

# **Sustainability-related disclosures**

Nomura Funds Ireland – Japan Sustainable Equity Core 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.

**Nomura Asset Management Co., Ltd. (“NAM”)** is the sub-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 that are listed or traded on a recognised exchange in Japan. The sustainable investment objective of the Sub-Fund is to invest in companies with a high overall positive environmental and/or societal impact. The Sub-Fund will mainly focus on the following three UN Sustainable Development Goals (“SDGs”) aligned “Impact Goals”: 1) Mitigate Climate Change, 2) Mitigate Natural Capital Depletion and 3) Promote Good Health and Well-Being.

In order to achieve the sustainable investment objective above, NAM seeks to invest in sustainable investments which contribute to or NAM deems will contribute to solving social or environmental problems and will focus on maximising total stakeholder impact when making investment decisions.

NAM utilises NAM UK’s framework to identify sustainable investments and categorises contribution of sustainable investments to environmental or social objective into i) “direct contribution”, ii) “indirect contribution” and iii) “transition”. NAM implements the strategies of 1) proprietary ESG scores, 2) exclusions and 3) contribution assessment, to identify sustainable investments that meet one or more of these categories.

- 1) Proprietary ESG scores: NAM will assign a proprietary ESG score for each potential issuer. The bottom 20% of the companies in the same industry will be excluded based on the environmental and social risk scores and governance scores. In order to be selected as a candidate, a company must also have at least one of the opportunity scores or SDGs scores higher than the average score of the industry or be deemed to improve its opportunity and/or SDGs scores.
- 2) Exclusions in relation to the following areas:
  - Adult Entertainment
  - Gambling
  - Nuclear weapons
  - Thermal coal
  - Tobacco
  - Controversial weapons
  - UN Global Compact principles (UNGC) and Organisation for Economic Cooperation and Development Guidelines for Multinational Enterprises (OECD Guidelines)
- 3) Contribution assessment: In order to identify sustainable investments, NAM will only invest where there is quantitative and/or qualitative evidence that the company fits into one or more

of the contribution categories above and is aligned with the achievement of the sustainable investment objective of the Sub-Fund.

NAM also assesses and monitors principal adverse impacts (“PAI”) indicators on sustainability factors to ensure that sustainable investments do not cause significant harm to any environmental or social objectives. NAM considers certain PAI indicators, either directly or indirectly, throughout the investment process through certain product-, activity- or conduct-based exclusions, proprietary ESG scores and contribution assessment. Where data is insufficient to make a credible assessment, NAM will resort to qualitative research and issuer engagement.

NAM 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 PAI indicators within its investment process.

To monitor the sustainable investment objective of the Sub-Fund, NAM monitors the sustainability indicators. Compliance with the exclusions above is ensured through pre-trade monitoring and post-trade checks. NAM also uses NAM UK’s oversight platform to monitor alignment with the sustainable investment objective of the Sub-Fund within its periodic review.

NAM utilises data and analysis from various sources including but not limited to investee companies, the in-house team of ESG specialists, third-party data providers and industry reports. NAM 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 has a well-established approach to engagement where engagement cycle is structured, managed and monitored with certain milestones. Each engagement activity is monitored and followed up by a dedicated team. NAM 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 takes appropriate investment decisions dependent on the severity of the sustainability controversy or issue. NAM 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 TOPIX Index (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 sustainable investment objective of the Sub-Fund.

## **No significant harm to the sustainable investment objective**

### ***How are the indicators for adverse impacts on sustainability factors taken into account?***

NAM considers the following PAI indicators, either directly or indirectly, throughout the investment process through certain product-, activity- or conduct-based exclusions, proprietary ESG scores and contribution assessment.

The exclusions include controversial weapons (#14 below), thermal coal (climate-related PAI indicators), and companies deemed to be in violation of the UNGC and OECD Guidelines (#10 below) as further described under “What investment strategy does this financial product use to meet the sustainable investment objective of the financial product?”.

