Introduction

We carefully consider the impact of our firm and its investments in today’s world.

The principles of the UK Stewardship Code 2020 are imbedded in our investment philosophy and confirm our commitment to upholding the Code and the standards of engagement stipulated in the EU Shareholder Rights Directive.

Our Commitment to Responsible Investing and our Code of Ethics describe our global core values, global corporate social responsibility and global citizenship. This report lays out the global philosophy of the NAM Group and focuses on the investment management teams which operate under NAME.
1. Group History and Scope

Nikko Asset Management Europe Ltd (hereafter referred to as “NAME”) was established in London in 1984 and is authorised and regulated by the UK Financial Conduct Authority, Number 122084. The firm provides discretionary portfolio management and advisory services to institutional clients. It is a wholly owned subsidiary of Nikko AM Global Holdings Ltd. which is 100% owned by Nikko Asset Management Co., Ltd (hereafter referred to as “NAM”). The ultimate parent company is Sumitomo Mitsui Trust Holdings, Inc, a Japanese domiciled financial holding company headquartered in Chiyoda, Tokyo, who provide a variety of financial products to retail and wholesale customers, with a focus on asset management, financial brokerage and real estate services. Our global firm Nikko Asset Management (hereafter referred to as “NAM Group”) is a leader in the Asian financial services industry, with approximately USD 284.4 billion in assets under management as of 31 December 2020.

Since opening our London office in 1984, we have continued to grow our European footprint and opened our Luxembourgh and European headquarters in 2006, supplemented by the opening of a branch in Germany in 2019. In 2014 we established our Edinburgh office to house our newly acquired Global Equity team. NAME's assets under management (hereafter referred to as "AuM") have grown to GBP 18 billion as at 31 December 2020 and include equity, fixed income and balanced products. We currently have a global, exclusively institutional client base covering Asia, including Australasia, Europe, the Middle East and North America (listed in order of AuM). With a UK based staff of over 70, and support by an institutional client service team, the firm is well positioned to expand its international growth over the coming years.

Since the establishment of Japan’s first socially responsible investment (SRI) fund in 1999, NAM Group has prioritised the environmental efforts in its asset management operations. In October 2007, NAM Group signed the United Nations-supported Principles for Responsible Investment (PRI) to express its commitment to the conservation of the global environment and the development of a sustainable society through asset management. Since then, the Group has continued to strive to expand its commitment to environmental, social and governance (hereafter referred to as “ESG”) criteria and effective stewardship as an organisation. In 2010, NAME was proud to launch the world’s first green bond fund developed with the World Bank. This was followed by the launch of NAME’s Global Equity Strategy in 2014 which promotes environmental and social characteristics and the fund received an MSCI ESG rating of “A”. In 2016, a global Stewardship and Voting Rights Policy Oversight Committee and a global ESG Steering Committee were established. The Group published its first annual Sustainability Report in March 2020 and most recently, in August 2020, published the second Task Force on Climate-related Financial Disclosures (hereafter referred to as “TCFD”) report for the period of January to December 2019.

NAM Group has also been developing its corporate citizenship practices, publishing a Corporate Environment Policy in 2010. In 2018, NAM Group was certified as carbon neutral by Carbon Footprint Ltd and continues to promote positive corporate citizenship through local initiatives across the Group.
**2. Commitment to Stewardship and Responsible Investment**

As an asset management company, we have always taken a long-term view, are committed to running the firm responsibly for the benefit of all stakeholders and believe that ESG considerations are key to creating future value for clients. Both our corporate and investment activities are aligned to the framework of the Sustainable Development Goals (SDGs) adopted by the United Nations, goals which strive to resolve social and environmental issues in order to realize a sustainable society. As a Group, we are in a position to effect real change — not only by engaging with clients and investee companies, but also by fostering a corporate culture that embraces the tenets of the SDGs. The Group will continue to work towards a sustainable future by promoting ESG through its investment activities and sustainability in its corporate activities. NAME, motivated by the Group’s commitment, enables effective stewardship across three main business channels; company governance, corporate citizenship and investment management.

**Our responsibility as a company**

The purpose of the Board at NAME is to promote governance and provide strategic direction to the NAME business. The Board is empowered to establish policies for corporate management and oversight, make decisions on major company issues, set policies and guide senior management in planning and evaluating items which may affect the Company’s business. Further, it has oversight of NAME’s stewardship activities as it is presented with applicable updates and the content of this report. It is made up of the Chief Executive Officer (hereafter referred to as “CEO”) who currently also has the role of Chairman, two Independent Non-Executive Directors (hereafter referred to as “iNEDs”) and two Non-Executive Directors (hereafter referred to as “NEDs”), together with two Executive Directors (hereafter referred to as “EDs”). The CEO and the two EDs are also approved by the Financial Conduct Authority as Senior Managers under the Senior Manager and Certification Regime. The NEDs, appointed to the Board by NAM, provide head office oversight of regional EMEA business and regulatory issues, as well as key global business insights and developments at the group corporate level. The two iNEDs were chosen carefully in order to provide additional experience at Board level in areas of particular importance to our potential growth as well as maximum balance to the skill sets available to the Board. The EDs have the appropriate knowledge and experience of our business, our markets and the regulatory environment to be able to design and oversee the strategy of the firm.

**Our responsibility as a corporate citizen**

As a corporate citizen, we, NAM Group and NAME collectively, are committed to working towards a more inclusive society and reducing our impact on the environment. Led by the Corporate Sustainability Department, our sustainability activities have three focus areas: diversity & inclusion, reducing inequalities, and environment and climate. Also, at each NAM Group office, local working groups lead ground-up activities that are pertinent to the communities in which they work.

**Our responsibility as an investment manager**

As an investment manager, we are committed to putting our clients’ interests first. We abide by NAM Group’s Fiduciary and ESG principles which guide all our corporate activities. We see ESG integration as inherent to long-term value creation and inseparable from good investing. Guided by the Group’s **Commitment to Responsible Investing**, our investment teams implement ESG in a manner best suited to their investment strategy and ecosystem. We also engage in active dialogue with the companies in which we invest, and have a transparent, standardised approach to proxy voting.
2. Commitment to Stewardship and Responsible Investment

Statement from iNED Patrick Rudden

“In my role as an Independent Non-Executive Director for NAME, I am delighted to provide a statement in support of our response to the UK Stewardship Code 2020. I joined the NAME Board in September 2019 as one of two new iNEDs and took on the Chairman role of the Management Risk Committee in 2021. I was selected specifically for my investment background and expertise, having worked previously as a Chief Investment Officer in multi-assets, and as a Senior Portfolio Manager in multi-assets and equities working with UK, European and Asian pension funds, insurance companies and sovereign wealth funds.

My investment background means I naturally take the lead on reviewing in-house investment performance, people and their processes. In addition, as Chair of the Management Risk Committee, I focus on all areas of risk management including operational, legal, compliance and investment.

I am a passionate believer in sustainable investing and its guiding principles which seek improved environmental, societal and governance (ESG) outcomes for everyone. I believe in the stewardship-mentality to investing and that a long-term strategic view is of paramount importance. In this context, risk is multi-faceted and includes not just investment / shortfall risk but risks to reputation if the delivered outcomes are not acceptable to all parties - broader society and regulators as well as investors and beneficiaries. Clearly, climate change is a huge risk factor over longer time horizons. Delivering a satisfactory investment outcome in an unsatisfactory global environment would be, to say the least, sub-optimal.

As described in this response to the UK Stewardship Code 2020, I find NAME’s approach to be both thoughtful and practical, focusing as it does on delivering the right risk-adjusted returns over the longer term with the appropriate focus on ESG criteria. Stewardship at NAME encompasses both governance of the firm itself and the firm’s approach to investing clients’ money. Firm governance is overseen by a Board that includes iNEDs who also Chair the HR and Risk sub-committees. Policies and procedures are in place at both the group and local levels to ensure proper oversight and corporate citizenship. Both local investment teams, Global Equity and Global Fixed Income, have processes that incorporate ESG considerations and a stewardship mind-set to managing money. At the global level, policies on Responsible Investing and Ethics encapsulate the firm’s core values.

I fully support NAME’s commitment to sustainability and investment stewardship as laid out in this report as it accords with my belief that, when governed appropriately, asset managers can and should provide transformative long-term outcomes both for investors and for society more broadly.”
2. Commitment to Stewardship and Responsible Investment

Statement from iNED Cinzia Basile

“I believe a culture of strong corporate responsibility that prioritises sustainability considerations will both protect and enhance investment returns, while producing a beneficial social impact and contributing to a positive environment for our society. Therefore, I am delighted to support with this statement NAME’s commitment to sustainability and investment stewardship as set out in this report.

