

INITIATIVES FOR A BUSINESS MANAGEMENT STRUCTURE THAT PURSUES THE BEST INTERESTS OF CUSTOMERS(FY2021)

Nikko Asset Management Co., Ltd.
June 30, 2022

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Introduction (Principles for Customer-Oriented Business Conduct Principle 1 & Principle 2)

At Nikko Asset Management (“Nikko AM”), we regard acting in the best interests of the customers who entrust us with their assets as our primary mission. This means that we attach the highest importance to fiduciary and ESG principles in our corporate philosophy and business activities.

In view of Nikko AM’s status as a responsible institutional investor, we also position Environment, Society and Governance (“ESG”) assessments and stewardship activities at the heart of our investment process. With this in mind, we strive constantly to help investee firms to enhance their long-term corporate value and to help society grow sustainably.

Nikko AM is a dedicated maker of a diverse range of funds and investment products intended to deliver various investment methods to a broad range of investors, from individuals to institutions. As such, we are responsible for helping our clients to build and manage their assets by considering how to provide them with investment products they feel they can support, looking into ways of enhancing our ability to manage those products, and putting our ideas into practice.

This report provides specific examples of our initiatives, as well as voluntary indicators to measure their impact, in the year from April 2021 to March 2022.

- ❑ Nikko AM agrees with the JFSA’s publicly released Principles for Customer-Oriented Business Conduct (including revisions). In order to ensure that we put the best interests of our clients first in our business operations, we have formulated and publicly released our Corporate Missions and Fiduciary & ESG Principles, which we review periodically. We have also been releasing regular updates on our initiatives since 2017.
- ❑ This report provides an update on our activities as of the end of March 2022.

1. Activities for individual clients

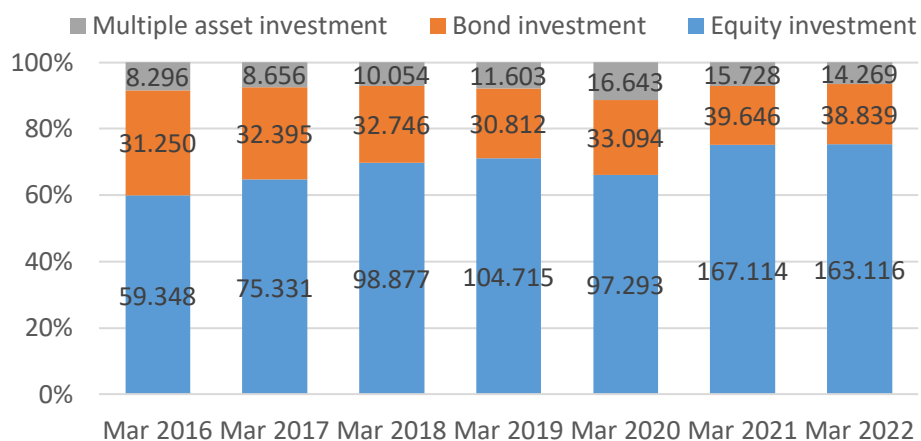
As an asset management company, our paramount mission is to be useful to our customers in their medium-to long-term asset building. Realizing this mission is not just a case of delivering strong investment management outcomes, however. We also need to put a great deal of effort into every aspect of our services, including understandably and simply imparting accurate knowledge of investment management and the products we offer, proactively delivering timely and appropriate information on market trends from a neutral standpoint to help customers make investment decisions, providing products that are suitable for medium-to long-term investment that serves customer needs, and helping customers to manage risks.

Our initiatives in this area, together with the results we have delivered to date, are detailed below.

1.1. Total AUM of Japan-domiciled publicly offered funds (including ETFs and MRFs)

Total AUM of Japan-domiciled publicly offered funds(0.1 billion yen)

| Mar 2016 | Mar 2017 | Mar 2018 | Mar 2019 | Mar 2020 | Mar 2021 | Mar 2022 |
|----------|----------|----------|----------|----------|----------|----------|
| 98,894 | 116,382 | 141,678 | 147,130 | 147,030 | 222,488 | 216,224 |



We consider our investment division as a team of professionals in which fund managers and analysts forge their own career paths. We also employ an appraisal/compensation structure that emphasizes medium- and long-term investment performance. This is supported by a global system we have introduced to retain key fund managers.

Out of the total assets in the publicly offered funds that we manage on behalf of our customers (as of March-end 2022), equity investment funds accounted for 75%, bond investment funds (including MRFs) accounted for 18%, and multiple asset investment funds/other funds accounted for 7% of the total.

1.2. Initiatives for cumulative investment including cumulative Nippon Individual Savings Accounts (Principles for Customer-Oriented Business Conduct principle2 & 【Note】)

In order to meet cumulative investment needs, in addition to cumulative NISAs, we also promote the use of defined contribution plans, personal defined contribution pension plans and general accounts. Through these products, we advocate long-term, cumulative and diversified investments to those who wish to build up their assets. We also provide assistance to distributors for cumulative investment initiatives by not only providing products but also creating and offering a variety of support tools.

We have now registered five of our funds for eligibility in the cumulative NISA system.

In addition, we emphasise the importance of using cumulative investment as a highly effective way of enhancing investor returns in forums such as product strategy seminars for distributors.

1.3. Expected Average holding periods of top ten funds for AUM (Principles for Customer-Oriented Business Conduct principle2 & 【Note】)

| Rank | Fund name | Expected average holding period (years) | AUM (JPY 100M) | Fund investment universe/type |
|------|--|---|----------------|-------------------------------|
| 1 | Global Prospective Fund | 4.65 | 5,072 | Foreign equity/active |
| 2 | Global Robotics Equity Fund (Semi-annual Settlement Type) | 7.58 | 4,156 | Foreign equity/active |
| 3 | Global Robotics Equity Fund (Annual Settlement Type) | 5.44 | 3,507 | Foreign equity/active |
| 4 | Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type) | 3.95 | 3,406 | Global REIT/active |
| 5 | Smart Five (Monthly Settlement Type) | 12.10 | 3,372 | Balanced |
| 6 | Digital Transformation Equity Fund | 2.25 | 3,203 | Foreign equity/active |
| 7 | Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type | 6.82 | 3,071 | Balanced |
| 8 | Nikko Index Fund 225 | 3.76 | 2,242 | Japanese equity/passive |
| 9 | Global Three Times Triple Fund (Annual Settlement Type) | 2.10 | 1,892 | Balanced |
| 10 | Global Fintech Equity Fund | 2.48 | 1,522 | Foreign equity/active |