- 1) Greenhouse gas (GHG) emissions (Scope 1 GHG emissions, Scope 2 GHG emissions, Scope 3 GHG emissions and Total GHG emissions)
- 2) Carbon footprint
- 3) GHG intensity of investee companies
- 4) Exposure to companies active in the fossil fuel sector
- 5) Share of non-renewable energy consumption and production
- 6) Energy consumption intensity per high impact climate sector
- 7) Activities negatively affecting biodiversity-sensitive areas
- 8) Emissions to water
- 9) Hazardous waste and radioactive waste ratio
- 10) Violations of UNGC and OECD Guidelines
- 11) Lack of process and compliance mechanisms to monitor compliance with UNGC and OECD Guidelines
- 12) Unadjusted gender pay gap
- 13) Board gender diversity
- 14) Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).

NAM will also take into account other relevant PAI indicators depending on the business activities, behaviours of a company and the availability of data. Where there is no sufficient data to make credible assessment, NAM will resort to qualitative research and issuer engagement.

### ***Are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights?***

Sustainable investments align with the OECD Guidelines and the UN Guiding Principles on Business and Human Rights by excluding companies that NAM deems in violation of UNGC and OECD Guidelines.

## **Sustainable investment objective of the financial product**

The sustainable investment objective of the Sub-Fund is to invest in companies with a high overall positive environmental and/or societal impact. Based on the sustainable investment objective above, the Sub-Fund will mainly focus on the following three SDGs aligned “Impact Goals”:

1. Mitigate Climate Change
2. Mitigate Natural Capital Depletion
3. Promote Good Health and Well-Being

In order to achieve the sustainable investment objective above, NAM seeks to invest in sustainable investments which contribute to or NAM deems will contribute to solving social or environmental problems and will focus on maximising total stakeholder impact when making investment decisions. A company's total impact spans across a broad range of stakeholders (the environment, customers, suppliers, employees, society, and investors) and is both non-monetary and monetary in nature.

## **Investment Strategy**

### ***What investment strategy does this financial product use to meet the sustainable investment objective of the financial product?***

The Sub-Fund is an actively managed portfolio that will invest primarily in equity and equity-related securities that are listed or traded on a recognised exchange in Japan. NAM utilises NAM UK's proprietary framework to identify sustainable investments. Within its framework, NAM categorises contribution to environmental or social objective in the following categories; i) “direct contribution”, ii) “indirect contribution” and iii) “transition”.

#### **i) Direct contribution**

Products and/or services offered by a company inherently contribute to one or more environmental or social objectives or a company is in the process of developing products and/or services that will contribute to one or more environmental or social objectives. In each case, contribution or potential contribution needs to be measured by quantitative or qualitative indicators.

#### **ii) Indirect contribution**

A company that does not necessarily have products or services which contribute to environmental or social objectives but is operating its business in a way that is aligned with one or more environmental or social objective. In each case, contribution needs to be measured by quantitative or qualitative indicators.

#### **iii) Transition**

A company has a credible climate transition plan which is in line with available and/or relevant sectoral pathways, technology roadmaps and/or local taxonomies. For investing in such companies, NAM will be required to assess the risk of carbon lock-in (the risk of an investment delaying or preventing the company's transition to near-zero or net-zero alternatives), whether such company supports a “just transition” (a transition to a more sustainable economy where the benefits are shared widely and fairly, and those who get negatively affected by such transition will be supported), and whether such investment causes significant harm to any environmental and social objectives without relying on the prospect or plans of reducing significant harm in the future.

In order to identify sustainable investments that meet one or more of the categories above, NAM will implement the following strategies; 1) proprietary ESG scores, 2) exclusions and 3) contribution assessment.

## 1) Proprietary ESG scores

NAM will assign a proprietary ESG score for each potential issuer to obtain an investment universe of approximately 300 to 500 large and mid-cap companies. In this process, NAM will utilise analysis provided by its in-house analysts, as well as 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). The proprietary ESG score evaluates over 80 items which are broadly divided into four categories: environmental, social, governance, and SDGs.