I joined the NAME Board in September 2019 as an independent Non-Executive Director. I have previously served as the head of an asset management business at a Swiss investment bank, chaired several risk committees, served as member of a conduct and culture committee, and been Chair of a financial company focusing on impact investment. From these experiences I have brought to NAME an independent view to various areas of relevance, e.g. knowledge of the European market for wholesale investment funds, management of ESG equity funds or green bond funds, EU funds regulation, risk management, and conduct and culture – in particular as it relates to impact investment.

NAME’s approach to stewardship across three areas - company governance, corporate citizenship and investment management - is in my view fully integrated with the firm’s culture and working methods. NAME has robust governance structures and committees including Stewardship, HR and Risk Committees. I am pleased to Chair the HR Advisory Committee where conduct and culture, diversity and inclusion are at the top of the agenda. I am also pleased to be a member of the Management Risk Committee where challenge is evidently welcomed from all quarters. NAME explicitly incorporates ESG considerations into its investment processes and believes that through this approach it serves the best interests of its clients. Finally, NAME’s approach to climate change is integrated also at product level. The Global Green Bond Fund, for example, shows the firm’s commitment to producing a global positive environmental impact.

I stand firmly behind NAME’s stewardship model, which in my view is well designed, integrated into the culture, and consistently executed upon.”
Our focus on sustainability is long-term and we continuously work to serve the interests of all stakeholders, namely clients and beneficiaries, employees, and the society in which we operate.

**Governance** – As we seek improvements in the governance of the firms in which we invest, we also want to ensure that our own governance is rigorous, robust and promotes values generating ESG considerations. To this end, our governance structure relies on two core pillars: management and stewardship.

Management governance ensures the implementation of good culture at the firm and stewardship governance is key in evaluating our investment beliefs and strategies in delivering long-term value for our clients. Together, the management and stewardship governance support effective stewardship.

**Governance**

Management governance – As befits a firm entrusted with managing the assets of clients, our business operations are presided over by a senior management team that is well versed in asset management. Our approach to securing management talent is predicated on our strong belief that having such a team in place gives us and the wider NAM Group the strongest possible foundations. With our conviction that the best governance can only be achieved with scrutiny from outside, we strive to maintain independent oversight by having appointed two iNEDs to the local board. The appointment of Cinzia Basile and Patrick Rudden was carefully considered to enhance the experience of the Board in order to maximise our growth potential and to bring expert skill sets to the firm. Mr. Rudden was recruited specifically to provide greater breadth of knowledge regarding key investment strategies and institutional appetite based on his previous experience at a leading US asset manager. Ms. Basile was recruited for her knowledge of the European market for wholesale investment funds and EU fund regulation. Together they enhance the specialist knowledge base of the Board and will provide better checks and balances to our business as well as be in a position to challenge Board content. Through debate, discussion and the different experience and knowledge of our directors and outside directors, we constantly examine ways of refining our vision for the future of the firm and differentiating it from our competitors with a forward-looking perspective on the asset management industry as a whole.

**Stewardship governance** – The umbrella of stewardship covers how we behave as a firm, what we expect from our investee companies and how we ensure this is achieved via active engagement with the companies and issuers across all asset classes. We recognise the importance of reviewing existing responsibilities and structures around stewardship and critically consider how these can be improved on an ongoing basis.

By way of an example of committed structural review, NAME engaged an external party in 2020 to assist in an objective review of these existing processes, identify potential improvements and implement recommendations. We subsequently established a local Stewardship Oversight Committee to improve transparency in our stewardship activities, such as engaging with firms and exercising voting rights, as well as to strengthen our governance.

On a semi-annual basis, key personnel of the firm are involved in reviewing, discussing and improving conducted activities and to approve the resulting updated voting guidelines and this report, which describes our commitment to sustainability and investment stewardship. Whilst this holistic review is done at least twice a year, NAME’s culture encourages individual accountability for stewardship.
To enhance commitment to sustainability in the Group's business operations, as well as its investment approach, the decision was taken to establish the Corporate Sustainability Department in September 2018, which operates out of the headquarters in Japan.

In August 2020, NAM Group published the second TCFD report for the January to December 2019 period. In addition to TCFD, NAM Group is a member of a variety of industry groups such as Climate Action 100+ and the Asia Investor Group on Climate Change (AIGCC) Working Group. Our group participates in these industry groups not only to validate our initiatives and our firm's impact against industry-wide efforts, but also to seek out ongoing opportunities to respond, potentially collectively, to systemic risks. The continued rapid development of the global climate crisis and a global pandemic are amongst the issues that are truly global problems, which every firm and every individual needs to tackle to their full abilities to ensure a global improvement.

In 2020, NAM Group participated in the Responsible Investor Conference for the second year in a row. This ESG-focused event brings together institutional investors, asset managers, NGOs, data providers, and corporates to discuss the future of sustainable finance. Some of our UK based investment professionals spoke at the London, Japan, and US editions of the conference, which was held virtually as a result of COVID-19. The digital event in London was held from 15–19 June and attracted over 4,500 participants, a five-fold increase from 2019.

Sustainability at NAM Group is truly a firm-wide effort. Communally, we believe that making honest disclosures and holding ourselves accountable for progress is key to becoming a better corporate citizen. By communicating the firm's direction to the stakeholders in a clear and transparent manner and assessing the areas which could be improved, we hope to spark dialogue within the industry that helps us all to work together towards a better, fairer future. The Group's Corporate Sustainability Department reflects the commitment to capturing and addressing the needs of individuals within the firm as well as in the different societies in which the firm operates. This department actively encourages inter-office idea sharing, promotes awareness of sustainable practices and, most importantly, inspires colleagues to make a difference wherever they are.

At each office, local working groups initiate and execute activities in line with the sustainability strategy. Run by volunteers, the working groups translate the company-wide strategy into local objectives. 2020 activities include, amongst other ongoing initiatives, our Singaporean office participating in a Covid-19 fundraiser for Daughters of Tomorrow and Free Food for All, and in a Lego sponsorship for ReadAble, an initiative to eradicate inequality through the promotion of literacy. They also hosted an internal Personal Sustainability Story Competition in which staff submit their sustainable habits that they have picked up during working from home. Our Japanese office hosted a variety of seminars and working groups addressing the topics of racial equality, marriage equality and panic-disorder and depression. Together with Future IM/Pact and other industry partners of the programme, our Australian office created a virtual internship that began in March 2020. The Virtual Internship walks students through case studies, videos, and everyday scenarios of various sectors within investment management. The New York office focused on helping communities that had been hardest hit by the COVID-19 crisis. In the first half of the year, they held two food drives and donated a total of over 22kg of food to the Bowery Mission Food Kitchen. They also had two beach cleanup sessions in Brooklyn, where staff removed more than 11kg of garbage from local beaches and waterways.

The global oversight structure of local working groups and the unrestricted choice of which SDGs to focus on gives staff the freedom to implement initiatives that make sense to their regions. The sustainability activities have three focus areas: diversity & inclusion (D&I), reducing inequalities, and environment and climate.
4. Our responsibility as a corporate citizen

4.1. Diversity and Inclusion

Being inclusive and ensuring diversity of thought are not only the right things to do but also make business sense. At NAME, we recognise that D&I is a key aspect to the development of our people and to our sustainability efforts.

**D&I in people development** – Our people are our most important asset, and the inclusion of D&I in our corporate values strengthens this conviction. NAME recognises that good culture is a business need and good culture breeds good business and good outcomes. Our staff are required to abide by the Conduct Rules set out by the FCA and the firm’s Code of Ethics. Our culture is more than simply a slogan or official standard of behaviour – it is embedded in the day-to-day behaviour of the firm and employees and is exhibited by the longevity of our staff members, many who have been with the firm for more than a decade. All employees have a key performance indicator (KPI) related to how they behave within the guidelines of our values. We believe that a diverse and inclusive workplace is a critical component in being able to best support and serve clients. As a result, our working practices, promotions, and recruitment are wholly based on individual merit with diversity and capability at its heart.
4. Our responsibility as a corporate citizen

The emphasis on D&I means that we recognise that every individual has their own set of needs both in and out of the workplace. To aid employees in maintaining a work/life balance, NAME operates a Flexible Working Policy which allows staff to request changes to contractual working arrangements, such as hours or days, in order to support life and commitments outside of work e.g. care giving or educational development. It also aims to enable full inclusiveness by making it easier for those with special needs to work and creating an environment that is more employee-friendly for all. This will be further enhanced by the Agile Working Policy which, while formally launching in 2021, was designed during the COVID-19 pandemic and the success of remote working for the firm means we are able to offer staff the option to work flexibly, accommodating the idea that “work” is an activity which we undertake rather than a place to which we go.

