting, based on the deep understanding of the company.

### (2) Approach to Investee Companies

- In order for investee companies to enhance corporate value and achieve sustainable growth, stipulate the "Ideal Form of Business Management of Investee Companies" (refer to [Appendix 1]) and encourage investee companies to realize it.
- Stipulate "Basic Principles of Engagement" (refer to [Appendix 2]) and "General Policy on Proxy Voting" (refer to [Appendix 3]) and give encouragement to investee companies from a fair and consistent posture.

### (3) Control Conflicts of Interests

- Exercise due caution on the possibility of conflicts of interests to assume fiduciary duties and always give priority to client interests.
- Establish a highly transparent system and processes in order to ensure independence and properly control conflicts of interests.

### (4) Collaboration and Outside Activities

- Properly perform duties on the understanding that collaboration with other institutional investors, etc., and outside activities will help enhance efficiency to give encouragement to investee companies.
- With regard to collaboration on individual projects, careful judgment should be made in consideration of the duty of confidentiality.
- Continue to collect information regarding responsible investment and reflect it in our business on

an as-needed basis.

(5) Information Disclosure and Accountability

- Properly fulfill the duty of accountability regarding our actions as a fiduciary asset manager through information disclosure and reports to clients.

(6) Organization and Actions

- Establish and operate a proper organizational structure so as to promote the above actions in an effective manner.
- Foster our ability on responsible investment by securing experts and strengthening our initiatives.

## **Ideal Form of Business Management of Investee Companies**

NOMURA ASSET MANAGEMENT ("NAM" or "we" hereafter) stipulates the ideal form of business management of investee companies in order for investee companies to enhance corporate value and achieve sustainable growth, which is a driver of investment performance, and actively encourages investees through stewardship-related activities.

### **1. Proper Efforts on Social Responsibilities**

NAM believes that in order to be recognized as a corporate citizen, it is indispensable for companies to continuously act in a proper manner, which constitutes the foundation of sustainability of business activities.

"Compliance" not only includes compliance with laws and regulations, but also aspects of corporate behavior such as commonly agreed practices and the observance of internal rules and regulations as a premise for companies to take appropriate action.

Moreover, we believe that a company's "proper" efforts in relation to social responsibilities that are included within the "ESG" framework, such as global environmental and social issues, will lead to the enhancement of long-term corporate value.

### **2. Value Creation through Capital Efficiency**

NAM believes that in order for investee companies to enhance corporate value and achieve sustainable growth, it is necessary for investees to create value by utilizing capital with the efficiency that exceeds capital cost over the medium to long term. We also believe that such value creation is necessary for companies to contribute to society.

### **3. Adequate Performance of Corporate Governance Function**

NAM believes the following requirements should be met for the corporate governance practices of a company to enhance capital efficiency, to achieve sustainable growth, and create corporate value:

- (1) The board consists of an adequate number of directors qualified for rendering proper business judgments and effective functioning.

- (2) The statutory auditors and the audit committee are qualified to audit the activities of the business and function effectively.
- (3) Where the board of directors has designated committees of the board to carry out specific functions, each committee shall consist of qualified members and operate with independence.
- (4) Executive compensation is well balanced and consistent with long term corporate value creation, and appropriate management incentives are in place.
- (5) Corporate governance systems are in place to ensure sufficient internal control in terms of compliance and internal auditing.
- (6) Comply with laws and regulations, and properly respond to the Corporate Governance Code.

#### 4. Adequate information disclosure and a dialogue with investors

NAM believes that companies need to uphold their accountability through timely and proper public disclosure in order for us to precisely grasp the state of investee companies. NAM also believes that investee companies should actively hold dialogue with each investor to appropriately reflect investors' opinions to corporate management.

In particular, with respect to the violation of laws and regulations and criminal activities/fraudulent accounting practices, we will request sufficient disclosure and explanations on investigations of cause, clarification of where responsibility lies, and the formulation and dissemination of effective recurrence countermeasures.

## **Basic Principles of Engagement**

NOMURA ASSET MANAGEMENT ("NAM" or "we" hereafter) considers that engagement (constructive "purposeful dialogue") with investee companies is an effective way to fulfill its stewardship responsibility, and we intend to do so proactively.