As an initial screening, NAM will screen the investment universe at industry level by using the environmental and social risk scores and governance scores within the proprietary ESG score detailed above to exclude those companies with lower total scores. Examples of the items the risk scores will evaluate are the level and extent of disclosures, regulatory and market risks due to climate change, and labour standards in supply chains. As a binding requirement, the bottom 20% of the companies in the same industry will be excluded in order for the Sub-Fund to avoid investing in companies that could negatively affect the attainment of the sustainable investment objective and the Impact Goals.

NAM will then consider the opportunity scores for environmental and/or social factors as well as the SDGs scores within the proprietary ESG assessment to identify those companies that can contribute positively to NAM’s three “Impact Goals”. Opportunity scores will look at companies’ characteristics such as, but not limited to environmental/social strategy, management’s initiatives/leadership and their effectiveness, and ability to deliver on the “Impact Goals”. SDGs scores will evaluate how companies are contributing to delivering on each of the SDGs. In order to be selected as a candidate, a company must have at least one of the opportunity scores or SDGs scores higher than the average score of the industry or be deemed to improve its opportunity scores and/or SDGs scores based on engagement with the relevant company.

NAM may also invest up to 10% of its net asset in companies without proprietary ESG scores provided that the Japanese Stock Selection Committee (JSSC) of NAM determines that the companies have no material ESG risks. For companies without a proprietary ESG score, the JSSC will conduct an independent qualitative analysis by using analysis provided by its in-house analysts and data from Data Providers, NGOs and other sources as above to identify ESG risks and potential. In this process, companies that are identified as having high ESG risks will be excluded from the investable universe.

## 2) Exclusions

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

- Adult Entertainment: Exclusion of companies for which adult entertainment represents more than 10% of the company’s revenue.
- Gambling: Exclusion of companies for which gambling represents more than 20% of the company’s revenue.
- Nuclear weapons: Exclusion of companies for which nuclear weapons represents more than 10% of the company’s revenue.
- Thermal coal: Exclusion of companies that produce thermal coal, or companies for which electricity production from thermal coal represents more than 20% of the company’s revenue.
- Tobacco: Exclusion of companies that produce tobacco, or companies for which tobacco distribution represents more than 20% of the company’s revenue.

- 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 deems to be in violation of the UNGC and OECD Guidelines.

### 3) Contribution assessment

In order to identify sustainable investments, NAM will focus on characteristics such as products, services, business activities and/or behaviours of investee companies (dependent on the type of company under review) and will only invest where there is quantitative and/or qualitative evidence that the company fits into one or more of the contribution categories above and is aligned with the achievement of the sustainable investment objective of the Sub-Fund. Examples of characteristics are:

- Whether products and/or services support the reduction of emissions (e.g. renewable energy technology or electric vehicles) or not.
- Whether products and/or services support lower natural capital depletion (e.g. industrial recycling operations) or not.
- 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.
- Whether products and/or services support a reduction in communicable disease mortality or support a mitigation of the obesity epidemic (e.g. R&D expenditure within infectious diseases, number of patients receiving diabetes treatment) or not.
- The efforts taken by companies to ensure access to drugs and treatments, and the broader approach to pricing treatments fairly.
- Whether products and/or services contribute to improving living standards and livelihood (e.g. diapers, feeding bottles, and foods to improve hygiene and nutrition).