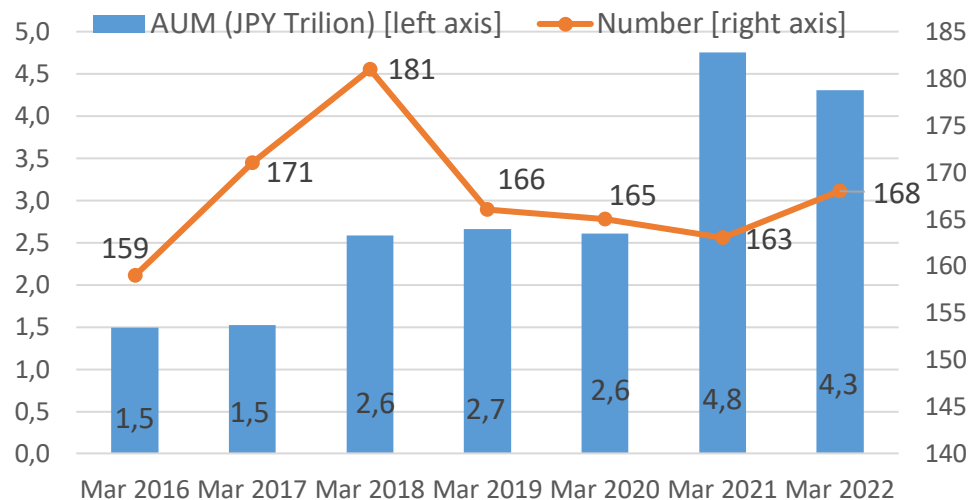
※ Expected average holding period is theoretical calculated by “annual average AUM ÷ annualized redemption amount” (calculation period is fiscal year 2021).

The figure is different from the actual average holding period of the investor.

※ Funds with very small redemption amount compared with the subscription amounts or AUM may result in longer period than the actual holding period.

※ AUM as of March-end,2022.Top 10 AUM funds excluding ETF and MRF.

1.4. AUM and number of asset-building funds (annual or semi-annual annual account settlement) (Principles for Customer-Oriented Business Conduct principle2& [Note])



As an asset management company, our paramount mission is to be useful to our customers in their medium-to long-term asset building. The asset management business is one in which firms can only grow if they also grow their customers' assets. We are therefore increasing the number of publicly offered equity funds that are suitable for long-term asset building (excluding ETFs; annual or semi-annual annual account settlement). As of March 2022, we have 168 such funds at Nikko AM with a total AUM of approximately JPY 4.3 trillion.

Major publicly offered funds that we deem suitable for customers' medium- and long-term asset-building needs (examples)

| Fund investment target | Fund name | Distribution frequency | AUM (JPY 100M) |
|--------------------------|---|------------------------|----------------|
| Japanese Equities/Active | Japan Robotics Equity Fund | Annual, semiannual | 565 |
| | Nikko Japan Open | Annual | 511 |
| | Nikko DC J Growth | Annual | 354 |
| Foreign Equities/Active | Global Robotics Equity Fund | Annual, semiannual | 7,664 |
| | Global Fintech Equity Fund | Annual, semiannual | 2,717 |
| Foreign Bonds/Active | Nikko Developed Countries High Yielding Bond Open (Growth Type) | Annual | 62 |
| Balanced | Smart Five (Annual Settlement Type) | Annual | 1,892 |
| | Fine Blend (Growth Type) | Annual | 571 |
| | Nikko GW7 Eggs | Annual | 485 |
| | Nikko Triple Fund (Property Bond Equity) Growth Type | Annual | 249 |
| | Global Three Times Triple Fund (Annual Settlement Type) | Annual | 143 |

* AUM as of Mar-end, 2022. Aggregate value is shown for series funds. AUM is in descending order by fund investment destination.

* For fund with multiple settlement types, hyperlink is set to the fund with the largest AUM.

1.5. Fund Efficiency Initiatives (Principles for Customer-Oriented Business Conduct principle2 & [Note])

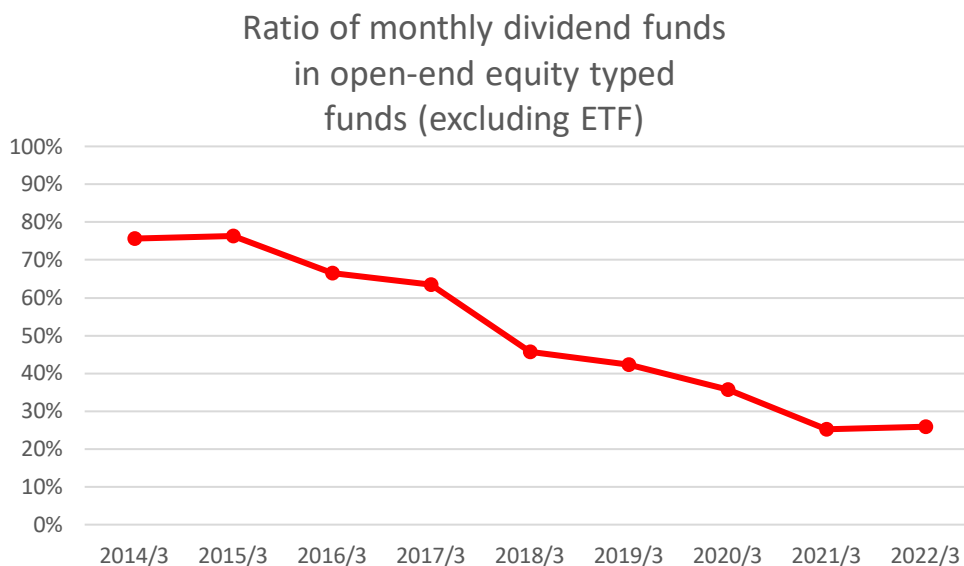
We believe that it is imperative for asset managers to constantly develop and manage more attractive and effective products for investors. We strive to achieve this goal through constant efforts to enhance our fund lineups and to expand AUM. However, it is also true that some of our funds have small AUMs. Funds with smaller AUMs cost more to manage than other funds and are less likely to realize the investment policies set out in their investment prospectuses or trust deeds, making it harder to deliver the sustained medium- and long-term investment performances that customers expect.

At Nikko AM, we address this by not only terminating smaller funds once they reach maturity but also terminating them early by shortening their trust periods based on legally stipulated procedures.

We carried out terminations of 14 publicly offered funds in the year from April 2021 to March 2022 and gained the understanding of beneficiaries for the early termination of twelve of them.

These efforts are essential ways for us to maintain the strength of our funds' product attributes and to deliver strong investment performances. We firmly believe that the effective allocation of human resources is the key to delivering medium- and long-term profits to investors.