During 2020, our Human Resource Department launched a number of initiatives for the benefit of employees which include:

- Free access to the meditation platform Headspace. This gives all staff access to hundreds of guided meditations on everything from stress and sleep to productivity. This roll out was accompanied by the scientific confirmation of the benefits to mental health through meditation.
- CAF – Charities Aid Foundation. This is a Give As You Earn scheme which allows employees to make regular donations directly from their gross salary to charitable organisations of their choice.
- Cycle to Work scheme – an initiative that promotes physical and mental wellbeing through exercise by assisting employees to purchase a bicycle to cycle to work.

The emphasis on D&I means that we recognise that every individual has their own set of needs both in and out of the workplace.
4. Our responsibility as a corporate citizen

4.2. Reducing Inequalities
Since the inception of the world’s first dedicated green bond fund in 2010, NAM Group has made monetary contributions to the International Development Association, which is a part of the International Bank for Reconstruction and Development and helps the world’s poorest countries.

Over the years, as the firm grew and evolved, we recognised its capacity to play a part in reducing different forms of inequality and supporting employees who are passionate about different causes. As such, in 2019, the NAME Sustainability Working Group (hereafter referred to as “SWG”) was formed. Each year, through the SWG, a number of initiatives are launched and in 2019 this included the provision of two volunteering days for every member of staff – taken either on a firm organised volunteering activity or on a personal volunteering day. This allows staff to commit time to causes about which they are passionate while seeing the physical impact of their efforts.

We decided to focus our efforts in 2020 on the Trussell Trust with a particular view to the pandemic and the resulting job losses leading to increased dependence on food banks. The Global Equity team spent time volunteering at the Edinburgh Food Project and held a Christmas fundraising event, of which the monies raised were matched by the firm. The Give As You Earn system was introduced, allowing employees to donate from their gross salary and, while any charity could be selected as a recipient, supporting the Trussell Trust was encouraged.

4.3. Environment and Climate
NAM Group has a long history of committing to the environment in both business and office activities. The Group’s Corporate Environment Policy, developed in 2010, is the guiding principle of these efforts. NAM created Japan’s first eco-fund in 1999 and then NAME became the first asset manager to offer a global green bond fund. The Group has also been assessing their environmental footprint for several years and have proudly been certified as a carbon-neutral firm since 2019. The carbon offsets paid by the firm will be used to fund the installation of renewable solar PV cells in the Indian National Grid for diversification of energy sources and sustainable growth. This also contributes to sustainable employment, improved healthcare, sanitation, and education to the local communities.

Committed to reducing the use of plastic – At NAME, we have also made our own commitment to reducing reliance on plastic. As a result, we have successfully removed the use of plastic water bottles and replaced them with water servers. We recognise that many environmental issues are themes of a global scale and often too onerous for individuals to tackle on their own, so our approach is to link awareness and understanding to actions taken. This means engaging with both internal and external stakeholders to bring about change. The firm will continue to engage employees to raise awareness of how individuals can work to reduce the impact we have on the environment. Shaping sustainable behaviour has begun with the circulation of a monthly email to employees with tips on sustainable living. This is done in tandem with activities such as eliminating the use of plastic bottles, recycling coffee pods, providing reusable and eco-friendly gifts such as coffee cups and tote bags. In an attempt to reduce our carbon footprint of commuting, we have implemented a tax efficient scheme for employees to purchase bicycles.

Towards sustainability globally – Beyond shaping behaviour internally, NAM Group, through the Global Marketing team, is also working to implement an event sustainability checklist for all marketing-related events the firm organises globally. The checklist includes guidelines to make our events plastic-free (e.g. no bottled water) and paper-free (e.g. with the use of an app/QR code for clients to download presentation materials, electronic invitations, etc.).
NAM Group’s **Commitment to Responsible Investing** and **Code of Ethics** describe its global core values, global corporate social responsibility and global citizenship. Where appropriate to the asset class, investment strategy, and client requirements, certain investment teams may maintain specific ESG policies and procedures pertaining to their investment philosophy and process. Consequently, the following sections of this report focus on the Global Fixed Income and Global Equity teams which both operate under NAME.

**Global Committee Structure** — Fiduciary and ESG principles are among NAM Group’s key guiding themes as an asset management company. To clarify the group-wide commitment, NAM Group established an ESG Global Steering Committee in 2016. The ESG Global Steering Committee oversees the fulfilment of ESG commitments and is chaired by the Global Head of Investment and is, amongst other investment teams, attended by one or more members of the Global Equities and Global Fixed Income teams. The ESG Global Steering Committee comprises leaders from our investment teams worldwide who are in charge of ESG implementation in their individual investment processes. The steering committee is responsible for evaluating the effectiveness of this implementation and improving our approach to ESG. The ESG framework is supplemented by the Stewardship and Proxy Voting Committee, which is responsible for the global guidelines on exercising voting rights.

NAM Group has a strong emphasis on internal training, and mandates that each investment professional undertakes ESG training. Culture and values define our investment teams and their processes. Each of the investment teams is equipped with the resources it requires to achieve the expected standards of effective stewardship. Years of experience contribute to an in-depth understanding of the market-wide opportunities and risks across the globe. Some investment strategies, specifically in Global Fixed Income, focus on particular, individual geographies. However, our ESG focused strategies are invested globally, with the Global Equity Strategy investing in developed and emerging markets as defined by MSCI, and the Global Green Bond Strategy investing in bonds issued in multiple currencies by Sovereign, Supranational organisations and Agencies (SSA) with its main focus on bonds issued globally for environmental purposes.

Our Global Equity team believes a team-based approach to investing best limits key person risk and cognitive bias, and delivers the benefits that come with the deep and diverse experience of the team. Our most senior team members constantly share their experience by working closely with our younger colleagues. At every stage of the investment process, ideas are challenged through rigorous and open debate and within a culture of mutual respect. Our core values of diligence, respectfulness, mindfulness and transparency form the foundation of our team culture. The core team of portfolio managers have been working together since 2011.
5. Our responsibility as an investment manager

Our Fixed Income team comprises of eight Portfolio Managers and five Assistant Portfolio Managers/Analysts. The structure is designed to maximise their ability to capture the best ideas into client portfolios while minimising behavioural biases that may prevent them from achieving optimum returns. The London-based team brings a diversity of experience and perspective to client portfolios with nine nationalities represented.

An example of strategic resource application is the team structure of the Global Green Bond Fund. The Lead Portfolio Manager has been involved in the investment management of the strategy since 2015. The co-Portfolio Manager is the Head Portfolio Manager of Emerging Markets. The portfolio managers are supported by two analysts with a combined two decades of investment experience. The team has built relationships with all SSA issuers that participate in the green bond market. The access to issuers helps gain insights into current trends in the green bond market and potential opportunities. These relationships better allow the team to assess the quality of the projects being financed by green bonds. This depth of experience within the team and the strong knowledge of the development of the green bond market has enabled the team to build a portfolio that meets client investment objectives as well as supporting climate adaptation and mitigation.

NAME recognises that, through our proxy voting process and engagement with the companies we have invested in, we are an active owner.

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Whilst this report addresses and provides case studies of engagement with investee companies, we also value engagement with our clients. Our commitment to ESG and our alignment with clients’ stewardship and investment policies are, where applicable, referenced in legal documentation, such as the fund prospectus. However, additionally, we update our clients on a regular basis, via periodic meetings or scheduled reoccurring events, and seek and receive their view where appropriate. The regular updates may comprise the portfolio manager’s annual performance review or quarterly presentations, which describe overall performance of a strategy, positioning throughout the quarter, general market overview and the team’s market outlook. These are made available online, and where appropriate distributed directly to the client. On occasion, these updates may result in queries from a client on particular holdings, to which the investment teams respond accordingly. In the Fixed Income scope, this may be addressed by providing the client with details on bond proceeds, including project selection from individual issuers, whereas Equity queries may be resolved by the provision of stock impact analysis.
5. Our responsibility as an investment manager

### Case Study – Burford Capital Ltd

We received a client query around the MSCI ESG rating of a particular stock, Burford, where the name had a low ESG rating of B. The investment team responded to this query by providing an analysis of the company’s situation, their view on the stock and the engagement that occurred between NAME and Burford as outlined below:

The team’s stock impact analysis involved meeting with the company’s management on several occasions and a thorough financial review which resulted in confidence in the business model and the favourable economics of the litigation finance industry. The team also identified that the weak ESG score was driven by two different factors: Human Capital Development and Responsible Investment. Human Capital Development can be a common flag from MSCI on investee companies which have a small number of employees but operate within industries where the average company is much larger. Considering the size, the team felt that annual surveys may not be suitable measures or tools to analyse employee satisfaction for such small companies. The team’s review showed that Burford had 129 employees who were highly skilled, well compensated and a key strength of the company. With regard to Responsible Investing, following its analysis, it was the team’s view that MSCI had misclassified the company as an asset management firm as it had been assumed that the company was investing in traditional equity and bond products. In reality Burford was investing in legal cases, not companies, which are much more difficult to quantify from a sustainability perspective. The Team found that Burford’s Commitment Committee was not only considering legal and economic analysis for each potential case, but also the holistic viewpoint of a potential legal finance asset and considering carefully the underlying claims and their societal impact. Furthermore the team noted that Burford were members of several legal bodies that support and promote human rights and make the US justice system more equitable.

