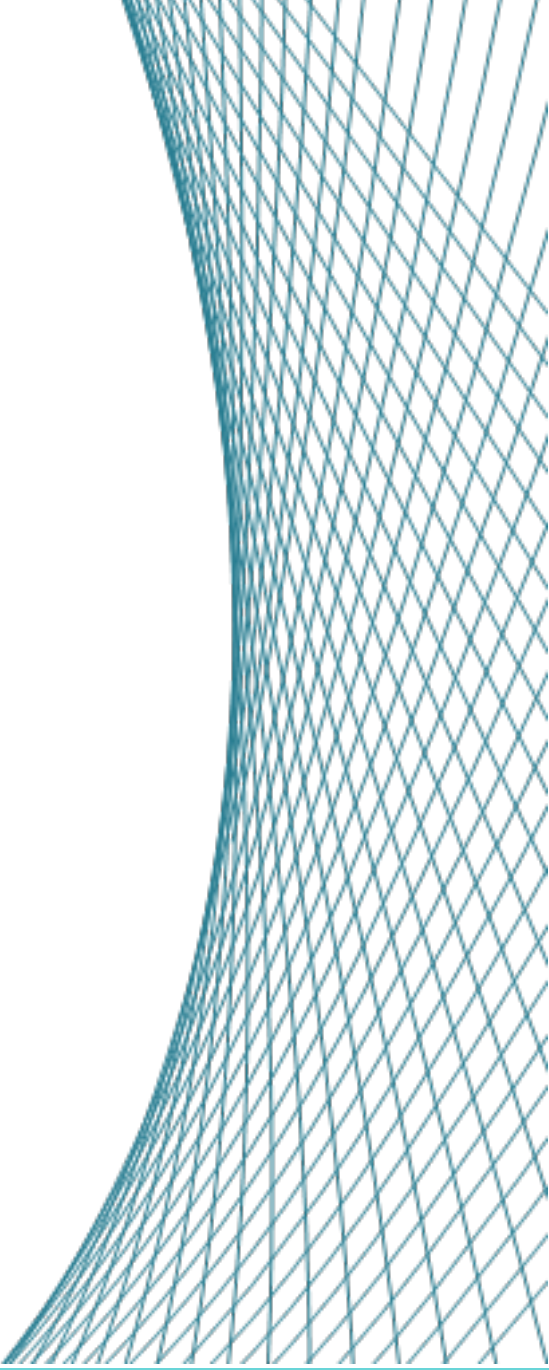


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# Nikko Asset Management Europe Ltd

Climate-Related Financial Disclosure (“CRFD”) and Task Force on Climate-Related Financial Disclosures (“TCFD”) Entity Report

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## Statement of compliance with the FCA's Climate Related Financial Disclosure information

Nikko Asset Management Europe Ltd ("NAME"), a UK company, is subject to Chapter 2 of the Environmental, Social and Governance Sourcebook ("ESG Sourcebook") on the disclosure of climate related financial information, as detailed in the UK Financial Conduct Authority's Handbook of rules and guidance (the "FCA Handbook").

The purpose of this report is for NAME to comply with the ESG Sourcebook and in a manner that is consistent with the Taskforce on Climate-related Financial Disclosure ("TCFD") Recommendations and Recommended Disclosures.

These disclosures are made with reference to the size, internal organization, nature, scope, and complexity of NAME's activities, covering all portfolio management business including all the portfolios managed by NAME.

Under section 2.1 of the ESG Sourcebook, if a firm produces a Climate-Related Financial Disclosures ("CRFD") report to align with the TCFD Recommendations and Recommended Disclosures, it may rely on a climate-related financial disclosures report made by its group or a member of its group, but only to the extent that those group disclosures are relevant to the firm and cover the assets the firm administers or manages as part of its TCFD in-scope business.

Nikko Asset Management Group ("Nikko AM Group") recognizes climate change as one of the greatest challenges the global community faces and considers it its fiduciary duty to address it in managing its clients' assets. Nikko AM Group's position on climate change is presented in Nikko AM Group's TCFD report and also applies to NAME. There may therefore be cross-references.

Any distinctions between the Nikko AM Group and NAME in terms of Climate-related Governance, Strategy, Risk Management or Metrics and Targets and supplemental information specific to NAME is detailed in this report.