1.6. Change in distribution pattern for medium- and long-term investment: composition of Japan-domiciled publicly offered funds (Principles for Customer-Oriented Business Conduct principle2 & [Note])



The ratio of publicly offered funds (excluding ETFs) that pay out monthly dividends is falling and stood at 26% as of March 2022.

1.7. Risk/return features of Nikko AM's key funds (Principles for Customer-Oriented Business Conduct principle2 & [Note])

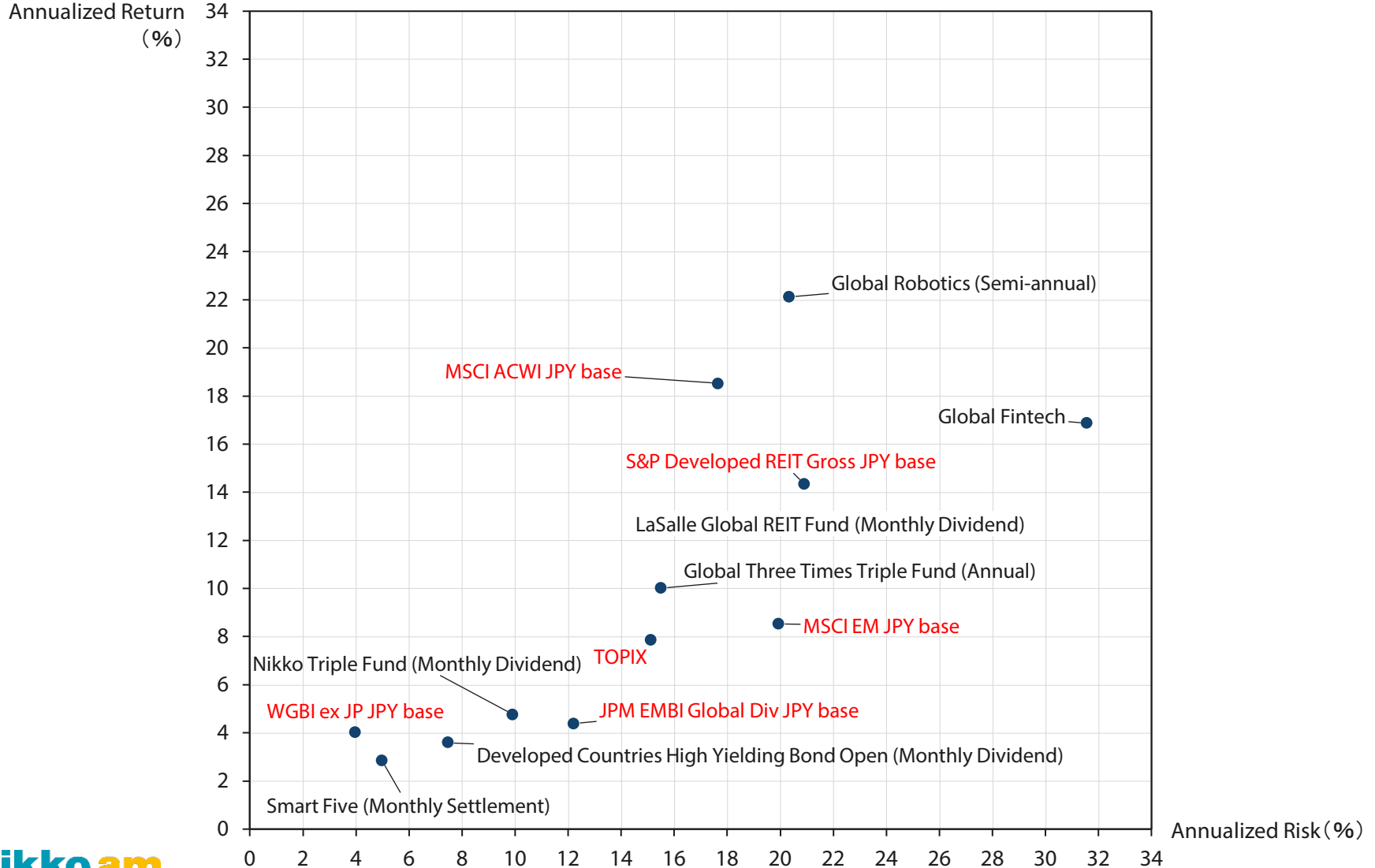
Procedures for selecting Nikko AM's key funds

1. Rank Nikko AM's publicly offered funds (excluding money funds, ETFs and index funds) as of March-end 2022).
2. If there are multiple series funds among the top funds for AUM, use the funds with the largest AUMs.
3. For the relevant period, we selected the 10 funds in the below chart as Nikko AM's key funds (excluding funds that have less than a year to maturity) as of March-end 2022.

| | Fund name | AUM(JPY100M) | Launch date | Asset Class | Risk/Return Abbreviated name on profile |
|----|---|--------------|-------------|----------------|--|
| 1 | Global Prospective Fund | 5,072 | Jun-19 | Foreign equity | Global Prospective |
| 2 | Global Robotics Equity Fund (Semi-annual Settlement Type) | 4,156 | Aug-15 | Foreign equity | Global Robotics (Semi-annual) |
| 3 | Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type) | 3,406 | Mar-04 | Global REIT | LaSalle Global REIT Fund (Monthly Dividend) |
| 4 | Smart Five (Monthly Settlement Type) | 3,372 | Jul-13 | Balanced | Smart Five (Monthly Settlement) |
| 5 | Digital Transformation Equity Fund | 3,203 | Jul-20 | Foreign equity | * Graph not shown because the investment period is less than 2 years |
| 6 | Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type | 3,071 | Aug-03 | Balanced | Nikko Triple Fund (Monthly Dividend) |
| 7 | Global Three Times Triple Fund (Annual Settlement Type) | 1,892 | Oct-18 | Balanced | Global Three Times Triple Fund (Annual) |
| 8 | Global Fintech Equity Fund | 1,522 | Dec-16 | Foreign equity | Global Fintech |
| 9 | Nikko Developed Countries High Yielding Bond Open (Monthly Dividend Payment Type) | 744 | Aug-03 | Foreign bond | Developed Countries High Yielding Bond Open (Monthly Dividend) |
| 10 | Zipangu Corporate Bond Fund | 736 | Jul-19 | Foreign bond | Zipangu Corporate Bond |

1.7. Risk/return features of Nikko AM's key funds (Principles for Customer-Oriented Business Conduct principle2 & [Note])

Risk/return profile of major funds in past three years (as of March-end 2022)