NAME provided the client with Burford’s statements addressing the issues raised by MSCI to justify its rating. This response assured the client of the appropriateness of the investment.

5.1. Global Fixed Income – Investment Approach and Engagement

**Philosophy and Approach to ESG**

We believe in employing a consistent investment process which incorporates quantitative and qualitative inputs to generate ideas and construct high conviction portfolios, where we get suitably rewarded for the risk we undertake. The Global Fixed Income team sees itself as capital allocators and we intend to continue our efforts to provide capital for issuers to implement a sustainable transition programme, as defined in detail below, where the investment mandate allows. As investors, we have a unique opportunity to identify risks, engage with issuers and make decisions that can influence positive sustainable change. We believe it is our responsibility to create innovative products and strategic partnerships across the capital market structure to establish pathways for meaningful flows into sustainable investments. Through this approach we strive to deliver consistent returns that meet our client’s goals, and include ESG considerations.

During the portfolio construction phase and throughout the holding period of a portfolio of securities, a constant reassessment of positioning occurs to ensure that our investments within portfolios are still valid and remain aligned with our ESG and investment objectives set in the fund mandates. Throughout this process, we implement ongoing ESG risk management. Our investment and independent risk management teams ensure risks are identified, evaluated, monitored and mitigated. When selecting bonds during portfolio construction, our Portfolio Managers take guidance and strive to do their best to ensure they meet the standards set out by the UN PRI.
5. Our responsibility as an investment manager

Integrating ESG in the investment process

In the mandates where ESG is applied, it is done so at the screening and research stage and again at the portfolio construction stage within the product’s investment process. The scale and manner with which ESG is integrated, depends on investor specific expectations of the product.

While we are ESG-aware in funds where ESG is not part of the mandate, it will not preclude otherwise appropriate investments that fit the mandate of the strategy. Additionally, in funds where the mandate restricts the team to specific issuers, the fund’s mandate will take precedence over ESG analysis.
5. Our responsibility as an investment manager

Four steps of our ESG implementation framework

For example, our Global Green Bond Fund strictly invests in green bonds from global AAA-rated sovereigns, supranational and agencies (SSAs) with the strongest sustainability credentials, such as the World Bank, European Investment Bank and Kreditanstalt Fuer Wiederaufbau (KFW). These types of issuers have the highest credit rating available and we are assured these issuers are well capitalised to the extent of callable capital. Although issuer due diligence from a credit rating perspective is of importance, we would argue there is greater value to be found elsewhere as opposed to producing reports on issuers with callable capital equal to the size of loan portfolios.

As investors, we have a unique opportunity to identify risks, engage with issuers and make decisions that can influence positive sustainable change.

Case Study – Kreditanstalt Fuer Wiederaufbau

We have held KFW issued green bonds in the Global Green Bond Fund since 2019 and continue to do so. KFW is a German state-owned development bank, and one of the world’s leading promotional banks with a clear ESG mission statement at its core. We purchased the 09/29/22 (USD) 5 year USD 1 billion Green Bond issued 27/09/2017, the bond helps to provide proceeds for environmental and climate protection projects, i.e. in the areas of renewable energies, resource efficiency, environmentally friendly transportation, pollution prevention and control, sustainable water and wastewater management, and biodiversity.

KFW actively supports the qualitative development of the Green Bond market as an investor – contributing to market initiatives and directly engaging with market participants. The global fixed income team have met KFW on issuer roadshows where we discussed the latest market developments, their green bond programme, including their project selection process and more broadly their current reporting, and have partaken in investor calls when a new green bond is issued to market. The compelling green bonds from KFW fit well into the Global Green Bond portfolio from a credit point of view as it offers transparency and a world-leading selection of projects. In the meantime, we have agreed to continue engaging with KFW where possible on an annual basis. KFW has issued over EUR 23bn of Green bonds and we are a proud supporter of its green bond programme given its selection of projects, transparency of proceeds and its gold-standard reporting.
5. Our responsibility as an investment manager

Utilising Third-Party Providers

Our investment team interprets ESG factors and research in addition to using quantitative ESG scoring. Materiality of issues is key and will be evaluated by the investment team and, if appropriate, included within the investment conclusion. We believe the value provided by third-party ESG research mainly comes from how it is interpreted and used within the investment process by our experienced team. This allows us to focus on potential investments and helps us to assess the quality of both the management teams and the business franchise. To do this we use company-published reports such as sustainability reports, MSCI ESG reports and database, and Moody’s and their detailed insights.

Case Study – Adani Ports and Special Economic Zone Limited

For the Global Credit Fund, we utilise a top-down process when it comes to ESG. Through accessing an MSCI ESG report and database, we are able to calculate sector average scores for E, S and G. Once we have the average scores information, we then conduct a comparison of the holdings in our portfolio. We take a “Z score” on E, S, and G as well as overall ESG score.

By taking the “Z score” \( \left( \frac{\text{Bond Score} - \text{MSCI ESG Average}}{\text{Std}} \right) \), if we see our holdings deviate in a significant way from the MSCI Sector ESG Average, the appropriate analyst will be asked to comment on the situation within the issuer’s research template. This is followed by a debate amongst the team members. On occasion, a deviation might be acceptable for the portfolio management team and analysts, however in other situations we might decide to sell. Adani Ports and Special Economic Zone Limited is a company operating a shipping port in India and used to be a holding on the Global Credit Fund; following the above methodology this name is an example of subsequent sale. Typically, if the ESG score deviates a significant amount on the negative side we check each pillar and see which ones are dragging the overall score down. If it’s something marginal/minimal, the analyst covering the name will ignore the deviation.
5. Our responsibility as an investment manager

Issuer Engagement and Influencing Action

The access to issuers helps to gain insight into current trends and also gives the team an opportunity to ask specific ESG questions. The team regularly attends sector conferences and take part in investor roadshows and calls either in person or virtually. Through engaging with issuers as part of our research we are able to understand if an issuer is in line with Global Fixed Income’s ESG agenda and abiding by UN PRI. We utilise the alignment to those criteria to identify and prioritise engagement with particular issuers. When we are monitoring our portfolios we make sure an issuer is on track and not deviating from industry peers.

For example, if faced with a circumstance whereby we hold an issuer in our Global Credit Fund that faces an ESG impacting incident, given the yield, spread and diversification targets set within the fund we would be unable to exclude an issuer solely on an ESG basis. However, we would take into account ESG for industry and issuer analysis, and it is part of the investment decision where we feel it will affect investment returns. It is likely the negative ESG factor would result in selling the holding and replacing it with a peer company with similar economic characteristics and a better ESG profile.

Case Study – Enel SpA

We have held an Enel Sustainability Bond in the Global Credit Bond Fund since 2020 and continue to be bondholders. The following provides a summary of how we came to purchase the bond and how it complements a high ESG rating (rated “AAA” by MSCI). The team purchased the “Sustainable Development Bond” issued from Enel, an Italian energy company that is active in electricity generation and distribution as well as in the distribution of natural gas. The bond is linked to UN SDGs goal 7 “Affordable and clean energy.” The investment team took part in the initial roadshow from Enel when the new issuance came to market. Additionally a written contribution was attached by Enel whereby if they did not reach their goal, of “installed renewable energy percentage of 55% of total consolidated installed capacity by December 31st 2021”, the bond will see an interest rate hike of 25 bps. This helped to provide an added assurance to Nikko AM’s Global Credit team that Enel intends to match and meet their goals.

This compelling Sustainability Bond fitted well into the Global Credit portfolio from a credit point of view (as it showed the intention of the business strategy in line with sustainability). However, more prominence came from its ranking well within our internal ESG scoring framework. This is performed by analysts confirming their findings within the ESG section of the credit template and providing an ESG commentary snapshot of the credit name.

