



3Q 2017

NOMURA ASSET MANAGEMENT U.K. LTD.

Responsible Investing Report

Introduction

Nomura Asset Management U.K. Ltd. ("NAM UK") is committed to Responsible Investing on behalf of our clients.

Responsible Investing requires that we balance the objectives of multiple stakeholders – our clients, the investment community, the broader community and the environment. Over time we expect that through investing responsibly we can achieve superior returns for our clients and the broader stakeholder group.

Our equity investment process involves gaining sufficient information about the companies in which we may invest through research and due diligence. As a result we may have concerns about a company's performance or outlook which could be, for example, a financial or operational issue, or one of an environmental, social or governance (ESG) nature.

We actively engage with those companies in which it is felt that stakeholder objectives are not being fully met. Engagement may be in a variety of forms, though it is most likely to start with an initial telephone discussion with the investor relations team, with escalated action if necessary. Where appropriate, we may consider and partake in joint action with other institutional investors and companies. We hope that through our engagement and encouragement these companies will improve internal practices to the benefit of our clients and other stakeholders.

Proxy voting is an important way in which we discharge our stewardship responsibilities. We may direct our vote based on the recommendations of a third party proxy voting service vendor but will also take our own independent decisions where appropriate.

In this report we set out our Responsible Investment and corporate engagement activity over the last quarter.

"NAM Group" "NAM"	These references relate to the whole Nomura Asset Management organisation and will generally be used when referring to matters such as investment philosophy, style, company structure and other policies which are consistent across the Group.
"NAM UK" "Our" "We"	This refers to Nomura Asset Management UK Limited, the UK based subsidiary of NAM Tokyo. NAM UK will typically be appointed as investment manager and will retain responsibility for the management, control and servicing of the client portfolio and relationship. Responses within this document will refer specifically to practices and procedures undertaken within the NAM UK office.

Summary

Over the period 23 companies were reviewed and assigned ESG ratings. Of these, 8 were awarded a rating of 'N' (No Issues) and 15 a rating of 'I' (Issues to Address). In addition, 2 further companies were contacted, supplementary to full company reviews, to discuss ESG related queries that arose over the period.

All of the companies reviewed were within Developed Markets. In total 8 companies were contacted to discuss ESG concerns. Of these, responses were received from 5 (63% response ratio).

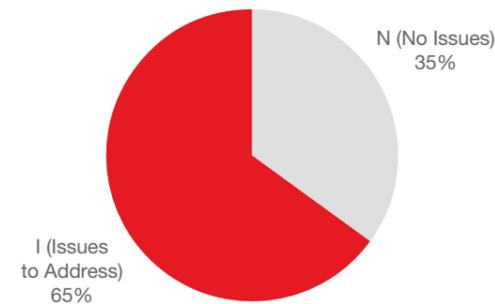
Companies reviewed

N (No Issues)	8
I (Issues to Address)	15
U (Uninvestable)	0
Total	23

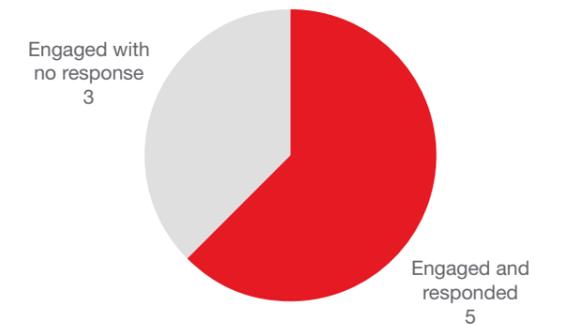
Companies contacted

Number of contacts	8
Number of responses	5
Response Ratio	63%

Ratings Assigned Over the Period



Engagement Over the Period



Notes from our Responsible Investing Research

- Governance:** We did not encounter any major governance concerns over the quarter, however there were a small number of companies that were flagged for aggressive accounting practices. One company in particular was considered to be using excessively complex reporting metrics. We engaged with the company to express our view on the complexity of the accounting, and the vast number of different earnings and cash flow numbers reported. The company took the comments on board and highlight this is something the new CEO will be reviewing.
- Environmental / Social:** Over the period we reviewed a Norwegian Food Products business that is predominantly engaged in the production of farmed salmon. The topic of environmental & social impact drew a particularly wide range of viewpoints from the team with certain members thinking that the company was uninvestable as a result of the damage caused by sea lice from the farms infecting wild salmon. However, the alternative viewpoint was made that salmon production is less input intensive than, for example, cattle production, and of course there are many vital societal benefits from farming as an industry. The internal decision making process at Nomura Asset Management is team driven and having intensively discussed this in great detail, the company was deemed investable by consensus decision.
- Environmental / Social (Lobbying):** We met with one of the major integrated oil companies over the period. Whilst the company continues to express a desire to be transparent and produce detailed sustainability reports, it has, despite investor requests, refused to disclose lobbying activity. We believe it is entirely unacceptable that investors should not be provided with information on what the company is lobbying for and against. Nomura Asset Management (UK) are looking to collaborate with Global Engagement Services (GES) to push for better practices with regards to lobbying disclosure.
- Remuneration:** Just 3 of the 23 companies reviewed over the quarter had management remuneration targets that incorporated Return on Capital components. We continue to push for management to be remunerated based on Return on Capital metrics, which more closely reflect what we, as shareholders, experience.

