

# **Sustainability-related disclosures**

Nomura Funds Ireland – Global High Conviction Fund (the “Sub-Fund”)

## **Introduction**

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) requires that firms publish information on environmental or social characteristics that their products promote (for Article 8 products) and on sustainable investment objectives that their products pursue (for Article 9 products), together with information on the methodologies used to assess, measure and monitor them.

**Nomura Asset Management U.K. Limited (“NAM UK”)** is the investment manager of the Sub-Fund.

## **Summary**

The Sub-Fund is an actively managed portfolio that will invest primarily in equity and equity-related securities listed or traded on a recognised exchange in the country universe of the MSCI All Country World Index (the “Index”). The Sub-Fund promotes contribution to reduction of greenhouse gas (GHG) emissions and sustainable, fair and inclusive business practices as its environmental and social characteristics. The Sub-Fund will particularly focus on the areas covered by the following six “Impact Goals”:

1. Mitigate Climate Change
2. Mitigate Natural Capital Depletion
3. Eliminate Communicable Disease
4. Mitigate the Obesity Epidemic
5. Global Access to Basic Financial Services
6. Global Access to Clean Drinking Water

While the Sub-Fund promotes GHG emission reduction as its environmental characteristic, investors should be aware that this product does not have reduction of carbon emissions as its objective within the meaning of Article 9(3) of SFDR.

NAM UK implements the strategies of 1) proprietary ESG ratings, 2) exclusions, and 3) ESG Metrics to promote environmental and social characteristics of the Sub-Fund.

- 1) Proprietary ESG ratings: NAM UK implements a proprietary assessment tool to assess ESG metrics such as energy use, GHG emissions, sustainable sourcing, human rights, labour relations and diversity (“ESG Metrics”) of all the stakeholders to the investee company. The potential ratings range from “No Issues” to “Uninvestible”. NAM UK will be precluded from investing in companies that are rated “Uninvestible”.
- 2) Exclusions in relation to the following areas:
  - Thermal coal
  - Power generation
  - Nuclear weapons
  - Controversial weapons
  - UN Global Compact principles (UNGIC) and Organisation for Economic Cooperation and Development Guidelines for Multinational Enterprises (OECD Guidelines)
- 3) ESG Metrics: In comparing two otherwise similar investments opportunities (e.g. similar sector, product, service and valuation), NAM UK will be obliged to select the investment that has a greater positive impact on the six Impact Goals as measured by ESG Metrics.

NAM UK has set a binding obligation to make a thorough assessment of the governance practices of the investee companies (including sound management structures, employee relations, remuneration of staff and tax compliance).

In addition to the elements outlined above, the Sub-Fund considers certain principal adverse impacts (“PAI”) indicators within its investment process.

To monitor adherence to the environmental and social characteristics of the Sub-Fund, NAM UK monitors sustainability indicators. Compliance with the exclusions above is ensured through pre-trade monitoring and post-trade checks. NAM UK also uses an internal oversight platform to monitor alignment with the environmental and social characteristics of the Sub-Fund within its periodic review.

NAM UK utilises data and analysis from various sources including but not limited to investee companies, third-party data providers and industry reports. NAM UK seeks to use reliable and actual data but where availability of such data is limited, it will also utilise estimates provided by data providers and other sources.

NAM UK may engage proactively with issuers with weaker characteristics in various ESG topics. Such engagement activities may include direct dialogue with company management, such as through in-person meetings, phone calls, electronic communications /and letters or collaborative actions taken with external stakeholders. Should engagement be unsuccessful, NAM UK takes appropriate investment decisions dependent on the severity of the sustainability controversy or issue. NAM UK may also engage with investee companies to enhance its understanding on investee companies and encourage them to improve their disclosure on sustainability related information.

The Sub-Fund uses the Index in the way that the PAI of the Sub-Fund are compared against the PAI of the Index, with the aim being to limit such portfolio average adverse impacts (weighted average adverse impacts of the companies held by the Sub-Fund) to be lower than that of the Index. The Index is not used for the purpose of determining the attainment of the environmental and social characteristics promoted by the Sub-Fund.