NAM believes that engagement should be held based on the deep understanding of investee companies and their business environment. In this way, we will strive to grasp companies' specific circumstances. We then support companies in the management of business to help them enhance corporate value and achieve sustainable growth through engagement. At the same time, we do not believe that asking for improvements in companies with management issues is the only method of engagement. We believe it is also very important to reassure well-managed companies of our support as investors.

Because NAM's operation underlies medium-to-long term investment based on thorough research and analysis of fundamentals, we believe that medium-to-long term fundamentals are key to engagement. However, we expect the contents of the dialogue with each investee company to vary depending on the business environment and the companies' specific business circumstances.

Based on the above principles, we set forth the basic stance on performing engagement as shown below, with an intent to fulfill our stewardship responsibilities by deepening mutual understanding through our day-to-day dialogue with investee companies:

- (1) Maintain an amicable and constructive stance when communicating with investee companies.
- (2) Deepen understanding not only on financial information, but also on non-financial information of the investee companies, which includes ESG issues, the background to certain strategies and management philosophy.
- (3) Exchange ideas and opinions with investee companies regarding capital efficiency.
- (4) Exchange ideas and opinions regarding the cause and recurrence countermeasures in the event of incidents that breach accepted standards and promote effective corporate management.

NAM will promote investee companies to create value and achieve sustainable growth through such activities.

There may be some cases where we receive material facts that have not been disclosed under the insider trading regulations or information that has a risk of being considered insider trading in the course of performing engagement. Such fact or information must, if received, be treated properly in accordance with laws and regulations, applicable rules and internal rules.

## **Basic Policy for Proxy Voting**

### 1. Basic Policy for Proxy Voting

NOMURA ASSET MANAGEMENT ("NAM" or "we" hereafter) has the fiduciary duty to do our best to enhance returns for our clients as an investment manager. We have formulated our own proxy voting guidelines. We will continue to encourage appropriate management practices for both domestic and overseas investee companies, in order to help them to enhance corporate value and achieve sustainable growth. We also request that investee companies operate business in the best interest of shareholders over the long term through our proper proxy voting activity.

### 2. Proxy Voting Guidelines

When exercising proxy rights, we will vote for resolutions that are deemed to enhance shareholder value, while voting against those that are deemed detrimental to shareholder value.

We closely examine the voting resolution that meets one or more of the conditions listed below. Where we believe that a specific resolution is not in the best interest of shareholders, we will, in principle, decide to vote against the resolution.

- (1) In cases where criminal activities or fraudulent practices by the company are observed. Said activities/practices, which are considered in the judgment of resolutions, include acts that raise great concern in view of compliance with rules, regulations, rules of stock exchanges, efforts directed at ESG issues, social norms, etc., and harm the shareholder value. However, we do not exercise our proxy voting rights solely as a means to address specific social or political issues, irrespective of investment returns of the company.
- (2) The company's business and financial strategies are deemed to harm shareholders' value.
- (3) The company continuously reports sluggish business performance and its management's business improvement efforts are considered inadequate. Sluggish business performance, which is considered in the judgment of resolutions, includes performance that leads to a significant decline in investment returns of the company, such as recording a deficit for three consecutive years. Business performance is based on consolidated accounts. If consolidated accounts are not reported, business performance is based on nonconsolidated accounts. (The same shall apply hereafter.)
- (4) The company accumulates a large amount of excessive funds that are deemed not to be used effectively and/or are not distributed to shareholders adequately.
- (5) The company's disclosure is deemed to be inadequate and harmful to the shareholders' value.

- (6) The auditor's opinion on the issuer is qualified.
- (7) The composition and/or size of the company's board of directors or the composition and/or size of its board of statutory auditors, audit committee, audit and supervisory committee is deemed to be inadequate and may harm shareholders' value.
- (8) Extraordinary resolutions are deemed to definitely harm shareholders' value.

### 3. Positions on Specific Issues

#### (1) Election of Directors

A director is expected to be a person who is qualified for the position with sufficient skills and experience and the capability to supervise the business execution on behalf of shareholders.