1.8. Sharpe ratios of major funds (As of March-end 2022) (Principles for Customer-Oriented Business Conduct principle2 & [Note])

| | Fund name | Mar-22 AUM (JPY 100M) | Launch date | past 1 year | | | past 3 years | | |
|----|---|--------------------------------|-------------|------------------------------------|----------------------------|------------------------|------------------------------------|----------------------------|------------------------|
| | | | | A Excess Return (Annualized) | B Standard Deviation | A/B Sharpe Ratio | A Excess Return (Annualized) | B Standard Deviation | A/B Sharpe Ratio |
| 1 | Global Prospective Fund | 5,072 | Jun-19 | -32.52% | 40.05% | -0.81 | — | — | — |
| 2 | Global Robotics Equity Fund (Semi-annual Settlement Type) | 4,156 | Aug-15 | 11.87% | 18.07% | 0.66 | 22.12% | 20.33% | 1.09 |
| 3 | Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type) | 3,406 | Mar-04 | 30.30% | 15.85% | 1.91 | 12.77% | 20.34% | 0.63 |
| 4 | Smart Five (Monthly Settlement Type) | 3,372 | Jul-13 | 3.78% | 4.57% | 0.83 | 2.86% | 4.97% | 0.58 |
| 5 | Digital Transformation Equity Fund | 3,203 | Jul-20 | -38.10% | 36.04% | -1.06 | — | — | — |
| 6 | Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type | 3,071 | Aug-03 | -3.35% | 6.73% | -0.50 | 4.76% | 9.91% | 0.48 |
| 7 | Global Three Times Triple Fund (Annual Settlement Type) | 1,892 | Oct-18 | 2.78% | 12.71% | 0.22 | 10.02% | 15.50% | 0.65 |
| 8 | Global Fintech Equity Fund | 1,522 | Dec-16 | -34.29% | 35.80% | -0.96 | 16.87% | 31.55% | 0.53 |
| 9 | Nikko Developed Countries High Yielding Bond Open (Monthly Dividend Payment Type) | 744 | Aug-03 | 3.82% | 9.72% | 0.39 | 3.60% | 7.46% | 0.48 |
| 10 | Zipangu Corporate Bond Fund | 736 | Jul-19 | 0.18% | 2.27% | 0.08 | — | — | — |

1.9. Investor returns of major funds (periods since launch) (Principles for Customer-Oriented Business Conduct principle2 & [Note])

| | Fund name | Investor Return (Annualized) | NAV Return (Annualized) |
|----|---|------------------------------|-------------------------|
| 1 | Global Prospective Fund | 11.60% | 17.86% |
| 2 | Global Robotics Equity Fund (Semi-annual Settlement Type) | 13.50% | 15.94% |
| 3 | Nikko LaSalle Global REIT Fund (Monthly Dividend Payment Type) | 9.71% | 6.10% |
| 4 | Smart Five (Monthly Settlement Type) | 3.23% | 3.73% |
| 5 | Digital Transformation Equity Fund | -18.26% | -11.68% |
| 6 | Nikko Triple Fund (Property Bond Equity) Monthly Dividend Payment Type | 1.34% | 4.83% |
| 7 | Global Three Times Triple Fund (Annual Settlement Type) | 7.49% | 11.73% |
| 8 | Global Fintech Equity Fund | 16.29% | 16.96% |
| 9 | Nikko Developed Countries High Yielding Bond Open (Monthly Dividend Payment Type) | 3.39% | 3.91% |
| 10 | Zipangu Corporate Bond Fund | -1.24% | 1.24% |

nikko am ※Please note that the rate of increase / decrease in NAV is theoretically calculated assuming dividend (before tax) was reinvested.

1.10. Fee transparency (Principles for Customer-Oriented Business Conduct Principle 4)

Given that we develop funds, we are naturally obligated to provide clients with detailed and easy-to-understand explanations of fees and other such costs. At Nikko AM, we provide this information in delivery prospectuses to enable clients to compare our many publicly offered funds. In some cases, we also include figures such as the amount of fees payable for each JPY 1 million purchase in sales materials for distributors to enable them to provide more detailed explanations to retail clients. Furthermore, our investment reports include details of costs per unit and total expense ratios. In August 2021, we also started ensuring linkage between the information we provide on costs and other such figures with the contents of important information sheets created and disclosed by distributors. This demonstrates our ongoing commitment to ensuring that individual clients receive accurate information that is easy for them to understand. Fund-specific details of our activities to address Principle 4 can be found on our website.

1.11. Easy-to-understand provision of important information to clients (Principles for Customer-Oriented Business Conduct Principle 5 & [Note 1])

As a developer of funds, Nikko AM discloses information on product risks, product characteristics, target market trends, and costs such as fees for each of its funds in distributor materials and prospectuses. Based on our belief that ongoing follow-up work after making a sale is an important responsibility of fund developers, we also provide information on matters including trends in target markets and their impact on funds in materials such as spot reports, videos and dedicated websites using simple expressions, pictures and charts. We obtain this kind of information on market trends and product attributes directly from investment managers (including investment advisors) and believe that it is important to disclose negative information as well as positive news to clients if we deem it important. Fund-specific details of our activities to address Principle 5 can be found on our website.

1.12. Provision of suitable services to clients (Principles for Customer-Oriented Business Conduct Principle 6 & [Note 3])

Since 2021, we have been identifying the target client types for each of our publicly offered funds based on product risks and client risk tolerance levels. We have also developed a framework for coordinating the information we disclose with the information provided by the distributors of each fund. Please contact distributors of Nikko AM's funds for details.

1.13. Information provision under Nikko AM Fund Academy brand

| Main investment information sources provided as series | Frequency | Additional information |
|--|--------------|------------------------|
| Rakuyomi | Twice weekly | 110 released in 2021 |
| Koyomi | Monthly | |
| Gokuyomi | Monthly | |
| Market 5 Minutes | Monthly | |
| Weekly Market | Weekly | |
| Data Watch | Weekly | |
| Follow-up Memo | Irregular | 3 released in 2021 |
| Global REIT Weekly | Weekly | |
| Monthly Market | Monthly | |
| JAPAN in Motion | Monthly | |
| GLOBAL EQUITY OVERVIEW | Quarterly | |
| Nikko AM Newsletter | Irregular | 3 released in 2021 |
| CHINA INSIGHT | Irregular | 13 released in 2021 |
| KAMIYAMA Reports | Irregular | 23 released in 2021 |
| KAMIYAMA Seconds! | Irregular | 49 released in 2021 |
| Why should we invest? | Irregular | 7 released in 2021 |
| Robotics Report | Irregular | 0 released in 2021 |
| FinTech Report | Irregular | 0 released in 2021 |
| What Nikko AM wants you to know about healthy money management | Irregular | 0 released in 2021 |
| Global Foresight | Quarterly | |
| MLP Monthly | Monthly | |