Responsible Investing Case Study

In addition to financial reports and investment-focused ESG data sources the team makes use of a number of NGO resources to supplement our ESG research and further provide an alternative perspective on the total stakeholder impact of the corporations that we consider for investment on behalf of our clients.

In 2016 we met with the CFO of a well-known US apparel retailer to express our concern over reports by the Rainforest Action Network (RAN, an NGO) that the company was not taking 'the due diligence measures necessary to prevent egregious sources [of raw materials used for wood based fabrics] from entering its supply chain'. The CFO stated that verifying raw materials in the way RAN has been requesting is very difficult, but recognised that the company needed to do more to improve transparency, and had started a dialogue with RAN. We stressed that, in our opinion, this was not adequate and the company must take further steps to improve due diligence and take ownership of its responsibility.

We have stayed in regular contact with the company to monitor progress since expressing our concerns. Over the quarter we again engaged with the retailer and were informed that the company has collaborated with RAN to develop a new policy for the sourcing of wood based fabrics. RAN themselves have proclaimed this as a 'victory' and commended 'the global apparel retailer for joining leading companies in addressing deforestation'.

Whilst clearly this great result has been achieved predominantly as a result of RAN's work we view this as a fantastic example of where we as investors have been able to use our influence to push for better ESG practices.

Proxy Voting Record 3Q17

Nomura Asset Management (UK) seeks to act in a manner that it believes is most likely to enhance the economic value of the underlying companies owned on our clients' behalf. We engage with companies based on our "Ideal Form of Business Management of Investee Companies" in order to enhance our mutual understanding and to seek changes in their company practices. Nomura Asset Management (UK) employs the services of ISS (Institutional Shareholder Services) to efficiently apply our proxy voting policy to individual proposals. ISS are provided with comprehensive guidelines detailing Nomura Asset Management (UK)'s proxy voting policy.

Nomura Asset Management (UK) will closely consider the voting agenda of a company that meets certain conditions (including, but not limited to, the violation of any applicable laws, inadequate board composition, and financial strategies that are not deemed to be in the best interests of shareholders). Where we believe that a specific agenda item is not in the best interests of shareholders, Nomura Asset Management (UK) will decide either to vote against or to abstain from voting on the item. [Please see the Nomura Asset Management Proxy Voting Policy for full details.](#)

Voting Data

Over the quarter Nomura Asset Management (UK) voted on 150 proposals across 10 shareholder meetings and 12 ballots. In total 47% of proposals were director related with a further 13% in relation to remuneration, 15% in relation to capitalization and 19% the general course of business.

In total Nomura Asset Management (UK) voted 'With' management on 147 (98%) proposals and 'Against' management (or 'Withheld' our vote) on 3 (2%) proposals. Examples of where we voted 'Against' management, or elected to 'Withhold' our vote included:

- Voted Against the directorship proposal (re-election of a certain director) of a UK Homebuilder as a result of over boarding concerns – the individual also serves as the Deputy CEO of a listed bank, and non-executive director at 3 other companies.
- Voted For a proposal that would require a US Apparel Retailer to report political contributions. Management had advised a vote Against the proposal.

Proposals Voted on in 3Q17

Proposal subject	Count	Proportion of Total Votes
Anti-takeover	6	4.0%
Capitalisation	22	14.7%
Directorships	71	47.3%
Compensation	19	12.7%
Reorg/M&A	2	1.3%
Routine Business	28	18.7%
Health/Environment	0	0.0%
Other	2	1.3%
Total	150	100.0%

Proposals Voted 'Against' Management in 3Q17

Proposal subject	Count	Proportion of Total Votes
Anti-takeover	0	0.0%
Capitalisation	0	0.0%
Directorships	1	33.3%
Compensation	0	0.0%
Reorg/M&A	0	0.0%
Routine Business	0	0.0%
Health/Environment	0	0.0%
Other	2	66.7%
Total	3	100.0%