If the company is found to have engaged in any criminal activities or fraudulent practices, or if the company's business performance remains sluggish over a long period and little remedial effort is apparent, or any activity that we deem is harmful to the shareholders' value, we will carefully consider the resolution on the reelection of directors who are deemed to be responsible for such issues/activities. When candidates are deemed as not being qualified, we will vote against them.

In principle, we vote for the election of outside directors. However we pay special attention to the directors' qualifications, such as their independence. We determine the independence of the outside directors from comprehensive perspectives on whether they are representatives of major shareholders, have received a large amount of remuneration other than executive remuneration, and are related to other executive members.

The number of directors should be adequate and appropriate considering the nature of the company's business and its scale.

#### (2) Election of Auditors

Auditors are expected to be qualified to audit the business of directors on behalf of shareholders, and are expected to function adequately for that purpose.

Where the company has engaged in criminal activities/fraudulent accounting practices, or has engaged in illegal activities in which an auditor is found responsible for any part thereof, or is deemed to have failed to fully perform his/her duties, we will vote against the reelection of the auditor.

It is desirable that outside auditors are independent of management. It is not desirable to have the board of statutory auditors composed of outside auditors all of whom lack independence. We determine the independence of the outside auditors from a comprehensive perspective on whether they are representatives of major shareholders, have received a large amount of remuneration other than executive remuneration, and are related to other executive members.

Where a reduction in the number of auditors is proposed, there should be proper justification for such a reduction.

(3) Election of Accounting Auditors

In principle, we vote for the election of accounting auditors except where it is found that:

- The accounting auditor has an interest in the company and lacks independence.
- Excessive non-audit remuneration has been paid to the accounting auditor.
- The accounting auditor has expressed opinions with inaccurate financial conditions of the company.

(4) Executive Remuneration

When a company is discovered to have engaged in criminal activities/fraudulent accounting practices, we expect to see corrective measures reflected in executive's remuneration.

We vote for reasonable executive remuneration plans that are aligned with the long-term interests of shareholders. However, we vote against plans that we believe are inconsistent with or inequitable compared to the company's overall financial condition, or that would substantially harm the interests of shareholders.

(5) Executive Bonus

We will vote against resolutions on executive bonuses when it has found a material criminal activity/fraudulent accounting practice or a significant decline in business performance or share price or found that the amount of bonuses to be unreasonably large in view of past achievement and the current financial condition or as compared with other competitors.

(6) Retirement Bonus for Directors and Auditors

We will vote against resolutions on retirement bonuses for retiring executives when it has found a material criminal activity/fraudulent accounting practice or a significant decline in business performance or share price or found that the amount of retirement bonuses to be unreasonably large in view of past achievement and the current financial condition or as compared with other competitors.

(7) Stock Options

We will vote against resolutions on granting of stock options as remuneration when it has found a material criminal activity/fraudulent accounting practice or a significant decline in business performance or share price or found that the value of stock options to be unreasonably high in view of past achievement and the current financial condition or as compared with other competitors.

In principle, we vote for stock option plans when the terms and conditions of the plan, such as eligibility and scale, are properly set forth for the purpose of incentivizing executives and employees. However, we vote against such plans when the terms and conditions of the plan including eligibility and scale are deemed to be improper. We will require sufficient explanation on stock options offered or granted to outside parties in light of whether it leads to enhancing the shareholders' value.

We will determine whether to vote for or against resolutions on granting of company shares as remuneration by applying mutatis mutandis the rules mentioned above.

(8) Allocation of dividends and profits

In deciding on distributions to its shareholders, the company should ensure that such distributions are consistent with its long-term investment plan and capital policies. In principle, it is desirable that excess funds are distributed to shareholders.

While considering whether the company's allocation of dividends and profits is consistent with its long-term investment plan and capital policies, we vote against allocation policies that are deemed to be significantly inadequate and harmful to shareholders' value.

(9) Acquisition of the company's own stock

While we view the acquisition of the company's own stock positively as a means to enhance the shareholders' value, we would oppose such a resolution when it is deemed to be inappropriate for the sake of the company's capital structure.

