

Nikko Asset Management Europe Ltd

## **STEWARDSHIP CODE AND ENGAGEMENT POLICY**

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### **Nikko Asset Management Europe Ltd**

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Authorised and Regulated by the Financial Conduct Authority  
Number 122084

**nikko am**

## 1. Purpose and Scope

This Stewardship Code and Engagement Policy (the “Policy”) sets out how Nikko Asset Management Europe Ltd (“NAME”, “we” or “us”) ensures effective stewardship and shareholder engagement on behalf of all stakeholders – clients and beneficiaries, employees, and the society in which NAME operates. The purpose of this Policy is to describe how NAME applies each of the twelve principles of the Stewardship Code as per the rule 2.2.3R of the Conduct of Business Sourcebook (“COBS”) written by the UK Financial Conduct Authority (“FCA”) as well as how NAME ensures the integration of shareholder engagement as per the Shareholder Rights Directive (SRD) II as onshored in the UK via the European Union (Withdrawal) Act 2018.

This Policy is to be read in conjunction with the Stewardship Report which is published by NAME on its website.

## 2. Regulation

COBS 2.2.3R requires a firm which is managing investments for a professional client to disclose clearly on its website the nature of its commitment to the Financial Reporting Council’s UK Stewardship Code 2020 (the “Code”).

SRDII requires a firm to describe how it integrates shareholder engagement into its investment strategy.

## 3. Application

NAME endorses and supports the principles on engagement with the investee companies defined in the Code and SDRII.

NAME adheres to the Nikko Asset Management Group Engagement and Stewardship Strategy, as set out in the Appendix to this Policy.

NAME adheres to the [Nikko Asset Management Group Conflicts of Interest Control Policy](#), and the [Nikko Asset Management Europe Ltd Conflicts of Interest Policy](#).

NAME adheres to the [Nikko Asset Management Group Proxy Voting Policy](#), and the [Nikko Asset Management Group Proxy Voting Policy UK Addendum](#).

The annual Response to the UK Stewardship Code 2020, issued by the Nikko Asset Management Group, describes how the firm, inclusive of NAME, applies the Code’s principles, and can be found on our website.

## 4. Policy Review

This policy will be periodically reviewed to ensure that any regulatory changes are incorporated as necessary, and also ensure the ongoing effectiveness of the policy.

## 5. Appendix

### ***Nikko Asset Management Group Engagement and Stewardship Strategy***

As leading asset manager, Nikko AM recognises engagement and stewardship as part of important fiduciary duty. Active engagement with our companies is inherently built into our investment processes and plays an integral role in fulfilling our duty as a good steward of the capital our clients have entrusted us with.

This Engagement and Stewardship Strategy (“Strategy”) outlines our global corporate engagement approach, including: (i) Objectives, (ii) Methods and execution, (iii) Prioritisation, (iv) Documentation, monitoring and reporting, (v) Collaborative engagements and (vi) Escalation and investment decisions, applicable to Nikko AM’s funds and mandates, where we have the appropriate discretion. While the Strategy applies to all discretionary accounts, the extent of Strategy might be calibrated, where appropriate. For externally managed funds, we have established reasonable steps to evaluate the external managers’ activities, including around stewardship and engagement. The Strategy should be read in conjunction with our “Commitment to Responsible Investing” and “Nikko Asset Management Group Proxy Voting Policy”.

#### **Objectives**

We are committed to engaging with our companies on their strategy, operations, financial decisions as well as performance on and management of material Environmental, Social, Governance (“ESG”) factors, among others. Our engagements are intentional, with the purpose of helping our companies to attain and sustain high returns and create value. This goal is further broken down into more specific engagement objectives, including

- a) **Receiving managements’ stance** and strategy on raised material issues to deepen our understanding
- b) **Monitoring performance** on material issues and setting milestones, where appropriate
- c) **Shaping corporate behaviour and influencing positive change** at our companies through influencing enhanced ESG disclosure and performance aligned with our expectations of best practices

Engagements often meet multiple objectives described above. Our more defined objectives and best practice views are informed through analysis of the company and the broader market, attained through a variety of sources, including, where appropriate, company disclosures and

engagement insights, deep sector knowledge, third party ratings and assessments (provided by rating agencies, credit rating agencies, sell-side, academia and non-profit organisations), peer benchmarks and discussions (internal and with the broader industry).

We will often seek rationale and where appropriate commitments from the issuers to address issues raised.