Rob Bluzmanis (CEO)

14 June 2024

## Governance

Governance of Environmental, Social, and Governance ("ESG") activities operates at two levels: Nikko AM Group and NAME. The overall oversight of our ESG activities is conducted at Nikko AM Group level and it is the responsibility of the ESG Global Steering Committee. Please refer to the Governance section of our [Nikko AM Group's TCFD report](#).

### NAME's general governance structure:

NAME has an independent executive team led by a regional head who reports to Nikko AM Group President and is responsible for formulating and executing targets and plans decided by Nikko AM Group Board and Global Executive Committee ("GEC") in line with local regulations and customs.

### NAME's ESG governance structure:

NAME has a dedicated board committee named the ESG and Stewardship Oversight Committee ("ESOC") to which ESG reports, requirements, impact assessments and recommendations are presented.

NAME is responsible for stewardship activities in the UK in collaboration with the Global Sustainable Investment team.

The Global Sustainable Investment team supports the investment departments in strengthening the firm's ESG capabilities and providing insight on broader ESG topics. It includes the integration of climate change-related risk management into the investment processes, keeping the procedures up to date and selecting relevant indicators.

The role of the Global Sustainable Investment team is further detailed in the Governance section of our [Nikko AM Group's TCFD report](#).

Our review and adoption process for ESG regulations and standards works at three levels. The initial stage involves a dedicated team scanning the horizon for ESG requirements that might affect NAME. Such highlighted regulations are then reviewed and assessed by a dedicated working group comprising key business functions. Lastly, the outputs are presented to the ESOC.

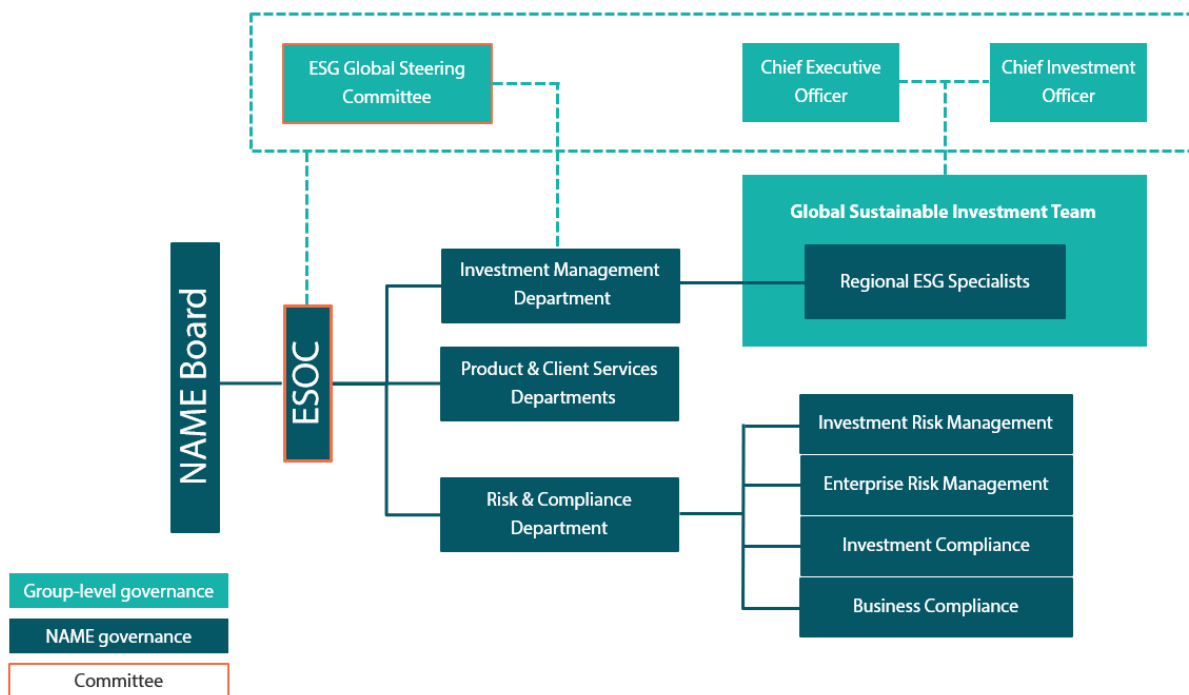
The ESOC reports to the NAME Board of Directors and ensures compliance in all matters with Global ESG Steering Committee charter. It meets on a quarterly basis and is chaired by NAME's Chairman, who has been an advocate for ESG in Nikko AM Group since 2018. He has changed NAME's original Stewardship Oversight Committee into the current more expanded version of the ESOC in 2022, which has led to further oversight and enhancements of our ESG processes and commitments.