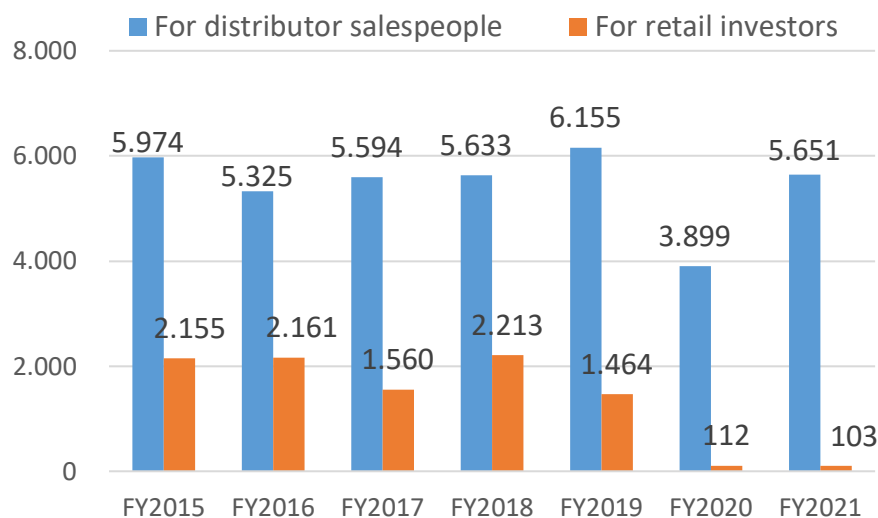
We strive to contribute to the asset building of customers by providing investment information that is as neutral as possible. Under our Fund Academy brand, we provide fund-related knowledge and information that we judge to be essential, not only to retail investors and distributors but also to non-customers. In addition to the titles shown in the table, our website contains videos, e-learning documents, simulation tools and other such information sources.

Fund Academy:
[Nikko AM Fund Academy \(nikkoam.com\)](https://nikkoam.com)

Contents of Fund Academy

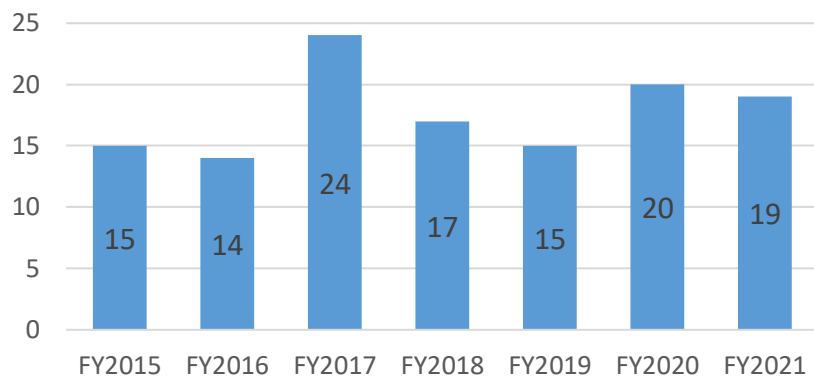
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1.14. Seminars held



We deliver our products via channels including the sales teams of the distributors we work with and the internet. The information we provide to retail investors, as well as our efforts to supply appropriate information and training to salespeople, contribute to the final investment decisions made by individuals. The extensive framework we have in place enables us to hold over 5,000 training sessions for salespeople annually. Even under COVID-19, we have in place enables us to hold over 100 seminars for retail investors.

1.15. Number of fund awards won



We work daily to develop products that serve the interests of our customers. In fiscal year 2021, external assessment institutions have given awards to two of our Japanese equity funds, nine of our foreign equity funds, six of our foreign bond funds and two of our balanced funds, recognizing a total of 19 of our funds.

* Aggregation of awards from R&I Fund Awards, Fund of the Year (Morning Star) and Lipper Fund Awards.

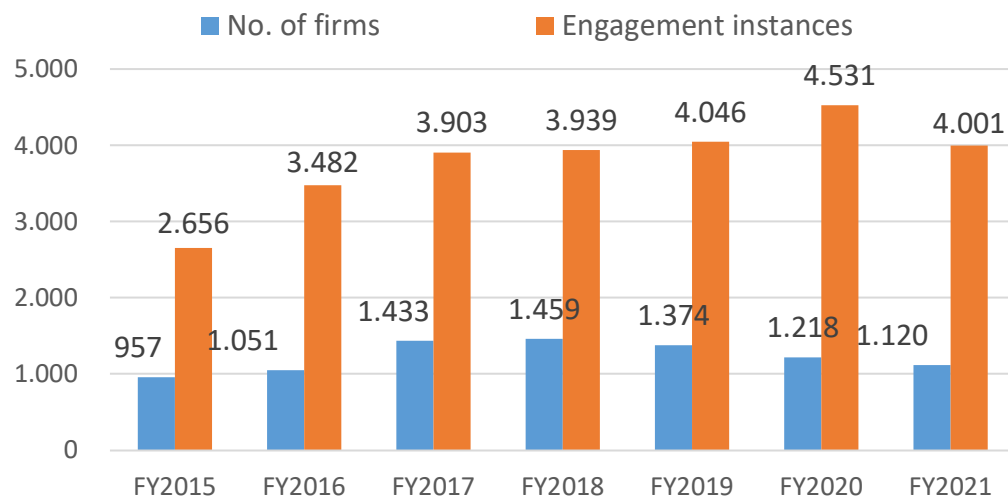
2. Activities for corporate clients

2.1. Stewardship Activities

We believe that engaging (holding constructive, objective-focused dialogue) with investee firms as well as proactively conducting stewardship activities including proxy voting are extremely important aspects of Nikko AM's responsibilities as a fiduciary trusted by its clients. Furthermore, we see ESG matters as an essential concept in fulfilling our fiduciary duty. We therefore incorporate ESG considerations in all areas of our investment management process and conduct assessments of investees' corporate value that include non-financial information in order to stimulate sustainable growth as well as medium- and long-term corporate value improvements. The results of these assessments are also reflected in our investment decisions. In order to spread these initiatives further throughout our overseas network, we have established an ESG Global Steering Committee composed of leaders from our investment management teams in Japan and elsewhere. The committee discusses and considers matters including ESG investment initiatives, ways of realizing them and new approaches to ESG, and works to share ideas on best practice.

Our initiatives and results to date in the above-mentioned areas are as follows.