## **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

The Sub-Fund does not commit to making sustainable investments.

## **Environmental or social characteristics of the financial product**

The Sub-Fund promotes contribution to reduction of GHG emissions and sustainable, fair and inclusive business practices as its environmental and social characteristics. The Sub-Fund will particularly focus on the areas covered by the following six “Impact Goals”:

1. Mitigate Climate Change
2. Mitigate Natural Capital Depletion
3. Eliminate Communicable Disease
4. Mitigate the Obesity Epidemic
5. Global Access to Basic Financial Services
6. Global Access to Clean Drinking Water

In order to promote environmental and/or social characteristics described above, NAM UK will focus on the following environmental and social characteristics of the investee company (dependent on the type of company under review), including but not limited to the following:

- The use of energy and/or GHG emissions, including any targets the company may have set and progress towards those targets.
- The sustainability of sourcing and consumption of raw materials, for example, deforestation issues and water consumption.
- The ethical pricing of medicines and the provision of medicines to low income countries at affordable prices.
- The treatment of employees, including diversity (e.g. gender), customers (e.g. fair pricing and treatment) and suppliers (e.g. avoiding coercive sourcing practices).
- The adherence to societal norms such as anti-bribery, anti-child or other forced labour and appropriate treatment of local communities, including within their supply chain.

While the Sub-Fund promotes GHG emission reduction as its environmental characteristic, investors should be aware that this product does not have reduction of carbon emissions as its objective within the meaning of Article 9(3) of SFDR.

## **Investment Strategy**

### ***What investment strategy does this financial product use to meet the environmental or social characteristics promoted by the financial product?***

The Sub-Fund is an actively managed portfolio that will invest primarily in equity and equity-related securities listed or traded on a recognised exchange in the country universe of the Index.

The Sub-Fund utilises a combination of various screening tools and judgemental assessment in selecting securities for its highly concentrated portfolio. The investment strategy particularly focuses on detailed analysis of company fundamentals such as revenue, operating profit, capital expenditure and estimated intrinsic value of companies.

Further information on the investment objective, policy and investment strategy of the Sub-Fund, including the asset classes in which the Sub-Fund may invest, is detailed in the Supplement for this Sub-Fund and should be read in conjunction with and in the context of its Annex.

To attain the environmental and social characteristics promoted by the Sub-Fund, NAM UK integrates ESG considerations in the strategy in the following manner; i) proprietary ESG ratings, ii) exclusions, and iii) ESG Metrics.

#### i) Proprietary ESG ratings

NAM UK will assign a proprietary ESG rating in respect of each potential issuer. NAM UK will implement a proprietary assessment tool to assess ESG metrics such as energy use, GHG emissions, sustainable sourcing, human rights, labour relations and diversity (“ESG Metrics”) of all the stakeholders to the investee company. The potential ratings range from “No Issues” to “Uninvestible”. NAM UK will assign “Uninvestible” rating to approximately 100 worst performing companies in terms of ESG impact based on the aforementioned tool. NAM UK will subsequently apply a judgemental assessment to identify any inconsistency or anomalous inclusions to have the final list of “Uninvestible” companies. NAM UK will be precluded from investing in companies that are rated “Uninvestible”.

In assigning ESG ratings, NAM UK will utilise data from external data providers (“Data Providers”), such as MSCI ESG, ISS ESG and Sustainalytics and various third party Non-Governmental Organisations (NGOs) such as NGOs whose mission is relevant to the company in question, as well as data from other sources (such as company reports, industry reports and other third party research reports).

#### ii) Exclusions

Exclusions are assessed at time of purchase. NAMUK will monitor the Sub-Fund’s portfolio against these exclusions on an ongoing basis and take necessary actions where required.

- Thermal coal: Exclusion of companies that derive more than 50% of the company’s revenue from production and distribution of thermal coal.
- Power generation: Exclusion of power generators that have coal capacity higher than 75% in their generation mix.
- Nuclear weapons: Exclusion of companies that derive more than 7.5% of the company’s revenue from production of nuclear weapons.
- Controversial weapons: Exclusion of companies involved with controversial weapons, including anti-personnel mines, cluster munitions, chemical weapons, and biological weapons.
- Exclusion of companies that NAM UK deems to be in violation of the UNGC and OECD Guidelines.