The assessment and management of climate-related risks and opportunities is the responsibility of our investment departments in the first instance.

Other climate-related responsibilities have been assigned to respective functions reporting to the ESOC:

- Investments: As part of the Investment Risk management, the NAME risk department performs ESG risk analysis, including climate-related, and monitoring on a monthly basis. The analysis is presented to our investment teams and committees on a monthly and quarterly basis.
- Operations: The NAME enterprise risk department performs Risk and Control Self-Assessments ("RCSA"), positioning ESG risks, including climate-related as one of the top operational risks. The analysis is presented to the ESOC on a quarterly basis.
- Product & Client Services: The product team and client services team are responsible for evaluating the market and proposing ESG products that best meet both our clients' sustainability needs and climate-related reporting requirements. The Head of Product is also a member of an internal working group assessing the ESG quality of products complying with articles 8 and 9, as defined by the Sustainable Finance Disclosure Regulation ("SFDR").

*NAME ESG and Stewardship Governance<sup>1</sup>:*



The climate-related governance section of this document interacts with other UK governance requirements and NAME is compliant with the main principles and requirements of the UK Corporate Governance Code, the UK Companies Act 2006 and the Modern Slavery Act 2015.

**Strategy**

<sup>1</sup> Other oversight committees, such as Risk Oversight Committee, were omitted from this chart, which focuses on more specific ESG/climate related governance roles and bodies.

NAME applies Nikko AM Group approach and positioning regarding the identification of climate-related risks and opportunities over short, medium, or long-term periods in our investments.

### 1. Our investments:

Please refer to our [Nikko AM Group's TCFD report](#) for more details about the climate-related risks our companies face, the potential impact on them, and ultimately, the potential impact of such risks on NAME as an asset manager.

Nikko AM Group in-house analytical capabilities help mitigate our climate-related risk in our investment activities through four processes:

- a. **In-depth bottom-up research**
- b. **Active stewardship**
- c. **Top-down scenario and temperature analysis**
- d. **Portfolio risk monitoring**

The first three processes will be covered under this “Strategy” section. The last process will be covered in Section 4 “Risk Management”.

#### a. In-depth bottom-up research

In the strategies actively managed by NAME, the investment teams identify attractive companies through in-depth bottom-up research, based on their own philosophy and approach. ESG factors are integrated, including climate change, and the risks and opportunities they present for the company into this process, providing additional considerations for investment decisions.

Asset class	ESG integration
<b>Global equity</b>	<p>ESG analysis is undertaken by each portfolio manager and fully integrated into the stock-picking process to ensure we can robustly evaluate the materiality of each factor and its potential impact in the future. Our four-pillar “Future Quality” analysis includes in-depth evaluations of ESG factors to determine their effect on the company’s risks and returns. Research includes an analysis of a company’s corporate governance, social practices, the environmental sustainability of its products or services and its capacity to fund its growth and ESG commitments.</p> <p>Our investment team engages with investee companies to help promote better ESG practices if we believe there is room for standards to improve. This includes ESG controversies identified by the Global Equity team. Proxy voting is executed in the interests of our clients in line with our proxy voting guidelines.</p>
<b>Global fixed income</b>	<p>The majority of fixed income assets managed by the investment team are in investment grade bonds from issuers ranging from international bodies, like the World Bank, to governments and large companies. The scale of these organisations and the limited rights of bondholders restricts our influence over their ESG policies. However, particularly in the case of corporate credit, ESG factors are considered to the extent that they are deemed material to the investment case and in line with our clients’ risk appetite and perspectives on ESG investing. In relation to our holdings in sovereign entities and major banks, we maintain an active dialogue with issuers on ESG themes as a means of building our insight and market intelligence.</p> <p>We use a proprietary ESG platform to aggregate ESG data in order to enhance our ESG evaluation of sovereign, supranational, agency and corporate issuers. This tool allows us to compute ESG rankings based on the variables we think are the most relevant for each fixed income field or sector and gives us full control over the data sources we use, allowing for multiple data feeds.</p> <p>In particular, we use our proprietary assessment process for measuring the sustainability of issuers in our Global Green Bond Strategy. This bottom-up review process is framed around three key elements: the issuer’s sustainability strategy; the pre-issuance bond framework; and the post-issuance allocation and impact report.</p>