2.2. Engagement results



* Figures are aggregations of firms listed in Japan

Our fund managers and analysts have always been proactively involved in engagement and proxy voting in order to help firms in which our active strategies invest improve their corporate value. We have worked since 2013 to boost the corporate value of a wide range of firms, including their ESG levels, by starting to assign CSV scores (a way of giving firms comprehensive assessments that include ESG scores). Since then we have assessed over 600 firms with a focus on helping them to achieve sustainable growth and enhance their corporate values in the medium to long term. In March 2017, we launched a body devoted to activities to promote better corporate and shareholder value for Japanese names in which we invest (about 2,200 firms), including in our passive strategies. These initiatives have further improved our ability to engage with firms and exercise our voting rights in order to help maximize the corporate value of firms. In fiscal year 2021 we engaged with 1,120 firms, and in the same period the number of instances of engagement we had was 4,001.

2.3. Voting track record

1. Company-generated proposals (July 2020– June 2021)

| Proposal | | July 2020 - June 2021 | | | |
|---|---|-----------------------|-------|----------|-----------|
| | | Yea | Nay | Subtotal | Nay ratio |
| Proposal on company | Election/dismissal of directors (Reference) Number of companies | 15,848 | 2,316 | 18,164 | 12.8% |
| | Election/dismissal of corporate auditors (Reference) Number of companies | 1,497 | 759 | 2,256 | 33.6% |
| | Selection of accounting auditors | 1,632 | 129 | 1,761 | 7.3% |
| | | 867 | 109 | 976 | 11.2% |
| Proposal on executive remuneration | Executive remuneration | 77 | 0 | 77 | 0.0% |
| | Retirement benefit payments | 875 | 128 | 1,003 | 12.8% |
| | | 24 | 106 | 130 | 81.5% |
| Proposal on capital policy (Except proposals concerning the articles of incorporation) | Appropriation of surpluses | 1,356 | 93 | 1,449 | 6.4% |
| | Restructuring | 72 | 3 | 75 | 4.0% |
| | Introduction, update, abolition of takeover defense measures | 0 | 54 | 54 | 100.0% |
| | Other proposals on capital policy | 99 | 7 | 106 | 6.6% |
| Partial revision to articles of incorporation | | 507 | 65 | 572 | 11.4% |
| Other | | 0 | 2 | 2 | 100.0% |
| Total | | 20,490 | 2,903 | 23,393 | 12.4% |

Working to enhance companies' sustainable growth and medium- and long-term corporate value through stewardship activities including proxy voting are integral to the execution of fiduciary duties. We have strengthened Nikko AM's own governance in order to meet these responsibilities and established our Stewardship and Voting Rights Policy Oversight Committee in June 2016 as a way of ensuring external transparency. Not only is the committee's chairperson an outside officer, but the majority of its members are from outside Nikko AM, thus ensuring its independence. The committee holds quarterly meetings at which it decides Nikko AM's policy for the exercise of voting rights from a neutral standpoint, monitors our exercise of voting rights as one of its oversight responsibilities, and provides other forms of guidance.

2. Shareholder proposals (July 2020– June 2021)

| Proposal | | July 2020 - June 2021 | | | |
|---|---|-----------------------|-----|----------|-----------|
| | | Yea | Nay | Subtotal | Nay ratio |
| Proposal on company | Election/dismissal of directors (Reference) Number of companies | 0 | 0 | 0 | 0.0% |
| | Election/dismissal of corporate auditors (Reference) Number of companies | 0 | 0 | 0 | 0.0% |
| | Selection of accounting auditors | 0 | 0 | 0 | 0.0% |
| | | 0 | 0 | 0 | 0.0% |
| Proposal on executive remuneration | Executive remuneration | 3 | 63 | 66 | 4.5% |
| | Retirement benefit payments | 0 | 0 | 0 | 0.0% |
| Proposal on capital policy (Except proposals concerning the articles of incorporation) | Appropriation of surpluses | 2 | 0 | 2 | 100.0% |
| | Restructuring | 0 | 0 | 0 | 0.0% |
| | Introduction, update, abolition of takeover defense measures | 0 | 0 | 0 | 0.0% |
| | Other proposals on capital policy | 0 | 2 | 2 | 0.0% |
| Partial revision to articles of incorporation | | 0 | 0 | 0 | 0.0% |
| Other | | 8 | 117 | 125 | 6.4% |
| Total | | 13 | 182 | 195 | 6.7% |

In May 2020, we publicly clarified Nikko AM's near-term policy on exercising voting rights on Japanese equities in light of the COVID-19 pandemic. We also announced initiatives such as our promotion of more flexible proxy voting based on sustainability considerations and our establishment of a contact for addressing inquiries to investee firms in order to have closer engagement with them.

2.4. ESG initiatives as an Institutional Investor

Nikko AM launched Japan’s first SRI (*) fund, the Nikko Eco Fund, in 1999 as a vehicle for investing in companies with superior environmental initiatives. Since then, we have incorporated ESG factors in all our investment management processes based on our view that they contribute to medium- and long-term corporate value. We also continually implement new initiatives aimed at further enhancing our ability to invest responsibly. In addition, we have been including Creating Shared Value (“CSV”; the idea that business solutions to societal issues help to generate both societal and economic value) considerations in our assessments of companies since August 2013, when our analysts started awarding CSV scores to companies based on comprehensive assessments covering ESG factors, market competitiveness and financials. These efforts form the bedrock of our ESG integration. At present, we have assigned CSV ratings with a medium- and long-term focus to 620 companies listed on the Tokyo Stock Exchange. Our analysts closely engage with the companies covered and work to enhance their corporate value, including ESG elements, and our track record of conducting CSV assessments and using them in our engagement now spans more than eight years. In addition, our Active Ownership Group (“AOG”) double checks our ability to include ESG factors in our CSV assessments from its perspective as an internal body responsible for ESG-focused stewardship.

* Socially Responsible Investment (“SRI”) is an approach to investing in firms that takes into account assessments of investees’ environmental and social initiatives (responsibilities and contributions) in addition to traditional investment criteria (firms’ economic strengths).