(10) Change in number of authorized shares

When the said purposes are inappropriate, NAM will vote against a company's proposed increase in the number of authorized shares in principle.

(11) Issuance of preferred and other classes of shares

In principle, we will vote for resolutions if the purpose and application requirements are deemed to be clear and appropriate, and they have no concerns about the fairness of voting rights, appropriateness of beneficiaries and/or diversity of shareholders. Otherwise, we would oppose the resolution in principle.

(12) Corporate restructurings and capital policy (mergers, acquisitions, sale/transfer of business, corporate separation, capital increase, etc.)

With regard to mergers, acquisitions sale/transfer of business, corporate separation, capital increase and other corporate restructurings and capital policy, we assess the contents of respective resolutions, financial condition, basis and rationality of management judgment, fair

disclosure, etc., from an overall perspective. When we determine that they will contribute to an increase in shareholders' value, we will vote for the resolutions. Otherwise, we would oppose the resolutions.

(13) Anti-takeover measures

We individually analyze anti-takeover measures. We would oppose the resolutions unless shareholders' value is protected.

(14) Amendment of Articles

We will determine whether to vote for or against resolutions on amendments to the articles of incorporation on a case by case basis from the perspective of long-term enhancement of shareholders' value or the protection of shareholders' value from impairment. We will vote for (against) such resolutions if we find them appropriate (inappropriate) from these perspectives.

With regard to resolutions regarding accepting the staggering of terms of office of directors, we would oppose them if these resolutions are deemed to impair effectiveness of corporate governance.

(15) Shareholder Resolution

We will determine whether to vote for or against shareholder resolutions on a case by case basis from the perspective of long-term enhancement of shareholders' value or the protection of shareholders' value from impairment. We will vote for (against) such resolutions if we find them appropriate (inappropriate) from these perspectives.

(16) Other

NAM will determine whether to vote for or against resolutions on any other issues on a case by case basis from the perspective of long-term enhancement of shareholders' value or the protection of shareholders' value from impairment. We will vote for (against) such resolutions if we find them appropriate (inappropriate) from these perspectives.

#### 4. Conflict-of-Interest Management Policy

We conduct businesses in good faith and fairness for the clients, and appropriately manage the conflicts of interest based on our "Conflict-of-Interest Management Policy".

To manage the possibility of conflict of interest, we appropriately conduct business giving the first priority to the clients' interests.

With regard to proxy voting, the Responsible Investment Committee consisting of members

with high independency is in charge of policy-makings and final decisions. In case exercising proxy rights for the securities issued by the Group Companies and the subsidiaries and affiliated companies of Nomura Holdings Inc. and/or concerning the Group Companies' interests, after making such facts clear, we refer opinions from multiple proxy advisors and makes decisions at the Responsible Investment Committee to protect the clients' interests. The Responsible Investment Council validates the adequateness of such decisions and if necessary may make a recommendation to the Responsible Investment Committee. If receiving the recommendation, the Responsible Investment Committee reviews the related proxy voting decision again and makes final decisions.

## 5. Other

NAM may be unable to vote or may decide to refrain from voting in certain circumstances. The following list, although not exhaustive, highlights some potential instances in which a proxy may not be voted:

### (1) Securities Lending

When securities are offered for rent as of the record date of exercising a proxy vote, they need to be collected before exercising the vote. We may not exercise a proxy vote through the consideration of the usefulness of such exercise and cost incurred for collecting such securities.

### (2) Share Blocking

Some countries and regions require shareholders to deposit their shares with a designated depository during a specific period shortly before a shareholders' meeting as a condition for exercising a proxy vote and shares cannot be sold during this blocking period. In such case, we may not exercise a proxy vote through consideration of the usefulness of such exercise and opportunity loss.

### (3) Re-registration

In some countries and regions, re-registration of shares is required to exercise a proxy vote. We may not exercise a proxy vote in consideration of the fact that the shares cannot be sold during the re-registration period

### (4) Other

For example, when we are unable to obtain adequate information, the period between the reception of resolutions and the exercise of voting is insufficient, or the cost of voting the proxy outweighs the possible benefit to the client, we may not exercise a proxy vote.