The cañas plant in Chile has an installed capacity of 40 MW and can generate up to 94 GWh per year. © Enel Group
5. Our responsibility as an investment manager

5.2. Global Equities – Investment Approach and Engagement

Philosophy and Approach to ESG

Our investment philosophy focuses on purpose-led Future Quality businesses which can attain and sustain the best returns on capital in the market. It is our view that businesses with solutions to environmental and social problems, which provide value across all their stakeholder groups, will position themselves to be among the high-return companies of the future. Society cannot solve the problems that it faces without the private sector making a significant contribution. As a result, we believe the market will increasingly allocate capital to companies that solve these problems while also behaving in a way that provides suitable value to all their stakeholder groups. This philosophy is communicated regularly to all clients along with the overall financial objectives of our funds.

Profits to companies are as red blood cells are to humans. We need red blood cells to survive and thrive but our purpose in life is far more than just their production. The same is true in business. Profits are essential for companies, but the purpose of a business is about far more than simply the generation of profit. The best businesses understand this as they consistently provide value to all their stakeholders. Investors need to integrate a consistent methodology to monitor corporate behaviour and governance while engaging with firms to effect change. However, to be a long-term investor, one needs to focus on companies that can not only act responsibly but are also actively working to address the social and economic problems we face — problems that have never been greater. For this to be done sustainably, we believe it also needs to be done profitably. We believe companies that can do this will be the winning businesses of the future. Companies that are purpose-led, creating value for all of their stakeholders, are more likely to attain and sustain high returns and become Future Quality investments. Our search for Future Quality focuses on researching and investing in some of the most profitable companies. Given the scale of the challenges faced across the world today, we are finding an ever-increasing number of companies that can form part of the solution rather than be part of the problem, which is critical for future financial returns and the wellbeing of future generations. ESG data provides a limited and often imperfect snapshot of how companies are dealing with and thinking about ESG issues. A focused portfolio of purpose-led Future Quality companies, with solutions to the critical environmental and social difficulties we face today, should be the defining characteristic of a truly sustainable approach.

The team’s stewardship activities are therefore aligned with the overall philosophy of the fund such that we aim for the companies we invest in to be governed and managed in a way which is consistent with this Future Quality philosophy. By delegating their capital to us for management, we understand that our clients wish us to achieve stewardship outcomes aligned with this philosophy whereby companies can attain and sustain strong returns on capital over the long term. Our monthly risk and performance meeting ensures we are managing our funds within our clients’ objectives from a risk, performance and stewardship point of view. Attached is a copy of our Future Quality and ESG White Papers which explore this in more detail and are provided to clients. In addition to direct communication with our clients, we publish regular Investment Insights on relevant and ongoing impacts of the environment. Please find here the links to the 2020 publications: February 2020, May 2020, August 2020 and December 2020.

The Four Pillars of Future Quality

Quality of Franchise

Focusing on the future returns of the franchise, including any ESG factors that may have a significant impact.

Quality of Management

Identifying companies with exceptional strategic vision, strong internal leadership and a high standard of corporate governance and awareness of ESG.

Quality of Balance Sheet

Ensuring companies can finance future organic growth using their own capital.

Valuation

Applying research models to provide detailed forecasts of future ROI and growth of a company’s cash flow.

Future Quality White Paper

Click to read more
5. Our responsibility as an investment manager

Integrating ESG in the investment process

To determine a company’s Future Quality status and its ability to earn future cash flow, the investment team appraise a range of financial and non-financial factors for every investment decision. It is the team’s belief that the Franchise Quality (ability to sustain competitive advantage) and Management Quality (ability to deploy capital and govern the business to sustain that competitive advantage) are critical to the future performance of that investment.

There are some key materials we consider for each investment decision we make. Here, we use Amazon.com as an example as this includes a broad range of financial and non-financial metrics which are considered when making an investment. The research template is completed for all companies we invest in with the same set of financial and non-financial criteria set out for each. The assessment of Franchise Quality, Management Quality, Balance Sheet Quality and Valuation is written up before being presented and reviewed for approval by the entire team. A wide range of risks and opportunities are laid out therein including material issues relating to ESG issues. This reports flags issues of concern as well as opportunities before coming to a balanced investment conclusion. The team relies on a range of third party research providers as well as their own insight and experience to formulate and maintain their view on each investment.

Having researched each company thoroughly, the team undertakes a ranking process on a monthly basis to determine the overall construction of the portfolio such that the best ideas with the greatest potential form the largest contribution to the active risk in the portfolio. Again, in making these determinations, a range of financial and non-financial considerations go into determining the company’s overall position within the portfolio.
5. Our responsibility as an investment manager

Consistent with managing our portfolios in a way which ensures our companies are governed in line with our Future Quality philosophy, the team are constantly monitoring issues which may impact on that firm’s ability to compete going forward.

Utilising Third Party Providers

Consistent with managing our portfolios in a way which ensures our companies are governed in line with our Future Quality philosophy, the team are constantly monitoring issues which may impact on that firm’s ability to compete going forward. A range of third party research providers are used to assist in that process. From a governance point of view, the team receive and review reports from Institutional Shareholder Services (hereafter referred to as “ISS”). These reports include insights on the following areas:

- Board and Committee Composition
- Executive and non-executive Compensation profiles
- Shareholder Rights
- Environmental Scorecard
- Social Scorecard
- Analysis and recommendations on specific shareholder resolutions

The team also review material from third party research provider MSCI. These reports include the following areas:

- Board and Committee Composition
- Executive and non-executive Compensation profiles
- Shareholder Rights
- Environmental Scorecard
- Social Scorecard

As with all our third party research providers, the team undertake a semi-annual review of the cost, effectiveness and usage of the services received. Quality and depth of reports and insights are considered as well as the effectiveness of specific third parties in providing us with the necessary insights to fulfil our stewardship obligations on behalf of our clients and in line with our Future Quality Philosophy.
5. Our responsibility as an investment manager

Issuer Engagement and Influencing Action

Our investment philosophy focuses on ‘Purpose-Led Future Quality’ businesses – those that can attain and sustain high returns while creating value for all stakeholders. This approach is underpinned by four key pillars for all investments – Franchise Quality, Management Quality, Balance Sheet and Valuation. Engagement with management teams is part of our investment process. When we analyse and research Future Quality potential, the quality of a management team and the quality of a franchise have important ESG angles to consider, including the strength of a company’s corporate governance, or the sustainability of its products or services. Companies that can demonstrate improvements in these areas often achieve higher alpha over time. In light of this, we are committed to engaging with management teams on their ESG initiatives, with the clear intention of helping them to attain and sustain high returns and create value for all stakeholders.

The scope of engagement activity with the investee companies may vary from receiving management’s stance on the issues raised to working with the company to identify improvements and influence them to disclose and advocate implemented changes or existing ESG features. Below, we provide some case studies of past and ongoing examples of interaction with investee companies and third party providers. The provided examples have a varying degree of engagement and a variety of ESG issues are addressed.
5. Our responsibility as an investment manager

**Case Study – HelloFresh SE**

We have held HelloFresh since 2Q20 and continue to be holders of the stock. HelloFresh's purpose is to “change the way people eat forever,” and in doing so, to help create a more sustainable society. Food is a core component of what it truly means to be alive, and throughout history, it has evolved hand-in-hand with experience, culture and human identity. However, the way in which we source and consume food has been slow to adapt to the fast-changing world in which we live today. With the ambition to “provide the most sustainable food solution at scale to our customers across all the markets we are operating in,” HelloFresh is at the forefront of such innovation and should be perceived as part of the solution to our planet’s problems.

However, there is a disconnection between HelloFresh’s core purpose and the way that the company is perceived by external reporting agencies, investors and consumers. The company does not rank in the top group of ESG players for ISS, MSCI or Sustainalytics. Additionally, packaging waste directly associated with meal-kits is a primary concern for consumers. We engaged with HelloFresh to draw the company’s attention to this problem and to understand how a solution might be reached. Our conversation was fruitful and HelloFresh acknowledged that it needed to work harder to communicate its sustainability initiatives to the market.

The month following our engagement, HelloFresh hosted its Capital Markets Day, in which sustainability featured as a core component. Management took the opportunity to educate the market on HelloFresh’s three core pillars of sustainability, (1) tackling food waste, (2) reducing carbon emissions and (3) addressing sustainable packaging initiatives, and announce its targets for 2021. These key targets are: 1) achieving ISO-50001 certification for energy efficiency management; 2) improving sustainability disclosure; 3) identifying areas of improvement in the life-cycle; 4) running extensive assessments of the supply chain; 5) launching three recycling sites over three years; and 6) a strong focus on solar panel installation & green energy. The establishment of such goals evidences HelloFresh’s long-term commitment to sustainability.