Principles of Responsible Investing (PRI)

| | 2020 | 2019 | 2018 |
|---|---------------------------|------|------|
| Strategy and governance | A+ | A+ | A+ |
| Listed stocks – initiatives on ESG issues | A+ | A+ | A+ |
| Listed stocks – active ownership | Engagement | A+ | A+ |
| | Exercise of voting rights | A+ | A+ |
| Fixed income – Government Bond etc. | A+ | A+ | A+ |
| Corporate Fixed income – Financial | A+ | A+ | A+ |
| Corporate Fixed income – Non-financial | A+ | A+ | A+ |

Funds focused on Socially Responsible Investing (SRI)

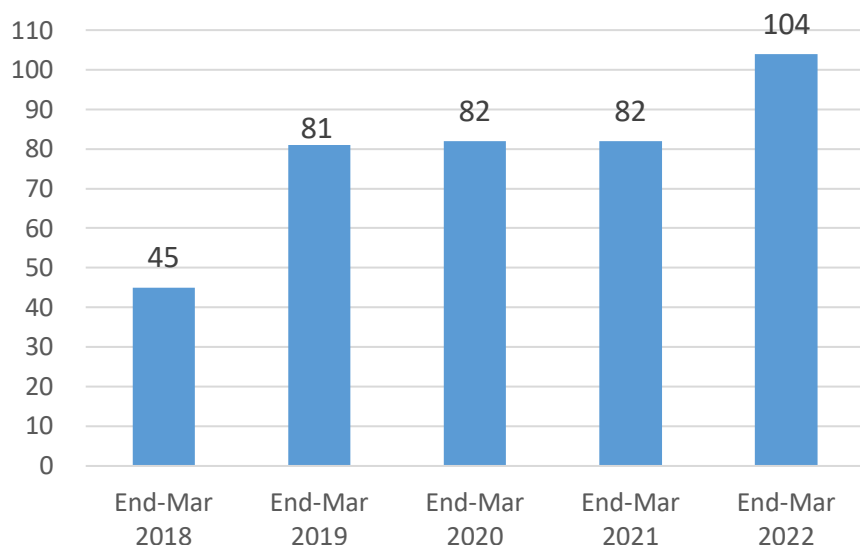
| Fund name | AUM (JPY 100M) |
|---|----------------|
| Nikko Eco Fund , Nikko DC Eco Fund | 83 |
| SMBC Nikko World Bank Bond Fund , World Bank Green Bond Fund | 32 |
| Listed Index Fund Nikkei ESG REIT | 248 |
| Listed Index Fund Japanese Economy Contributor Stocks | 31 |
| DC Global Equity Best Selection Investment Fund , Global Equity Top Focus | 3 |
| China Decarbonization Innovation Equity Fund | 16 |
| Global Hydrogen Equity Fund | 328 |
| Global Exponential Innovation Fund | 4,007 |

* AUMs are as of March-end 2022. * Open-end, publicly offered funds.

We have been a signatory to the United Nations’ Principles for Responsible Investment (PRI) since 2007. Our pioneering approach as an investment manager demonstrates our commitment to contributing to medium- and long-term corporate value and sustainable responsible investment. We have consistently been awarded the top assessment level (A+, out of six levels from A+ to E) for the main assessment items, including our approach to responsible investment. In the 2020 Assessment Report, we received the top score of A+ for strategy and governance, which is an assessment of firms’ company-wide ESG capabilities, and all items regarding in-house management. It was the seventh straight year for us to achieve the top level for strategy and governance. In annual PRI assessments, the PRI secretariat assesses the extent to which signatory institutional investors are practicing responsible investment. One of six assessment levels (A+, A, B, C, D or E) is then awarded, with A+ being the highest assessment. The release of the PRI’s FY2021 annual report has been postponed.

Since launching a body specialized in this area in March 2017, we have expanded the number of firms whose ESG we research from the previous number of about 950 (active strategy investment universes) to 2,200 by adding firms in which our passive strategies invest to the scope of our research.

(Other references) Number of accounts utilizing risk management tool for institutional investors



Our starting point for institutional investors is to find out our customers' needs, and to work hard to meet those needs. In our sales activities, we then propose products in line with each customer's level of risk tolerance. As a part of these efforts, in December 2017 we launched a tool and used it to start providing support to help our corporate investor customers improve their risk management. As of March-end 2022, the support tool was being used for 104 accounts.

3. Appropriate management of conflicts of interest (Principles for Customer-Oriented Business Conduct Principle 3 & [Note])

Nikko AM's Conflict of Interest Control Policy sets out its approach to conflicts of interest as an asset manager. We impose strict controls on transactions with potential conflicts of interest to prevent unfair harm to client interests based on the policy. Given that proxy voting is identified in our internal regulations as a form of transaction in which influence is exercised, we take a particularly intensive approach to controlling our proxy voting activities to ensure that they do not unfairly compromise client interests. Controls on conflicts of interest in our stewardship activities are discussed based on the principle of putting client interests first by our Stewardship and Voting Rights Policy Oversight Committee, whose membership mainly consists of outside directors including its chair.

4. ESG Initiatives as a Firm

As an asset manager engaged in ESG initiatives directed at investee companies, we also believe in the importance of implementing our own ESG activities as a firm.

4.1 Governance

Our role as an asset manager is not only to seek improvements in the governance of investee companies but to continuously ensure that our own governance is at a world-class level. To achieve this, we work on the three governance areas shown below.

4.1.1 Management governance

Our governance framework is distinctive in the Japanese asset management industry for its extremely high levels of independence and transparency. Specifically, our Board of Directors is chaired by an outside director, and as of March-end 2022, 6 of its 8 members are outside directors, five of whom are independent directors with no capital relationship with Nikko AM.

In June 2019, we transformed Nikko AM into a company with an Audit and Supervisory Board in order to strengthen the auditing and supervision of our Board of Directors, to further enhance our corporate governance framework and to boost our corporate value. The transition has enabled us to incorporate monitoring-board-style governance in our management, to separate management monitoring from business execution more clearly, and to speed up management decision-making. Furthermore, in July 2021, the Nomination and Corporate Governance Committee, an advisory committee to the Board of Directors, was reorganized as the Nomination Committee to establish a future-oriented and sustainable management structure to realize our vision of placing the highest priority on client interests and strengthening management capabilities as a global asset management company. Specifically, the committee is led by an independent outside director, and the committee has established a system to carefully discuss management personnel who will lead the Company from various perspectives.

4.1.2 Voting rights governance

We established the Stewardship and Voting Rights Policy Oversight Committee in June 2016 as a way of improving transparency in our stewardship activities such as engaging with firms and exercising voting rights as well as strengthening our governance. Drawing the majority of its members from outside the company, the committee is the first such third-party body to be established at a Japanese asset management company. It holds meetings once a quarter in principle and provides a venue for outside committee members to have lively discussions on how Nikko AM exercises its voting rights. The committee has held a total of 30 meetings so far (six meetings in FY2021). Please refer to [the Appendix \(PDF\)](#) for details of its activities.