#### iii) ESG Metrics

NAM UK will use its research and analysis capabilities to consider the impact an investee company has or will have on the achievement of the Impact Goals by focusing on ESG Metrics. In comparing two otherwise similar investments opportunities (e.g. similar sector, product, service and valuation), NAM UK will be obliged to select the investment that has a greater positive impact on the six Impact Goals as measured by ESG Metrics. Therefore, NAM UK will favour companies whose business models have a positive effect on environmental and/or social goals.

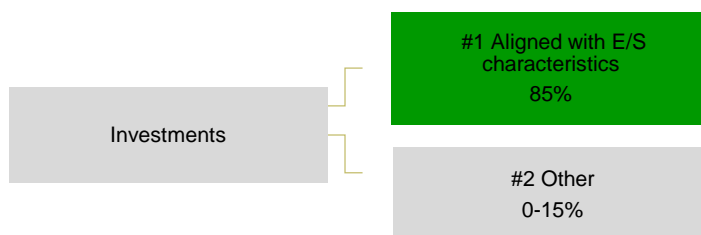
**What is the policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance?**

NAM UK has set a binding obligation to make a thorough assessment of the governance practices of the investee companies (including sound management structures, employee relations, remuneration of staff and tax compliance) and votes any proxies issued by such investee companies taking into account their governance practices.

NAM UK has a proprietary assessment process for the assessment of governance practices of investee companies. Within this assessment, NAM UK will utilise data from Data Providers as well as other sources (such as company publications) which focuses on four primary areas as follows:

1. Environmental, Social and Governance attitude: NAM UK will assess the culture and attitude of the board and management of the investee company towards fair treatment of all stakeholders of the investee company, to include the avoidance of environmental damage and conduct breaches (e.g. bribery). NAM UK also assesses effective governance reaction and remediation steps taken by the investee company in the face of any issues concerning such stakeholders. This assessment may include the use of data from Data Providers, in particular, to identify issues that have occurred in the past or are ongoing.
2. Skill in capital allocation: NAM UK will assess the track record of the management and the board of investee companies in allocating capital to high return investments that will benefit shareholders and other stakeholders in the long term. NAM UK believes that inappropriate capital allocation is indicative of poor corporate governance.
3. Skill in operational management: NAM UK will assess the track record and likely capability of the management and the board of investee companies in optimising the operations of an investee company.
4. Remuneration policy: NAM UK believes that the nature of the management reward policy, set by the investee company board, is likely to drive behaviour. As such, NAM UK will evaluate the acceptability of the remuneration structure in detail.

**Proportion of investments**



NAM UK commits to invest a minimum of 85% of the Sub-Fund's assets in investments which are aligned with the environmental and/or social characteristics being promoted, which will be obtained through direct exposure to investee companies.

**Monitoring of environmental or social characteristics**

**How are the environmental or social characteristics promoted by the financial product and the sustainability indicators used to measure the attainment of each of those environmental or**

***social characteristics promoted by the financial product monitored throughout the lifecycle of the financial product and what are the related internal or external control mechanisms?***

NAM UK will use the sustainability indicators to measure the attainment of the environmental and social characteristics. The sustainability indicators will include but not limited to:

Contribution to reduction of GHG emissions:

- GHG emissions per unit revenue

Sustainable, fair and inclusive business practices, including:

- Management remuneration
- Percent women in on the corporate board
- Compliance with UNGC
- Exposure to controversial weapons

To monitor adherence to the environmental and social characteristics of the Sub-Fund, NAM UK monitors the sustainability indicators, as above. Compliance with the exclusions above is ensured through pre-trade monitoring and post-trade checks. Engagement progress and results are periodically assessed and unsuccessful engagement may lead investments to exclusion.

NAM UK also uses an internal oversight platform which is independent from investment teams to monitor alignment with the environmental and social characteristics of the Sub-Fund within its periodic review.