Listening to the 2020 Capital Markets Day, we were pleased to hear HelloFresh addressing the disconnection between its sustainability initiatives and market perceptions. We believe that our engagement with management was key, and provided support to HelloFresh on its journey to improving ESG practices. The three core pillars of HelloFresh’s sustainability strategy really highlighted to us that this is a business model providing a truly innovative, new food solution to an overpopulated and hotter planet. In light of this, we remain holders of the stock, and continue to support HelloFresh on its journey to attain and sustain high returns while creating value for all stakeholders.

**Case Study – Palomar Holdings, Inc.**

We have held Palomar since 1Q20 and continue to be shareholders. The following provides a summary of how we targeted & prioritized the company because of its low 3rd party ESG rating (rated "B" by MSCI) and engaged with the rating provider to assess the accuracy of the rating. In our view the company's ESG rating is poorly represented by the rating agency. However, as a result of this review and through further engagement with Palomar's management, we have escalated areas where we think the company's communications with the market can improve.

Palomar provides earthquake insurance and other specialty P&C insurance to individuals and businesses in the US. They are a relatively new company formed in 2014. Their mission is to leverage technology and data to provide a range of insurance solutions to Americans who have been historically underserved by the industry. Our assessment of the company regarding ESG has been very positive as it provides affordable insurance products and services to millions of people living in vulnerable parts of the country. Its largest and original product is earthquake insurance and it leverages technology and data to provide more granular and efficient pricing than peers. Palomar is run by a small team – when we first purchased the shares there were just 70 employees, as of writing (12/01/2021) there are 100 employees. We have met with the senior management team on two occasions (CEO & CFO in 2Q2021) to discuss the strategy and mission.

We monitor external ESG ratings for all our holdings. In the case of Palomar, we disagreed with the poor ESG rating from MSCI ESG research. They specifically scored the company down on “vulnerability to climate change”; “human capital” and “data privacy and security” and the combination of these led to a "B" rating. To discuss this in more detail we had a call with the MSCI ESG team. Their approach doesn’t take into account the type of insurance being sold and as a result Palomar is deemed to have 100% exposure to climate change (despite 60% of sales derived from earthquake insurance which is not a function of climate change). We believe Palomar should write a white paper explaining what they are doing to mitigate the impact of climate change, how they assess climate change and explain the impact of climate change on their business. Per MSCI, the human capital score relates to retention and training and reflects Palomar's lack of formal documentation discussing this issue. MSCI have highlighted the risk of high employee turnover and base their claim on a review of what is publicly available rather than speaking with management. Our discussions with management have confirmed low staff turnover and given the growth in the organisation, career development and advancement isn’t an issue. We believe management should disclose turnover data (which is low based on our meetings with management), and provide some form of data relating to employee engagement.

Palomar is a young company with a limited employee base and when compared to some of its behemoth incumbent competitors, it is not surprising for the company to be lowly rated. However, lack of disclosure is easily rectified and we hope our ongoing dialogue with management and long term support will lead to greater transparency and a more accurate appreciation of the company’s ESG credentials.
5. Our responsibility as an investment manager

**Case Study – LivaNova PLC**

We have held LivaNova, a medical technology company, since 2015 and continue to be shareholders. The following provides a summary of our collaboration with another shareholder in LivaNova with the common goal of influencing change and enhancing value. The shares have been volatile over that time and in our view the company has not reached its potential or delivered sufficient shareholder value.

In November 2020 we were approached by another significant shareholder (hereafter referred to as ‘IM ABC’) in an attempt to explore ways to increase value by holding the management team and Board of Directors to account for the company’s recent poor performance. Between NAME and IM ABC (who have also been shareholders for more than 5 years), we own around 6% of the company. The key concerns for both parties included a lack of urgency on management’s part regarding the poor share price performance, consistently poor communication to financial markets and a focus of management time on value destructive parts of the group such as the Heart Valves business. Both parties agreed that a greater focus on LivaNova’s core businesses was required and in particular, disclosure around the high return nature of its new product pipeline. Finally, we also agreed that the Chairman of the Board was too close to the CEO (having handpicked him as his successor in 2017) and was not holding him to account properly as a result. NAME subsequently spoke to the CEO at the start of December 2020, reiterating our desire for many of these changes. Late December saw them announce the sale of the Heart Valves business and announce several changes to the Board (including a new Chairman). The CEO has also promised to give more public commentary around the profitability of the core of LivaNova businesses going forward. The appointment of a new CFO will be an important part of this more transparent communication policy and we have shared our positive views on the interim CFO as part of that process.

In the meantime, NAME and IM ABC have agreed to continue engaging every 3 months.

**Case Study – Kingspan Group PLC**

We have held Kingspan since March 2020 and continue to be shareholders. The following provides a summary of our engagement with Kingspan’s senior management after identifying, during our regular due diligence, cultural issues which have been exposed during the Grenfell Judicial Review. The Grenfell review and our engagement with management are ongoing.

Their mission is ‘To accelerate a net zero emissions future with the well-being of people and the planet at its heart’. Not what you would expect from a building materials company. Companies that can demonstrate environmental & social improvements often achieve higher alpha over time. In light of this, we are committed to engaging with management teams on their ESG initiatives, with the clear intention of helping them to attain and sustain high returns and create value for all stakeholders.

Despite existing achievements, Kingspan isn’t free of controversy, after being caught up in the Grenfell Tower disaster. For context, their K-15 insulation product hadn’t been specified for the building but was used in about 5% of the tower as a replacement for a competitor’s insulation product which had been unavailable at the time.

The recent judicial review (Grenfell Judicial enquiry details – https://inquiry.kingspan.com/) has highlighted a number of governance concerns around the testing of products and the true culture of the organization. For example, some employee emails suggested that profit targets took precedent over safety. Put another way, the company’s purpose of ‘having the well-being of people at the heart’ may be an external veneer for a more unpleasant truth.

We held calls with senior management (CFO) and investor relations twice in December 2020 to discuss the issues. These have allowed us to better understand the issues and assess management response. Unsurprisingly, management has taken this very seriously and unlike their main competitor are in full support of the judicial process. Management has unequivocally apologized for past errors in testing and admitted that the evidence in the hearing is at odds with their understanding of the culture of the company, is one off in nature and importantly is unacceptable. Management has already taken the following actions:

- improved product safety testing procedures & manuals
- recruited a senior technical specification officer who will report to the internal audit committee
- reconfirmed remuneration is tied to safety and initiated group wide training

The immediate outcome for the company is unlikely to be financially material, however, management will have a difficult job persuading investors that their culture is best in class. That said, the meetings gave us the confidence that Kingspan’s management team are taking this extremely seriously, they are shocked at what they found and the long term impact is likely to see the culture of the organization align more fully with the company’s purpose statement.
6. Conflicts of interest

NAME acknowledges its position as a fiduciary for its clients and seeks to act in their best interests. We take all reasonable steps to identify actual or potential conflicts of interest and maintain and operate arrangements to minimise the possibility of conflicts giving rise to a material risk of damage to the interests of our clients.

Conflicts of interest management and governance

We have designed a Conflicts of Interests Policy (hereafter referred to as “Col Policy”) that aims to identify conflicts, effectively manage them, and to treat all customers fairly. Where these arrangements are not sufficient to ensure with reasonable confidence that the risk of damage to client interests will be prevented, we shall, as an option of last resort, disclose the conflict to the client before undertaking business on its behalf. All conflicts are reviewed by the Board, and the Col Policy is reviewed and approved at least annually by the Board.

Client conflicts can manifest in a number of ways and our Col Policy describes the types of conflicts that can arise and how they are managed.

Identification of conflicts

Early identification of potential or actual conflicts of interests is essential in order to implement effective mitigation strategies or processes which help to manage that conflict before it manifests itself as a materially damaging event. Staff are aware of the need to identify and manage conflicts of interest adequately, and an annual review to identify any new conflicts and to review controls around existing conflicts is undertaken.

Ownership structure conflicts of interest

Nikko Asset Management Europe Ltd is owned by Nikko Asset Management Co., Ltd., which in turn is owned by Sumitomo Mitsui Trust Holdings, Inc.

This ownership structure may present a number of potential conflict scenarios, such as where we utilise the services of a subsidiary of our ultimate parent to effect trading on behalf of our clients. In these situations we have made an objective assessment of the benefits to our clients of this arrangement and a post trade review of the execution provided will be undertaken by the Order Placement Committee.

Stewardship conflicts of interest

We also recognise the responsibilities we have when investing in companies on behalf of clients, and the fact that potential conflicts may arise in particular circumstances. We seek to promote the long-term value and success of the companies in which we invest on behalf of our clients. While we welcome client input and suggestions for engagement, all of our engagements are selected and pursued based on an objective assessment of the circumstances surrounding the company. We give due regard to the value of the company and the value at risk given the identified issues.