#### b. Active Stewardship

Our [Engagement and Stewardship Strategy](#) defines Nikko AM Group’s approach to corporate engagement and applies to NAME. As a testament to our stewardship activities, we became a signatory to the UK Stewardship Code 2020 (“UKSC”) in 2022 and again in 2023. We responded to the UKSC as Nikko AM Group, so the stewardship activities of our investment teams worldwide are represented in our response. Nikko AM Group has recently published its latest Response to the UKSC, labelled as [Global Stewardship Report](#) and covering the reporting period 1 January to 31 December 2023.

#### c. Top-down scenario and temperature analysis

Our top-down analysis looks at climate scenario analysis and temperature alignment to better understand our portfolios’ climate risks and opportunities.

We believe climate scenario analysis is an important tool that enables investors to gain a thorough understanding of climate-related risks and opportunities and its impact on portfolios. These scenarios are not predictors of the future, rather they provide a range of possible future situations under conditions of uncertainty.

As such, we have assessed our portfolios for both transition and physical risk under multiple climate scenarios. To do so, we draw on MSCI Inc's suite of products, utilising their Climate-Value-at-Risk ("CVaR") and Implied Temperature Rise ("ITR") models, as well as the terminology associated with the models, to conduct our scenario analysis and temperature alignment assessments respectively.

Please refer to [Nikko AM Group's TCFD report](#) for more information regarding the methodologies, assumptions, and limitations of both CVaR and ITR models.

Our analysis is conducted on NAME exposure to public listed equity and corporate bonds. For our fixed-income portfolios, we include corporate bonds and exclude sovereign, supranational and agency issues. Whilst there are methodologies to model sovereign climate scenario analysis, these tools are at their infancy stage which may impact the accuracy of their output. We continue to monitor new developments in the models.

*i. Transition Risk:*

We have assessed our portfolio under the following scenarios:

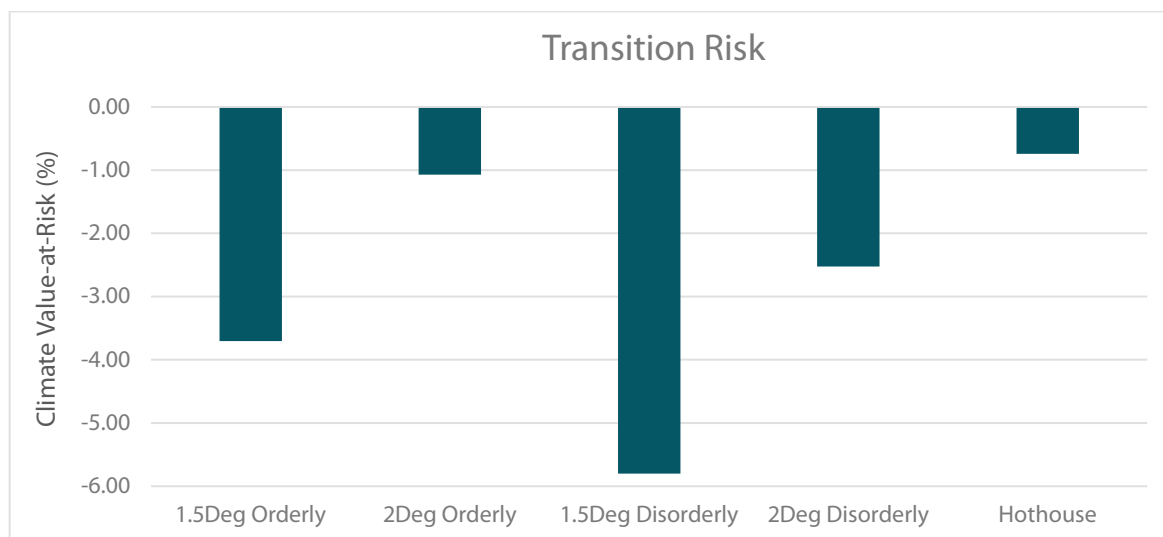
- 1.5°C and 2°C
  - o Orderly: climate policies introduced early with gradual intensification. Transition risk is relatively subdued
  - o Disorderly: delayed or divergent climate policies. Higher transition risk from more stringent and stricter measures that are delayed and/or divergent across countries and sectors, leading to higher carbon pricing
- Nationally Determined Contributions (NDCs): climate policies are implemented only in some jurisdictions but are globally insufficient to halt global warming. Implies temperature rise of 3°C by 2100, which leads to higher physical risk