Our engagements are also underpinned by the following underlying principles:

- **Materiality:** our engagements are driven by material factors including ESG factors
- **Intentionality:** we establish clear objectives and expectations for our engagements
- **Effectiveness:** we engage in a constructive, positive and pragmatic manner

### **Methods and execution**

Our engagement methods vary, and the most suitable approach is selected based on the engagement needs. These methods include:

- One-on-one company dialogues and on-site visits, which can include engagement on a variety of topics where ESG is part of a broader discussion or dedicated ESG meetings
- Management calls and roadshows
- Written communication
- Collaborative engagements

In our engagements, regardless of the method, we aim to have a dialogue with relevant decision makers that include (but are not limited to): founders, chairperson and independent directors, chief executive officer (CEO), chief financial officer (CFO), chief sustainability officer (CSO) or other sustainability representatives, and investor relations.

At NAM we practice deep and direct ESG integration, where investment teams engage with our companies as part of the investment process, both before and during the period of investment, covering relevant ESG issues in their research and engagements. We do not separate or outsource the engagements as we believe each covering analyst and portfolio manager is best placed and responsible for assessing ESG materiality and engagement for positive return. This approach translates into ESG risk and opportunity management being inherently integrated into our investment process including buy/sell decisions. Through our engagements, issuers understand that ESG forms an integral part of our investment decision making.

### **Prioritisation**

As engagements are integral to our investment processes, they are often planned in the course of investment activities. This comprises pro-active and forward-looking engagement plans, for example prioritised by materiality or thematic priorities (such as climate change). This allows flexibility to respond to issues as they come up (reactive approach) for example through voting events or (ESG) news flow.

We identify companies for engagements based on several factors, which can differ by region and asset class. The below quantitative and qualitative factors could be considered for prioritisation:

- Size of holding and/or our influence
- Poor ESG score or room for improvement
- Nature of the issue and/or severity of the breach
- Materiality
- Voting event
- ESG thematic priorities
- Client priorities
- The company's openness to dialogue

### **Documentation, monitoring and reporting**

The investment teams document engagements in their respective research management software applications, to which all relevant investment members have access to. The engagement outcomes further supplement our investment (including ESG) analysis, risk management frameworks and consequently our investment decisions.

We will seek commitments from companies to address any material concerns raised by investment teams. Subsequently we monitor these issues and company progress.

Committed to transparency, we publish outcomes of our global engagement and stewardship activities in our annual Sustainability Reports, client reports and other disclosure materials as may be required by our clients or in compliance with regulatory requirements.

### **Collaborative Engagements**

We believe in some instances where one-on-one company engagements deliver insufficient progress, collaborative engagements with like-minded investors can increase shareholders' influence on companies' corporate behaviour and ESG performance.

NAM's regional investment offices select the most suitable and effective engagement methods for their portfolios. Whilst we are seeing increasing investor collaboration efforts across regions, this engagement method is still relatively uncharted in some parts of the world. For example, in some parts of Asia one-on-one engagements can be viewed as more constructive and culturally appropriate to build on trust. Specifically, in Japan, we participate in collaborative engagement while taking into consideration the possibilities associated with joint shareholdings, such as the regulatory requirement of large shareholding reporting as well as being perceived as making a material proposal leading to exemption from simplified reporting.

Mindful of these important regional nuances and our commitment to constructive, positive and pragmatic engagements, we carefully select our engagement methods, whilst committed to supporting collaborative engagements.

### **Escalation and investment decisions**

Where we engage with companies to shape corporate behaviour and influence positive change, and the company is not able to demonstrate sufficient progress, we may escalate the discussions. The escalation methods vary across asset classes and regions, broadly including:

- Additional meetings and engagement, and meetings with more senior management, where appropriate
- Collaborative engagements, where like-minded shareholders jointly seek change from a company
- Voting on general meetings and/or supporting shareholder resolutions
- Reducing or divesting our holdings

The escalation methods can either (i) inform investment decisions (e.g. additional meetings with management where our concerns were not sufficiently addressed can lead to reduced shareholdings) or (ii) the methods themselves are an investment decision (e.g. divestment).

This process is underpinned by engagement timelines. Where many engagements touch on topics that are inherently long-term and require time for improvement, some topics or breaches need to be reviewed with a more short-term timeline in mind. These considerations are taken into account when we carefully select timeline for and methods of the escalation.

Our engagements and voting feed back into our investment analysis and inform our investment decisions (buy/sell/hold). Depending on the severity of the issue and broader context (e.g. outcomes of previous engagements) we reduce our holdings or divest where we have the discretion and where such exit would be in the best interest of our clients.

*This Engagement and Stewardship Strategy will be revised to reflect our continued capability enhancement in the sustainable and responsible investing space.*