### **Methodologies for environmental or social characteristics**

***What are the methodologies to measure how the social or environmental characteristics promoted by the financial product are met?***

The methodologies to measure the attainment of the environmental and social characteristics of the Sub-Fund are set out under “Monitoring of environmental or social characteristics” above.

### **Data sources and processing**

The Sub-Fund will utilise the following data sources:

- data provided by investee companies in annual sustainability reports and through engagement directly with the investee company.
- data and analysis from NAM UK’s team of investment professionals and sector analysts.
- data and analysis from external Data Providers, such as MSCI ESG, ISS ESG and Sustainalytics and various third party Non-Governmental Organisations (NGOs).
- data from other sources (such as industry reports and other third party research reports).

NAM UK scrutinises the data quality and coverage of Data Providers on an ongoing basis. This includes, but is not limited to, reviewing the data model, comparing data between providers and evaluating coverage.

Where data is sufficiently available, NAM UK prefers to use primary sources reported by investee companies. For calculation of PAI indicators, NAM UK will utilise data from Data Providers and monitor on an ongoing basis. NAM UK will also combine primary sources, data from Data Providers and other sources in the course of its ESG strategy.

NAM UK seeks to use reliable and actual data but where availability of such data is limited, it will also utilise estimates provided by Data Providers and other sources. In such cases, NAM UK aims to complement such estimates with internal analysis and/or engagement.

### **Limitations to methodologies and data**

***What are limitations to the methodologies or data sources and how do such limitations not affect how the environmental or social characteristics promoted by the financial product are met?***

The primary limitation to the methodology or data source is the lack of corporate disclosure. As is the case with industry peers, NAM UK faces challenges in obtaining adequate and sufficient data on certain PAI and other sustainability related metrics. Where lack of data or data credibility may affect its ability to make informed decisions, NAM UK may resort to options such as using multiple data providers for certain data, having a direct dialogue with investee companies, setting a dedicated engagement plan or taking a decision against holding companies in order to ensure alignment of the Sub-Fund with its environmental and/or social characteristics,

### **Due diligence**

***What due diligence is carried out on the underlying assets of the financial product (including the internal and external controls)?***

Portfolio managers and analysts are primarily responsible for conducting due diligence on investments on a continuous basis to ensure the attainment of the Sub-Fund's environmental and social characteristics through the binding requirements including 1) proprietary ESG ratings, 2) exclusions and ESG Metrics set out above under "Investment Strategy". Portfolio Managers and analysts are also required to make a thorough assessment of the governance practices of investee companies (including sound management structures, employee relations, remuneration of staff and tax compliance). They are supported by NAM UK's aforementioned internal oversight platform where any new investments and material changes to the Sub-Fund's portfolio will be presented and scrutinised on a periodic basis.

### **Engagement policies**

***What is the engagement policy implemented, in the case that engagement is part of the environmental or social investment strategy (including any management procedures applicable to sustainability-related controversies in investee companies)?***

NAM UK may engage proactively with issuers with weaker characteristics in topics such as, but not limited to, human capital management, board composition and environmental impacts management. Such engagement activities may include direct dialogue with company management, such as through in-person meetings, phone calls, electronic communications /and letters or collaborative actions taken with external stakeholders. Should engagement be unsuccessful, NAM UK takes appropriate investment decisions dependent on the severity of the sustainability controversy or issue.

In addition, as mentioned above, the Sub-Fund may also engage with investee companies to enhance NAM UK's understanding on investee companies and encourage them to improve their disclosure on sustainability related information.

### **Designated reference benchmark**

The Sub-Fund uses the Index in the way that the PAI of the Sub-Fund are compared against the PAI of the Index, with the aim being to limit such portfolio average adverse impacts (weighted average adverse impacts of the companies held by the Sub-Fund) to be lower than that of the Index. However,

the Index is not used to define the portfolio composition of the Sub-Fund and is not used for the purpose of determining the attainment of the environmental and social characteristics promoted by the Sub-Fund. The Index is a broad market index and not consistent with the environmental and social characteristics promoted by the Sub-Fund.