Transition risk represents the largest risk to our holdings, with the 1.5°C Disorderly scenario posing the most severe risk to our portfolios, given that it is the most disruptive scenario.

As of end December 2023, the model indicates a potential CVaR of over 5% under the 1.5°C Disorderly scenario, as seen in *Figure 1*. Under a more orderly scenario (1.5°C Orderly), the potential risk diminishes substantially, to below 4%.

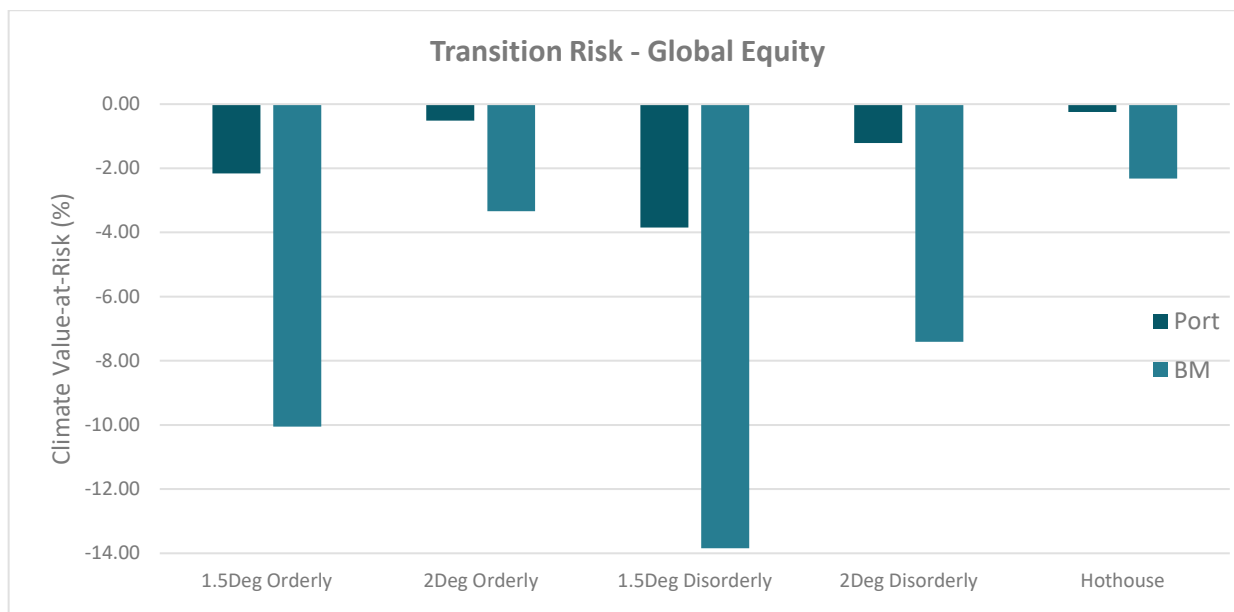
Diving deeper into the numbers, we are unsurprised to find that the bulk of our risk is attributable to carbon-intensive sectors, such as energy. When jurisdictions start to increase carbon prices in a bid to bring down carbon emissions, the cost to companies in these sectors will increase should their emissions profile not come down. As a global asset manager, we are likely to maintain some exposure to these sectors, but we will continue to monitor the risk and apply mitigation techniques as described later in the report.

*Figure 1. Transition risk - NAME*



If we take our Global Equity strategy as an example in *Figure 2*, the portfolio has a lower transition risk than its benchmark (the MSCI All Country World Index) as the strategy has a commitment to keep its portfolio's relative carbon intensity more than 20% below the benchmark. Therefore, given that the transition risk scenarios are driven by a company's carbon emissions, the portfolio carries significantly lower risk under all scenarios versus the benchmark.