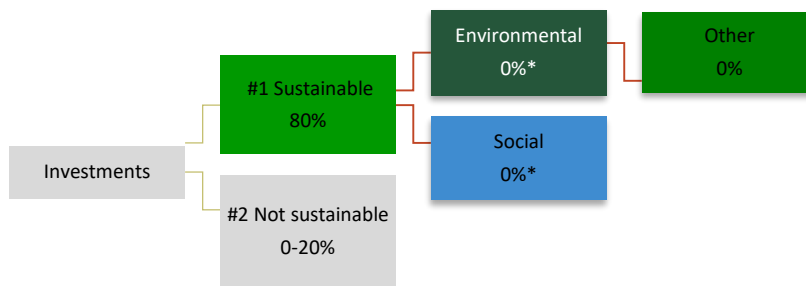
NAM relies predominantly on company-reported data such as annual sustainability reports, and information obtained through engagement directly with the company. NAM will also use data from Data Providers as well as various third party NGOs and idiosyncratic data sources including but not limited to consumer satisfaction websites and employee review data sets.

***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 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 has a proprietary assessment process for the assessment of governance practices of investee companies. Within this assessment, NAM 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 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 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 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 believes that inappropriate capital allocation is indicative of poor corporate governance.
3. Skill in operational management: NAM 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 believes that the nature of the management reward policy, set by the investee company board, is likely to drive behaviour. As such, NAM will evaluate the acceptability of the remuneration structure in detail.

### Proportion of investments



NAM commits to invest a minimum of 80% of the Sub-Fund's assets in sustainable investments, which will be obtained through direct exposure to investee companies.

\*While the sum of sustainable investments with an environmental objective invested and sustainable investments with a social objective invested will add up to the Sub-Fund's minimum share of 80% sustainable investments, the Sub-Fund does not commit to a certain allocation between environmental and social objectives individually. Accordingly, the Sub-Fund does not commit to any minimum share of investments with an environmental objective or any minimum share of investments with a social objective.

### Monitoring of sustainable investment objective

***How are the sustainable investment objective and the sustainability indicators used to measure the attainment of the sustainable investment objective monitored throughout the lifecycle of the financial product and what are the related internal or external control mechanisms?***

NAM will use the sustainability indicators to measure the attainment of the sustainable investment objective of the Sub-Fund.

NAM will select the most appropriate metric for measuring an investee company's core impact which could be relatively standardised or necessarily idiosyncratic in nature. Sustainability indicators will include but are not limited to:

- Tonnes of carbon avoided as a result of an investee company's products and services;

- Amount of natural resources avoided in manufacturing and servicing of an investee company's products;
- Amount of R&D investment spent on promoting the development of new drugs and medical equipment.

To monitor the sustainable investment objective of the Sub-Fund, NAM 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 also uses NAM UK's oversight platform to monitor alignment with the sustainable investment objective of the Sub-Fund within its periodic review.

## **Methodologies**

***What are the methodologies to measure the attainment of the sustainable investment objectives and how are the sustainability indicators used to measure the attainment of that sustainable investment objective?***

The methodologies to measure the attainment of the sustainable investment objective of the Sub-Fund and how the sustainability indicators are used to measure the attainment of that sustainable investment objective are set out under "Monitoring of sustainable investment objective" 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's in-house team of ESG specialists 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 company reports, industry reports and other third party research reports).

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

NAM 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 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 sustainable investment objective of the financial product is attained?***



The primary limitation to the methodology or data source is the lack of corporate disclosure. As is the case with industry peers, NAM 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 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 sustainable investment objective.

## **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 each sustainable investment meets the binding requirements including 1) proprietary ESG scores, 2) exclusions and 3) contribution assessment 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 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 sustainable investment objective (including any management procedures applicable to sustainability-related controversies in investee companies)?***

NAM has a well-established approach to engagement where engagement cycle is structured, managed and monitored with certain milestones. Engagement target companies and themes are identified and prioritised based on top-down and bottom-up approaches. Each engagement activity is monitored and followed up by a dedicated team.

NAM 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 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's understanding on investee companies and encourage them to improve their disclosure on sustainability related information.

## **Attainment of the sustainable investment objective**

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 sustainable investment objective of the Sub-Fund. The Index is a broad market index and not consistent with the sustainable investment objective of the Sub-Fund.