4.1.3 Fund governance

We established the Fund Advisory Board, whose members are also mostly from outside Nikko AM, in September 2017. The Fund Advisory Board meets every quarter in principle. The board has met a total of ten times so far and its outside members The board has met a total of fourteen times so far and its outside members participate in debates at its meetings (three meetings in FY2021). Please refer to [the Appendix \(PDF\)](#) for details of its activities.

4.1.4 Appropriate frameworks for motivating employees (Principles for Customer-Oriented Business Conduct Principle 7 & [Note])

As of FY2021 we enhanced our employee evaluation process by adding efforts to pursue best practice and make improvements (as well as simple compliance with laws, regulations and internal rules, consideration of whether employees have operated appropriately in the interests of clients and stakeholders and have consistently worked to make improvements) as an assessment criterion for all employees. We also introduced a mechanism by which employees' final evaluations are deemed not to meet the required standard if they are found to have any compliance areas that need to be improved, regardless of other evaluation items. We will continue working to ensure that our employees correctly understand these performance criteria.

4.2. Environmental

We are committed to contributing to the sustainability of the environment by reducing our greenhouse gas emissions, creating environmentally friendly workplaces and implementing employee-led environmental initiatives. Considering Nikko AM's status as an asset manager that has agreed to the Task Force on Climate-related Financial Disclosures ("TCFD"), we also understand the importance of promoting awareness of climate change and other such environmental issues in our investment and business activities. We have been conducting climate change-related disclosures through our annual [TCFD Report](#) since 2018.

In 2021, we renewed our [Environmental Policy](#) regarding Nikko AM's environmental approach in its business operations by expanding its content and extending its coverage beyond the areas that currently attract the most attention. We regard our setting of a group-wide target for reducing greenhouse gas emissions (including overseas offices) as a particularly important effort in this area. Specifically, we are aiming to reduce our firm-wide greenhouse gas emissions per employee by 40% from the 2019 figure by 2030. (Note) The target is based on a measurement of Nikko AM's greenhouse gas emissions coupled with an offsetting process that we established ourselves. For several years, we have been aggregating data on Nikko AM's energy usage and business travel, and having external consultants convert the figures into equivalent greenhouse gas emission figures. These actions demonstrate our ongoing commitment to contributing to environmental sustainability through efforts including the creation of environmentally friendly workplaces, the implementation of employee-led environmental initiatives, and reductions in greenhouse gas emissions.

Breakdown of Nikko Asset Management Group Carbon Footprint

| NAM Group Carbon Footprint | 2019 | 2020 | % change on previous year |
|-------------------------------------|----------|----------|---------------------------|
| Total Tonnes CO2 Emissions | 5,906.90 | 1,822.80 | -69.1% |
| Tonnes of CO2 / Employee | 6.36 | 2.10 | -66.9% |
| Tonnes of CO2 / JPY Billion Revenue | 58.43 | 15.74 | -73.1% |

*2019 data: all employees of Nikko AM Group (As of 1 Jan 2020)

*2020 data: full time employees and permanent employees of Nikko AM Group (As of 31 Dec 2020)

We offset our calculated greenhouse gas emission figures by purchasing carbon credits through a certified project. Our plan is to develop this initiative further by working to minimise Nikko AM's carbon footprint (i.e., its greenhouse gas emissions) and only offsetting emissions for which a reduction is not possible. Our efforts will be focused on the two areas that account for most of Nikko AM's carbon footprint: emissions from energy usage in our office buildings and from business travel.

In order to deepen our employees' understanding of environmental issues, we have been operating our Environmental Working Group, in which employees can voluntarily participate, since 2019. The working group discusses themes of interest to Nikko AM and works to improve employee awareness by inviting external experts to deliver talks for online events that are open to all employees.

4.3. Social

We strive to enhance social causes, both within the company by supporting a diverse and inclusive environment, and outside of the company through hands-on initiatives and charitable donations.

◆ Establishment of Global D&I Policy

We established our Global D&I Policy in 2021 in order to nourish a culture of diversity and inclusion among employees and underscore Nikko AM's commitment to maintaining that culture. The policy expresses our commitment to strengthening our organization by developing a sound work environment in which all employees can contribute based on their differences. In addition to ensuring that our corporate culture promotes respect for diversity, we will continue to contribute to the furthering of social causes through other efforts including external charitable activities and donations. We are involved in addressing societal issues from a range of perspectives as part of our efforts to increase our employees' awareness of diversity and inclusion, from acting as a venue for transformation to taking the lead in initiatives.

◆ Increase in ratio of female managers

We recently stepped up our efforts to enable women to thrive at Nikko AM by setting a new target of raising the ratio of female managers throughout the Nikko AM Group, including overseas offices, to 30% by 2030. Clarifying our target for females in managerial positions is intended to enhance the transparency of disclosures on our progress in this area, further expand our efforts to promote career progression for women, and further improve our employees' diversity awareness.

◆ Sustainability Working Group activities

Nikko AM counts the Sustainability Working Group among its internal meeting bodies. The working group, in which employee participation is voluntary, discusses sustainability issues and launches bottom-up sustainability initiatives. In the area of diversity and inclusion, the group addresses matters related to women, people with disabilities, the LGBT community and racial equality. It works with departments such as the Human Resources Department and the General Affairs Department to ensure that as many kinds of employees as possible can thrive at Nikko AM.

◆ Donations and support activities for charitable organisations

We also support organizations and participate in charitable activities that help to address a variety of societal issues. Employees can directly contribute portions of their monthly wages to charitable causes through our Employee Charity Program, in which the company matches their contributions. Given that we have also considered and provided one-off donations for aid and humanitarian assistance following major disasters, our track record of charitable activities is wide ranging and extends beyond Japan.

Please refer to Nikko AM's [2022 Sustainability Report](#) for more information on our environmental and social initiatives.

In conclusion

Throughout the many changes we have experienced—including changes in the business environment, technological innovations, and growth in financial products—we have consistently striven to act in the best interests of our customers. We strongly believe that continuing to do so is our mission as a firm.

The emergence and global spread of COVID-19 made recent years in which society as a whole and all of our lifestyles went through great changes, and we were forced to transform the way we think about many different aspects of life. We are sure that all of us—including our clients—will continue to face a challenging environment going forward. At Nikko AM, we have been given an even keener awareness of the importance of adapting to different environments by continuing to give clients ways to carry on building their assets as well as enabling them to continue investing for their long-term goals regardless of short-term turmoil in the market.

We will continue to ensure that Nikko AM earns the trust of customers and attracts praise for its performance by fostering investment management innovation, developing products that fully serve the interests of customers, and strengthening our corporate governance.