We do not have many actual conflict situations arising out of our stewardship activities, however there are a number of areas of potential conflict that we are aware of: we may receive and process commercially/price sensitive information; the companies that we engage with and vote on may be direct competitors of us or our parent entities; the companies we engage with and vote on may contain directors who also sit on our Board or the Board of our parent entities; and, there may be personal contacts and connections at the investee company.

Where clients permit us to exercise voting rights attached to securities held in their portfolios, the conflicts of interest include circumstances where: we manage assets for companies whose management are soliciting proxies and the failure to vote in favour of management resolutions may harm our relationship with the company; we may have a business relationship with a proponent of a proxy proposal and may manage assets for the proponent; an employee may have a personal or outside business interest in the outcome of a particular proxy matter before shareholders.

We also recognise the responsibilities we have when investing in companies on behalf of clients, and the fact that potential conflicts may arise in particular circumstances.
7. Exercising Rights and Responsibilities

At NAME we believe proxy voting is a key component in the ongoing dialogue with companies in which we invest and as such, is an important aspect of Future Quality Investing. We are committed to ensuring consistent exercise of voting rights and voting on all shares held, where it is in the best interest of our clients. Through the implementation of our Proxy Voting Policy, we aim to enhance the long-term value of our shareholdings and to foster corporate governance best practices.

The NAM Group Proxy Voting Policy establishes our company-wide approach to proxy voting decisions. One of the objectives of this policy is to underscore the group’s focus on ESG in proxy voting decisions that are undertaken by the group and its subsidiaries. It is also intended to illustrate that proxy voting by each of the investment management teams within the group is based on the same common approach. The policy expresses the basic approach to proxy voting decisions as well as matters such as engagement and conflicts of interest. In addition to this, NAME has a local Proxy Voting Policy in place which guides the proxy voting decisions of the Global Equities team.

We engaged ISS, a world leading proxy voting organization, to manage our voting. Upon receipt of any advisory research and voting recommendations from ISS, the portfolio manager responsible for the security in question is able to analyze the report and conduct further research where any issues have flagged. Our voting principles, set out in our Proxy Voting Policy, are applied with full consideration of a company’s circumstances and each corporate governance principle to which we hold our investees is considered. Votes are cast on all shares where there are no legal, client or technical restraints. We currently have one portfolio which allows stock lending for which the borrower receives the voting rights and the holdings which are shared with ISS are adjusted accordingly.
7. Exercising Rights and Responsibilities

As votes are cast with regard to the long-term interests of investors and the same Future Quality investment philosophy, voting is consistent across all portfolios and strategies. If there is an exception to this, it will be reflected in the voting records. Whilst we handle the voting for the majority of our clients, we currently have a number of clients who manage their own voting over which we have no influence. The remainder of our clients have given us full autonomy over their voting and we provide them with regular reports on our voting activities. We subscribe to ISS’s benchmark policy guidelines; however, should a client wish to dictate the policy on which we vote, ISS is able to facilitate customized voting policies across different funds.

The Global Equity team vote for the Global Equity Strategy as well as for other strategies managed by the team; a full set of voting records conducted by NAME in 2020 are available on our website. Our voting principles remain the same for all strategies, whereas this Report otherwise focusses on the Global Equity Strategy due to its ESG focus. Below we disclose a summary of the voting activity under the Global Equity Strategy as well as for the total AUM managed by NAME, i.e. inclusive of the Global Equity Strategy.

Over the course of 2020, NAME has participated in multiple ballots of which some were in line with ISS recommendations but against management and others were against ISS recommendations. As the majority of annual general meetings for publicly listed companies are held in the second quarter of the year, this accounts for the significant difference in the number of resolutions voted on in Q2 compared to the remainder of the year.

Total AUM, including Global Equity Strategy:

<table>
<thead>
<tr>
<th>Period</th>
<th>With Management/ With ISS</th>
<th>Against Management/ With ISS</th>
<th>With Management/ Against ISS</th>
<th>Against Management/ Against ISS</th>
<th>Total ballots</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>172</td>
<td>8</td>
<td>0</td>
<td>1</td>
<td>181</td>
</tr>
<tr>
<td>Q2</td>
<td>1757</td>
<td>108</td>
<td>4</td>
<td>2</td>
<td>1871</td>
</tr>
<tr>
<td>Q3</td>
<td>134</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>139</td>
</tr>
<tr>
<td>Q4</td>
<td>145</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>150</td>
</tr>
<tr>
<td>Total</td>
<td>2208</td>
<td>124</td>
<td>5</td>
<td>4</td>
<td>2341</td>
</tr>
</tbody>
</table>

Global Equity Strategy only:

<table>
<thead>
<tr>
<th>Period</th>
<th>With Management/ With ISS</th>
<th>Against Management/ With ISS</th>
<th>With Management/ Against ISS</th>
<th>Against Management/ Against ISS</th>
<th>Total ballots</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>90</td>
<td>6</td>
<td>0</td>
<td>1</td>
<td>97</td>
</tr>
<tr>
<td>Q2</td>
<td>659</td>
<td>31</td>
<td>4</td>
<td>1</td>
<td>695</td>
</tr>
<tr>
<td>Q3</td>
<td>80</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>84</td>
</tr>
<tr>
<td>Q4</td>
<td>45</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>874</td>
<td>41</td>
<td>5</td>
<td>2</td>
<td>922</td>
</tr>
</tbody>
</table>

When we have voted against ISS recommendations, the majority of resolutions were remuneration policy related and we felt that the quantum of management compensation remained excessive and lacked evidence of real alignment with shareholder interests. In one of these cases, an industrial and medical conglomerate was seeking to elect three directors to the audit committee. ISS recommended voting against this resolution due to concerns around a perceived entrenched Board with too many long-tenured directors. However, the view of our portfolio manager was that the Board was doing an excellent job, evidenced by the ongoing portfolio improvement and rising return on capital and did not show any evidence of the negative aspects of a stale board. He engaged with the Head of Investor Relations to discuss the concerns of ISS and was reassured that the company was aware of the need for succession planning and was actively recruiting with a view to freshen up the Board. Based on this discussion and the Board performance, we believed there was no need to vote against the management resolution.

A further example is an online retailer, where a number of resolutions were put forward by
7. Exercising Rights and Responsibilities

the Board and ISS recommended voting in line with the management proposals but against the Board on certain shareholder proposals. As well as reviewing the extensive information provided by ISS, our portfolio managers conducted further research and it was felt that the management vote on these shareholder proposals went against the spirit of best ESG practice and it would be in the best interests of the wider community in which the company operates to oppose their resolutions.

The service for which we have engaged ISS includes access to a web-based platform which allows users to log in using a unique user ID. The platform allows subscribers to monitor the accounts for which it votes, receive notification of upcoming meetings, establish vote decisions, track the status of votes and generate reports on voting activities. A record of all votes cast on behalf of NAME is also stored by ISS, allowing us to look back on any votes cast. By regularly accessing the system, the Global Equities team is able to monitor ISS and ensure all service standards are being met and all votes are being cast as directed. Within our service agreement we also maintain the right to conduct due diligence on a regular basis.

THIRD PARTY PROVIDER DUE DILIGENCE

When engaging with any external vendor, the NAME Enterprise Risk Management Department (hereafter referred to as “ERMD”) undertakes an initial due diligence analysis which includes a Due Diligence Questionnaire (hereafter referred to as “DDQ”) that the vendor is required to complete. The areas covered in the DDQ are illustrated below:

- Governance Structure
- Insurance
- Risk Management
- Internal audit
- Policies/Procedures
- Conflicts of Interest

- System and Technology
- Business Continuity Management
- Vendor Management
- Change Management
- Staff overview

- Market Risk
- Counterparty Risk/Credit Risk
- Liquidity Risk
- Operational Risk
- Monitoring of compliance guidelines
- Supervision and oversight delegated functions

- Audit Reports
- Business Continuity Plans
- GDPR Summary
- Modern Slavery Act
- Financial Statements*
- Pillar 3 disclosure*
- Credit/Liquidity/counterparty policies*

*Brokers Only

Once the DDQ has been completed, the ERMD conducts a risk assessment on the vendor and categorized it through an internal risk assessment model. Once a risk rating has been identified the vendor will undergo ongoing monitoring and due diligence based on the relevant risk category. All vendors are also subject to daily AML and adverse media screening through the Refinitiv World Check Tool.
7. Exercising Rights and Responsibilities

<table>
<thead>
<tr>
<th>Risk Rating</th>
<th>Due Diligence Frequency</th>
<th>GDPR Check Required*</th>
<th>Business Continuity Plan review**</th>
<th>External Audit report required</th>
<th>Performance Monitoring Required***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimal</td>
<td>On contract renewal</td>
<td>Yes</td>
<td>Annually</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Moderate</td>
<td>On contract renewal</td>
<td>Yes</td>
<td>Annually</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Material</td>
<td>Annually</td>
<td>Yes</td>
<td>Annually</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Fundamental</td>
<td>6 month review</td>
<td>Yes</td>
<td>Annually</td>
<td>Annually</td>
<td>Yes</td>
</tr>
<tr>
<td>Extreme****</td>
<td>Monthly</td>
<td>Yes</td>
<td>Annually</td>
<td>Annually</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*If data is shared. **If service required (i.e. IT service provided). ***If service levels are in place. ****Currently no Outsourced Vendors in the extreme category at Nikko AME

At a minimum, monitoring must include:

- Maintaining appropriate levels of regular contact with the provider including site visits to the provider;
- A procedure for regular monitoring of the performance of the provider against the material business activity arrangement including the written agreement. This may be in the form of periodic compliance attestation from the provider; and
- Any breaches or potential breaches by the provider.