Figure 2. Transition risk - Global Equity



ii. Physical Risk:

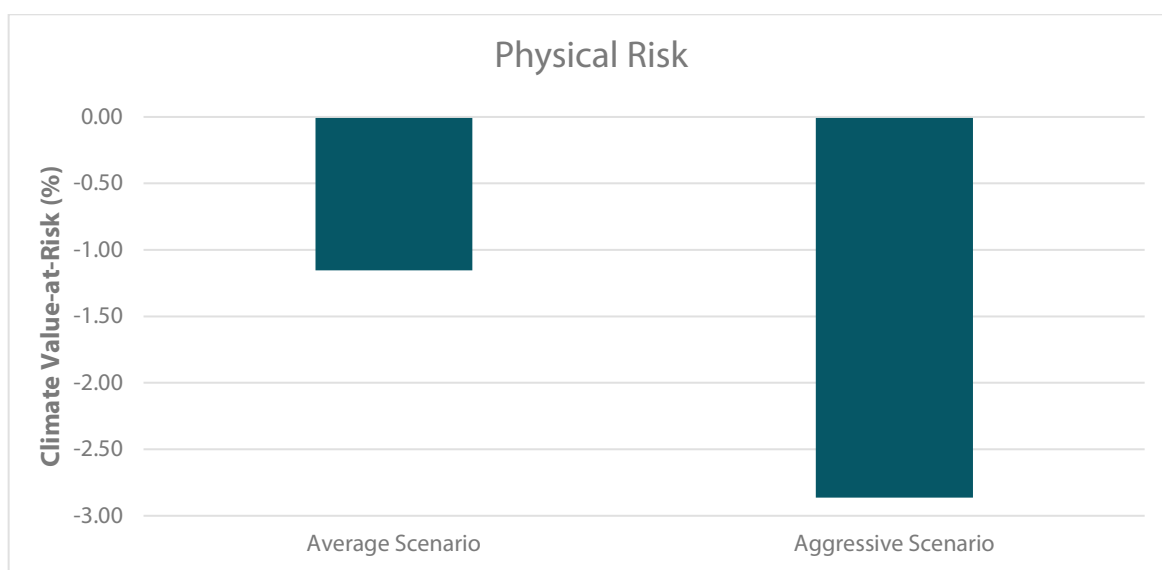
We assessed our portfolios under the following scenarios:

- Average scenario: most likely impact of climate change over the modelled 15-year period — i.e. the expected value of the cost distribution.
- Aggressive scenario: the 95th percentile of the cost distribution and explores the severe downside risk within the distribution tail — i.e. the worst-case scenario.

The potential CVaR from physical risk on our portfolios is significantly lower than transition risk in both the average and aggressive scenarios. Unlike transition risk, where CVaR is largely a function of the sector our companies are in, the geographic location of our companies’ assets is key for physical risk.

As of end December 2023 and under the aggressive scenario, NAME assets see a potential CVaR of about 3% (Figure 3). Under the average scenario, the potential CVaR is significantly lower, at about 1%. Given that NAME assets are more diversified globally, its physical risk is lower than Nikko Asset Management Co., Ltd. (“NAM JP”), a Japanese company, as detailed in our [Nikko AM Group's TCFD report](#).

Figure 3. Physical risk - NAME



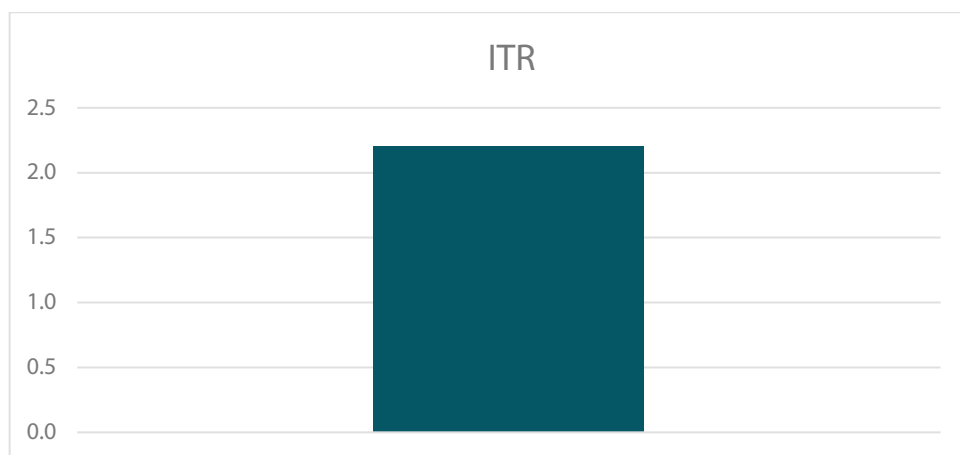
iii. Temperature analysis:

The translation of companies’ commitments and targets into temperature alignment allows us to gauge the ambitiousness of these targets, which can drive further due diligence and engagements with our companies.



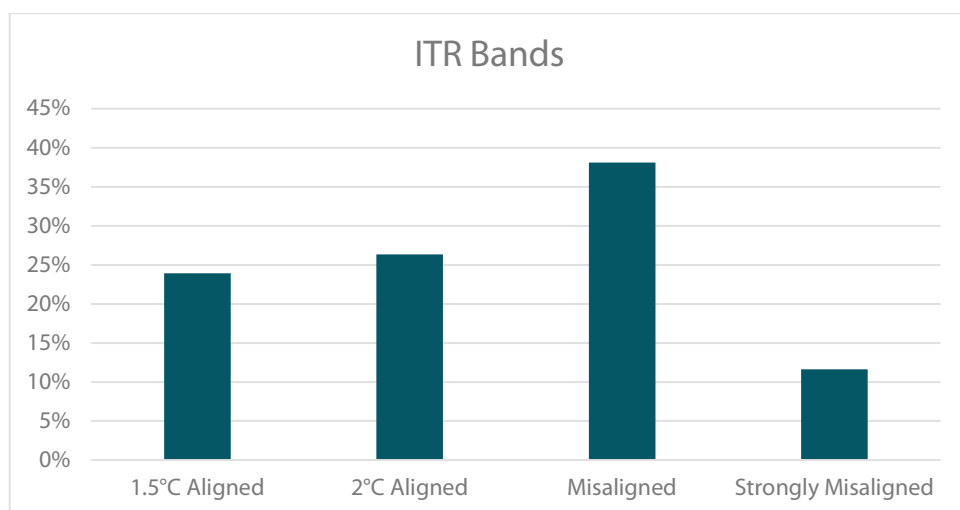
The Implied Temperature Rise (ITR) of NAME assets is 2.2°C (Figure 4). Calculations were computed using MSCI’s updated ITR methodology. Please refer to our [Nikko AM Group’s TCFD report](#) for further details on the methodology.

Figure 4. ITR (°C) - NAME



To further enhance our risk assessment and inform our analysis, we assess the temperature-alignment bands of our portfolio and underlying holdings. Temperature-alignment bands are categorised as 1.5°C Aligned, 2°C Aligned, Misaligned, or Strongly Misaligned. Based on our analysis in Figure 5, we find that more than 50% of NAME investments in scope for this report are 1.5°C and 2°C aligned. This insight will further help to focus our stewardship activities.

Figure 5. Temperature-alignment bands - NAME



## 2. Our operations:

As detailed in [Nikko AM Group’s TCFD report](#), we have set an interim Nikko AM Group target to reduce our greenhouse gas (GHG) emissions by 40% per employee by 2030, against our 2019 baseline emission level. We also measure greenhouse gas (GHG) emissions from the Nikko AM Group’s corporate operations based on Nikko AM Group-wide energy consumption and transportation data.

Additionally, NAME and the enterprise risk department identify and monitor regional ESG operational risks. Whilst good progress is being made in implementing ESG regulations, the industry as a whole has challenges when it comes to ESG data and the risk of greenwashing.

Among NAME’s 20 most material operational risks in 2023, 6 of them are categorized as ESG risks. We are navigating a complex and evolving landscape which could adversely impact NAME’s operations. For instance, the outflow of capital from traditional strategies to ESG strategies and the misinterpretation of sustainability regulations are material external risks with a medium likelihood and consequent impacts on NAME operations.

