

**Nikko Asset Management Europe Ltd**

## **Nature and Level of Nikko AM Europe's commitment to the UK Stewardship Code**

**25<sup>th</sup> May 2016**

## Introduction

Rule 2.2.3R of the Conduct of Business Sourcebook (COBS) of the UK FCA Handbook requires that a firm which manages investments for a professional client discloses clearly on its website, or if it does not have a website in another accessible form:

- (1) the nature of its commitment to the Financial Reporting Council (<https://www.frc.org.uk/>)'s Stewardship Code (the "Code"); or
- (2) where it does not commit to the Code, its alternative investment strategy.

Nikko Asset Management Europe Ltd (the "Company") endorses and supports the principles on engagement with investee companies set out in the Code.

The purpose of this policy statement is to describe how Nikko Asset Management Europe applies each of the seven principles of the Code and to disclose the information required under the code

## Application of the principles

**Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

### Fixed Income

The Company's investment mandates are predominantly (approximately 80% of assets under management and advice) in the area of money markets and fixed income which fall outside the scope of the Code.

### Japanese Equity Mandates

The investment management of the Company's Japanese equity mandates (including the discretion to vote) is outsourced to the Company's head office in Tokyo, Japan, i.e. Nikko Asset Management Co., Ltd ("Nikko AM").

Nikko AM has a publicly available policy on the exercise of voting rights (<http://en.nikkoam.com/voting-rights>) as well as on the disclosure of the results of such voting (<http://en.nikkoam.com/voting-rights/results>).

### Global Equity Mandates

The Company regards voting as an integral part of being a responsible steward of capital and exercises proxy voting rights independently and solely in the interests of our clients and beneficiaries standpoint and not to promote its own interests.

Nikko AME does not use standing instructions for voting; all voting decisions are made by the portfolio managers on an individual basis and votes cast via a third party vendor, Institutional Shareholders Services (ISS). ISS provides research for all proxy votes but the final decision rests with the Global Equity Team.

This enables Nikko AME to control its voting policy and final vote decisions, whilst outsourcing the processing of the proxy voting process.

The Company particularly focuses on the following points when exercising voting rights in order to ensure monitoring of the governance of the company being invested in and to increase and prevent damage of shareholder value:

(1) Shareholder Return

With regard to the disposition of surplus capital, our portfolio managers emphasize ways to provide sustainable and sufficient returns to shareholders over the medium to long-term. They take into consideration not only total return ratio levels, such as shareholder dividends and stock purchase plan, but also scale of internal reserves and investment plans based on future business plans.

(2) Director's Execution and Supervisory to Directors

The separation of execution and supervisory functions in management is encouraged as a necessary function of superior corporate governance. A company's board of directors must be appropriate size and composition so as to ensure adequate discussions take place and appropriate decisions are made. Some of the directors should be independent directors.

(3) Executive Compensation System

The portfolio managers encourage appropriately sized executive compensation systems that offer incentives to increase shareholder value, such as those linked to company performance.

(4) Company Control and Takeover Defences

Name is opposed to resolutions aimed at maintaining company control or that prevent corporate takeover. Acquisition proposals and/or defensive strategies may be assessed to the extent that the existence of such acquisition risks are clear and existing shareholder value would not be damaged.

(5) Business Restructuring

As stewards of our clients' capital, our portfolio managers will assess corporate transactions such as mergers & acquisitions of businesses from the view point of consistency with its management strategy and medium to long term enhancement of shareholder value.

(6) Capital Policy

Our portfolio managers will consider the company's management strategy, financial standing and market environment when voting on resolutions relating to the issuing of capital. In particular, the Company does not evaluate such capital increases positively if there is a possibility that it will significantly dilute the equity of existing shareholders and place them in an overall disadvantageous position.

**Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

The Company acknowledges that conflicts of interest may arise in relation to stewardship activities and in such cases, the interests of our clients must come first. The Company has established comprehensive Conflicts of Interest and Code of Ethics Policies in order to mitigate and manage conflicts or potential conflicts. The company will assess voting on a case-by-case basis and may vote on or deviate from a policy with due consideration to the best interest of our clients. Where a decision has been made to deviate from a policy, this will be documented to evidence that the Company has acted in the best interest of our clients.

**Principle 3 – Institutional investors should monitor their investee companies.**

Our portfolio managers make investment decisions based upon the sustainable growth of investee companies by analysing financial information, such as earnings trends and capital structures, as well as non-financial information like management strategies, corporate governance, social responsibilities and risk. Such data is acquired by accessing publicly

disclosed material, holding regular meetings with management and appropriately engaging with investee companies.

As a long-term shareholder, we recognise that there may be circumstances where it may be appropriate to receive inside information (i.e. non-public, price sensitive information) on companies in which we invest in. Our default position is that we generally do not wish to be made party to inside information unless permission is sought from us first. Procedures and controls are maintained to manage those circumstances where we do decide to receive inside information

**Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

It is our preference to support and build long term relationships with the companies in which invest. We will therefore evaluate the actions and strategies of companies constructively. Where we may have concerns over the value of investee companies, we will take steps to protect the value of our clients' Investments. This is undertaken through participation in shareholder meetings, private management meetings and formal written communications. Our portfolio managers hold the ultimate sanction against management action by selling their investment. This will only be necessary if deemed to be in the best interests of our clients.

**Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.**

The Company's usual policy is to actively engage in discussions with an investee company. However, subject to our conflicts of interest and code of ethics policies, we would consider engaging with other shareholders on matters of mutual interest.

**Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.**

The Company utilises ISS for the provision of proxy voting services. ISS' proxy voting solutions enable us to control our voting policy and final vote decisions while outsourcing the processing of the proxy process to a reliable partner. ISS receive our proxy ballots, work with our custodian banks, execute votes on our behalf, maintain vote records and provide us with comprehensive reports to deliver a complete, end-to-end solution. In the event we wish to vote against the recommendations made by ISS, we are able to access the ISS voting system and amend the vote accordingly.

**Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.**

Where requested by clients, the Company periodically reports on stewardship and voting activities. Through our engagement with ISS, we are able to report on how we have instructed votes. We maintain a record on all voting activity and explanations as to the reasons for voting against management.