ISS has been classified as Moderate risk due to the nature of the business we conduct with them and the importance of proxy voting. We review and renew our contract with them on an annual basis and their benchmark policy recommendations are updated annually. As at time of writing, we have had no breaches, issues or failure of service with ISS.
# 8. Appendix I – Principles Coverage

<table>
<thead>
<tr>
<th>Principle</th>
<th>Report Reference</th>
<th>NAME's implementation and improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1 – Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society</td>
<td>Section 1 Entire Section 4 Entire Section 5</td>
<td>We disclose our organisational scope and investment beliefs, strategy and culture and lay out our initiatives with a focus on sustainability. We convey stewardship across three channels: company governance, corporate citizenship and investment management, and describe activities under each of these channels in detail. We understand and prioritise the long-term benefits of ESG considerations in our investment process. We believe that through these considerations we serve in the best interest of our clients. The investment team's stewardship activities are therefore aligned with the overall investment philosophy such that we aim for the companies we invest in to be governed and managed in a way which is consistent with our philosophy. Having conducted a review ahead of producing this report, we believe we have a strong company purpose and core values. This purpose and values are reflected in our activities as an investment manager and corporate citizen, and lead to positive outcomes for our clients and beneficiaries by enabling effective stewardship.</td>
</tr>
<tr>
<td>Principle 2 – Signatories' governance, resources and incentives support stewardship.</td>
<td>Section 2 Section 3.1 Section 3.2 Section 5 Appendix II</td>
<td>We have a robust governance structure and committees in place to integrate stewardship in the firm's culture and activities. Our investment teams are equipped with the right resources to enable effective stewardship in the investment decision-making. We recognise the importance of reviewing existing responsibilities and structures around effective stewardship. The implementation of the semi-annual Stewardship Oversight Committee enhances our existing framework to critically consider how these can be improved on an ongoing basis and we will continue to review this going forward.</td>
</tr>
<tr>
<td>Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.</td>
<td>Section 6</td>
<td>We maintain a Conflicts of Interest Policy, disclosed in this report, and take all reasonable steps to identify actual or potential conflicts of interest and maintain and operate arrangements to minimise the possibility of conflicts giving rise to a material risk of damage to the interests of our clients. We recognise the responsibilities we have when investing in companies on behalf of clients, and the fact that potential conflicts may arise in particular circumstances. Breaking down the potentially affected business areas in the policy enhances the understanding of potential impact which aids identification.</td>
</tr>
<tr>
<td>Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.</td>
<td>Section 4 Section 5.1 Section 5.2</td>
<td>As investors, we have a unique opportunity to identify risks, engage with issuers and make decisions that can influence positive, sustainable change. We are a member of a variety of industry groups to validate our initiatives and our firm's impact against industry-wide efforts, but also to seek out ongoing opportunities to respond to market-wide and systemic risks. Insights from these participations and our responsibilities as an investment manager influence the alignment of our investments. Our case studies seek to illustrate that we effect real change via our engagement with investee companies. We believe that collectively reviewing the investment teams' initiative and engagement efforts (Stewardship Committee) adds a helpful, objective view on the impact of our investments on our stakeholders.</td>
</tr>
<tr>
<td>Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.</td>
<td>Section 3.2</td>
<td>On a regular basis, key personnel of the firm are involved in reviewing, discussing and improving conducted activities and approving the resulting updated Proxy Voting Policy and this Stewardship Report. Objectivity from personnel outside the investment teams, and potentially including views outside of our firm, reinforces this assessment.</td>
</tr>
<tr>
<td>Principle 6 – Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.</td>
<td>Section 1 Entire Section 5</td>
<td>We disclose the geographies of our client base and of our investments across different strategies. In alignment with our investment philosophy, we aim to invest our assets under management into companies which truly have an ESG impact. We update our clients on a regular basis, via periodic meetings or scheduled reoccurring events, and seek and receive their view where appropriate. Provided case studies highlight how we respond to client queries and how assets have been managed in alignment with our stewardship and investment policies and thereby met the needs of our clients.</td>
</tr>
<tr>
<td>Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.</td>
<td>Section 5.1 Section 5.2</td>
<td>We believe it is our responsibility to create innovative products and strategic partnerships across the capital market structure to establish pathways for meaningful flows into sustainable investments. Through this approach we strive to deliver consistent returns that meet our client's goals. We acknowledge that the level of ESG integration may vary depending on the underlying strategy, but integrate, consider and prioritise according to ESG impacts where the strategy allows. To achieve this, we utilise internal and external systems to prioritise issues. The existing investment processes for our strategies and their focus on ESG matters, which informs acquisition, monitoring and exit decisions, are laid out in detail in this report and underpinned by provided case studies.</td>
</tr>
<tr>
<td>Principle 8 – Signatories monitor and hold to account managers and/or service providers.</td>
<td>Section 5.1 Section 5.2 Section 7</td>
<td>Our investment teams use a range of external providers to assist in the process of monitoring investee companies. In selecting and utilising these providers, we consider quality and depth of reports and insights as well as the effectiveness of specific third parties in providing us with the necessary insights to fulfil our stewardship obligations on behalf of our clients. ISS's benchmark policy guidelines are at times updated and we plan to improve our review process by combining the review of these guidelines with the annual review of our voting policy.</td>
</tr>
</tbody>
</table>
### Appendix I – Principles Coverage

<table>
<thead>
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</tr>
</thead>
</table>
| Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets. | Section 5.1  
Section 5.2 | Our investment philosophy defines the characteristics we look for in investee companies. Through engaging with issuers as part of our research we are able to fully understand if an issuer meets our expectations. In order to measure these expectations we may use externally available standards as criteria, such as UN PRI or ESG rating. Where an investee company may not deliver on all expected standards, we identify these issues and escalate them to management. Our case studies illustrate how we have effected real change via our engagement with investee companies. We are proud of the impacts already made via our engagement efforts and strive to increase existing levels of engagement. |
| Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers. | Section 5.2 | We value the possible benefit in collaborative engagement and provided case studies highlighting how collective engagement has effectively influenced actions of the investee companies. We may in future seek collaborative engagement at an earlier stage of engagement to utilise the joint pressure as an active tool for escalation. |
| Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers. | Section 5.2 | When we analyse and research investments, the quality of a management team and the quality of a franchise have important ESG angles to consider, including the strength of a company’s corporate governance, or the sustainability of its products or services. Companies that can demonstrate improvements in these areas often achieve higher alpha over time. In light of this, we are committed to engaging with management teams on their ESG initiatives, with the clear intention of helping them to attain and sustain high returns and create value for all stakeholders. Future improvements to our escalation approach may be to take an even more adamant stance when liaising with investee companies in pushing them to promote existing processes which would influence their ESG features. |
| Principle 12 – Signatories actively exercise their rights and responsibilities. | Section 7 | We believe proxy voting is a key component in the ongoing dialogue with companies in which we invest and as such, is an important aspect of Future Quality Investing. We are committed to ensuring consistent exercise of voting rights and voting on all shares held, where it is in the best interest of our clients. Through the implementation of our Proxy Voting Policy, we aim to enhance the long-term value of our shareholdings and to foster corporate governance best practices. Future improvement to our voting approach may be to better follow up on our resolutions when existing levels of engagement are low. |
Note:
1. The above percentages of voting rights are rounded down to the second decimal place.
2. The percentages in brackets are ratio of stocks held by NAM’s shareholders and rounded down to the second decimal place. In addition to the holdings of the above shareholders, 2,660,000 treasury shares are held by NAM.
3. NAM’s “subsidiaries and affiliates” include consolidated subsidiaries and equity-method affiliates. However, they exclude corporate-type investment trusts, investment funds in the form of limited partnerships, and companies that are the general partners.