## Risk Management

The Nikko AM Group Risk Management Department oversees the risk management of Nikko AM Group apart from compliance risk, which is overseen by the Legal & Compliance Department. Each of our regional entities, including NAME, manages risk in line with our Nikko AM Group Risk Management Policy to identify, assess and prioritize climate related risks.

Climate change is considered as a driver of Nikko AM Group and NAME’s risks. It has driven various national commitments and regulatory frameworks worldwide and needs to be fully incorporated in the existing risk classification framework. Our Nikko AM Group Position Statement on Climate Change reflects our global stance on climate change.

Our approach to climate change-related Risk Management, applied both at individual asset and portfolio level through our three-lines of defence system detailed in the “Risk Management” section of our [Nikko AM Group's TCFD report](#). It details the roles and responsibilities related to climate change-related risk management which primarily falls to the Investment Departments (first line of defence), then is monitored by the Investment Risk Management Department (second line of defence) and to finally be subject to internal controls from the Internal Audit Department (third line of defence).

NAME has a regional risk department and committees, which report into the global Risk Oversight Committee. Through this governance, we enable regional flexibility while retaining central oversight and reporting. Material issues relating to climate change-related risks must be reported to the global Risk Oversight Committee, which meets on a quarterly basis.

With respect to the “three lines of defence” model, NAME’s Investment Risk Department and Enterprise Risk Department are part of the second line of defence applied by NAME. Ongoing monitoring of risks, including climate-related, is conducted to ensure the effective application of our risk-management framework. Our second line of defence investment-risk team performs independent monitoring of our portfolios.

Please refer to the “Risk Management” section of our [Nikko AM Group's TCFD report](#).

### 1. Our investments:

Climate scenario and carbon intensity analysis are performed and compared over time and with the respective portfolios’ benchmark, where applicable. High emission sectors like energy are closely monitored. The results of this analysis are presented to the investment teams on a monthly basis, and quarterly risk reports are prepared by the overall head of risk, presented to the ESOC and then up through our Nikko AM Group structure. These quarterly assessments detail an overall summary position of the risk, highlighting key issues, key events and potential future exposures.

### 2. Our operations:

RCSA is an important process for identifying and assessing the key operational risks faced by an organization and the effectiveness of controls that address those risks.

As well as helping to assess operational risks and identify weaknesses in controls, RCSA helps to raise awareness of operational risk and improve risk culture. It can also support governance and compliance, as well as reinforcing the efforts of internal and external auditors, included in the third line of defence.



## Metrics and Targets

NAME applies Nikko AM Group’s approach and selection of metrics and targets to assess climate related risks and opportunities. The overview, scope, methodologies and targets are defined in the “Metrics and Targets” section of our [Nikko AM Group’s TCFD report](#).

### Reported metrics

Our NAME in-scope portfolios composition for this report is as of 31 December 2023. Calculations were computed in April 2024 using most recent data available for GHG emissions (i.e., Scope 1 and 2) and financial data (i.e., Enterprise Value Including Cash (EVIC) and revenue). This is in line with the latest Global GHG Accounting and Reporting Standard for the Financial Industry suggested by the Partnership of Carbon Accounting Financials (PCAF). There might be future restatements of numbers disclosed in the past driven by more recent disclosures and changes in methodology, data provider, or data quality.

	AUM <sup>2</sup> (USD billion)	Scope	Absolute emissions (million tCO <sub>2</sub> e)	Carbon footprint (tCO <sub>2</sub> e/USD million invested)	WACI (tCO <sub>2</sub> e/USD million revenue)	Coverage <sup>3</sup> (% AUM)	Reported Carbon Figures (% of covered securities)
<b>Total</b> (as of 31 Dec 2023)	16.7	1+2	0.13	15.80	64.33	99.95%	91.10%
		3	1.02	126.03	548.58	99.94%	0% <sup>4</sup>

If either Scope 1 or 2 is estimated, the Scope 1 & 2 metrics are treated as estimated.

In 2023, all Scope 3 metrics are estimated. We have seen progress made in terms of ESG data disclosures over the years, with ESG-related regulations mandating disclosure of key ESG metrics, such as GHG emissions. As investors, we will continue to engage our holdings to enhance disclosures of GHG emissions, including Scope 3.

<sup>2</sup> AUM that is in scope.

<sup>3</sup> Based on AUM that is in scope.

<sup>4</sup> Scope 3 figures are all estimated.

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