

ESG'S EMERGENCE AS A PRINCIPAL THEME IN ASIA

Rapid growth and wealth expansion – performance opportunity

Earth's largest single geographic region, Asia represents approximately 60% of the planet's population and is one of its fastest growing economic areas. The region had more billionaires in 2017 than anywhere else and it will represent 57% of middle-class consumption by 2030.

Asia holds opportunity as both a destination for strong investment returns and a local source to grow assets managed. Assets for managers in Asia grew 17% in 2017, higher than the rates seen for that by firms in Europe (including the UK) and in North America. Further, Asia (ex-Japan) equities experienced their best performance ever in 2017.

Global citizen with Asian DNA

Despite this, it has been perceived as relatively opaque by investors from many other parts of the world, due to its diversity, size and differing levels of development and growth.

Nikko AM recognises the opportunity here in serving its clients, as it has called Asia home for nearly 60 years, with representation across nine markets worldwide. The Firm holds a fundamental commitment to the highest levels of ESG standards both in the way it manages itself and in approaching the businesses it invests in on behalf of its clients. In so doing, it introduces added transparency and by extension, investment opportunity.

Progressive solutions

The Firm was an early signatory to the Principles for Responsible Investment (PRI) and its ESG Committee on the investment team is focused on ensuring sustainable and ethical practices at its invested companies.

Nikko AM launched a Corporate Sustainability Department in September 2018, tasked to monitor and report on these stringent ESG standards in its investment processes. The Department also manages the Firm's own internal commitments in the ESG space.

Environmental – Nikko AM is proud to be the first asset manager headquartered in Asia to support efforts to address the four areas of The Investor Agenda. This encourages asset owners and managers to act to help keep the global temperature rise below 2 degrees Celsius, while calling for government implementation of the Paris Agreement. It does

this through investor disclosure, corporate engagement, policy advocacy and investment. Nikko AM has also joined the Asia Investor Group on Climate Change (AIGCC), to collaborate with its peers on climate change considerations, particularly in Asia.

Social – The Firm has teamed with Japan for UNHCR, a national partner of the UN Refugee Agency, whereby Nikko AM globally supports funding for school supplies and textbooks, access to schools, and extracurricular and classroom facilities through the UNHCR Educate A Child (EAC) programme. This aims to help address the global crisis regarding displaced people.

The Firm also supports local grass roots charitable giving and volunteering, designed to respond to the greatest need identified by employees specific to each of its markets. In addition, Nikko AM contributes to earthquake and other disaster relief efforts by donating a portion of fund management fees and soliciting donations from staff.

Also committed to diversity, the Firm represents 30 nationalities across its nine markets, and has robust support mechanisms in place – including a full half of employees in Japan taking advantage of flex time. It operates a Diversity & Inclusion Programme, encompassing working groups focused on women, LGBT, and disability, populated by employee volunteers engaged in raising awareness and promoting engagement to address the challenges that these groups face.

Governance – With regards to perceptions of opacity, governance is among the most important areas of focus in looking to invest in Asia, and Nikko AM has been at the forefront of best practices in how it manages itself and in the way it approaches its invested companies.

Asset managers in Japan, historically relatively hands-off, have been a focus for Prime Minister Shinzo Abe, who introduced the stewardship code in 2014. He pushed for them to press firms to improve profitability and invest excess cash, or return it to investors. This was followed in 2015 by the corporate governance code, a set of principles for companies themselves to follow.

With this, the nation's money managers are changing, and Nikko AM is at the forefront. The Firm exercises its voting rights to fulfil its fiduciary responsibilities to its clients and engages closely with the companies in which it invests, to encourage governance improvements that enhance shareholder value.

Nikko AM had more than 3,700 interactions with executives at the Japanese firms in which it invests in fiscal 2017 to push for better corporate governance. That compares with 2,100 during the year ended March 2014. It also strengthened its research team, which takes charge of engagement – 30 research analysts, along with the company's fund managers, use investor relations calls and one-on-one meetings to press invested companies to change. Nikko AM votes against any proposals that weaken shareholders' rights, for example rejecting proposals to appoint non-executive directors if they don't have sufficient independence from the company.

In further support of best practice in the industry and prioritising client interests, the Firm worked closely with Bloomberg to make its portfolio and risk analytics platform available to institutional clients and other asset managers in Japan – including Nikko AM's competitors. Particularly valuable to Japanese regional banks, which previously had limited capacity for internal risk management, the platform provides better clarity on portfolios, analysis of positions, and provision of key data.

Aiming to act as a role model, Nikko AM also stands by stringent requirements with regards to its own governance. It has long maintained an independent board, five of the 10 of whom are non-executive directors, with a significant proportion non-Japanese and/or female, in keeping with a dedication to diversity.

A compelling opportunity

Nikko AM is leading the effort to promote ESG to maximise investment returns, focused on the Asia region. It does this through adherence to stringent ESG standards in investing and in acting as a role model through its internal ESG commitments, for a fundamental focus on performance delivered through progressive solutions, as a global asset manager with its roots in the dynamic and fast growing Asia Pacific region.

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