Voting Record vs. Management in 3Q17

	With	Against
Votes	147	3
Proportion	98.0%	2.0%

Voting Record vs. ISS in 3Q17

	With	Against
Votes	150	0
Proportion	100.0%	0.0%

ESG queries raised

Description	ESG Rating	ESG queries raised		ESG queries raised		Company Contacted?	Company Responded?	Notes from Company Contact
		Governance	Specific Management/Pay	ROIC Driven Pay?	Environmental/Social			
Australian Miner	I	A number of controversies are noted. In 2015 was accused of setting up a subsidiary in Singapore to avoid/evade taxes in Australia. In 2004/05 the founder announced had "binding agreements" for iron ore purchases with Chinese customers. The Australian Securities and Investment Commission brought civil proceedings against him for "misleading and deceptive conduct". Ultimately after ca. 7 years of appeals, courts ruled he had not been misleading	Management is ok now and the company is stable with a strong balance sheet and plenty of cash generation. Experienced CEO will leave in 2018 however	N	Colourful history, but now seems to be more 'normal'. Still not 'good' as a miner. Chairman / founder (33% owner) has become a huge philanthropic donor in Australia -plans to give away his wealth in his lifetime	Y	N	N/A
US Consumer Finance	I	No especially alarming flags. Governance is the key concern as several board members have served together at other companies, raising concerns about board independence. The lack of shareholder rights related to board accountability also makes it difficult for shareholders to make changes to the board. Accounting flagged as relatively aggressive	Scores poorly on executive remuneration, \$10mm CEO pay is high given past 5 year TSR	N	Limited exposure to carbon/ environmental issues	N	N/A	N/A
US Apparel Retailer	Contacted Outside Formal Review	-	-	N	Concerns over the sourcing of wood based raw materials	Y	Y	We engaged with the retailer again in the quarter to follow up on our concerns - we were informed that the company has collaborated with 'RAN' to develop a new policy for the sourcing of wood based fabrics
US Integrated Oil	Contacted Outside Formal Review	Concerns over not disclosing lobbying activity despite shareholder requests	-	N	Concerns over not disclosing lobbying activity despite shareholder requests	Y	Y	We followed up with the company after our meeting to formally express that we did not agree with the policy of not disclosing lobbying activity
Swedish Bank	N	MSCI ESG flag the pension discount assumption however this does not seem far from the average. The leverage ratio is also flagged but not in the context of a financial company and we believe the bank to be adequately capitalised	CEO pay is at the bottom of the peer group at \$1.7m	N	Above its global peers in a number of key issues however given its exposure to retail customers the potential for over extending credit is high. We believe that the bank is a responsible lender in this context and does educate its clients	N	N/A	N/A
O&G Equipment & Services	I	Reporting post merger could be improved. Little information on the new combined entity	Ownership is quite diverse. Pay disclosure could be improved	N	Exposed to the O&G industry so can never be 'good'. Not significantly different to peers, and actually flagged for being relatively strong within the space on carbon emissions. The only troubling recent controversy is a press report suggesting had paid bribes in the Middle East	Y	N	Contacted to ask why a certain shareholder has a board seat even though they are not the biggest holder, and why disclosure on management reward drivers is not published – disclose if asked but say there is no 'official' document to publish it in. In addition we requested further information on the bribery allegations. We did not receive a response

ESG queries raised (cont'd)

Stock	ESG Rating	ESG queries raised		ROIC Driven Pay?	ESG queries raised Environmental/Social	Company Contacted?	Company Responded?	Notes from Company Contact
		Governance	Specific Management/Pay					
US Cap Good	N	Undergoing major CEO transition. Governance generally OK	CEO compensation is obviously very high given the LT success	N	Note opportunities in clean tech flagged as strong given the investment / R&D in emissions lowering technology. Flag toxic emissions and a number of minor controversies in relation to this	N	N/A	N/A
US Cap Good	I	Accounting very complex – finco is still large by assets, contract accounting is opaque, and continue to insist on reporting far too many versions of earnings and cash flow	CEO stepped down, it is our opinion was pushed out early	N	Notable flags being labour management (redundancies through restructuring / M&A). Credited for opportunities in clean technology	Y	Y	We followed up to reiterate that we did not like the complexity of the accounting, and the vast number of different earnings and cash flow numbers reported. The company took the comments on board and highlight this is something the new CEO will be reviewing
US Semiconductor Company	N	Six of the seven board directors are independent. No controlling shareholder. Accounting is average	–	N	Semiconductor manufacturing is a capital intensive industry that uses a lot of electricity and water for production. Need to monitor improvement in disclosure. Limited disclosure on water management (chip production is water intensive and their fabs are located in water short areas such as Singapore and Utah). Scores below peers in water stress	N	N/A	N/A
US Semiconductor Company	N	Eleven out of twelve board members are outside directors. CEO pay is modest given he owns a lot of the stock	–	N	Operates in an industry that is not heavily exposed to environmental or social issues	N	N/A	N/A
US Bank	I	Governance rating of 3.9/10 from MSCI ESG. Restructuring is an ongoing issue at the company and high leverage which is inherent in the banking industry	Combined CEO and chairman role, which overturned a previous shareholder vote; pay is considered excessive.	N	Large balance sheet and risks posed to the economy and financial if the bank were to enter a period of distress. Has been involved in a number of controversies including but not limited to manipulation of UST market, interbank lending rate manipulation, IRS market manipulation, money laundering etc.	N	N/A	N/A
US Bank	I	Flag over boarded directors and related party transactions. Restructuring is an ongoing issue at the company and high leverage which is inherent in the banking industry	Over boarded directors	N	Significant ongoing litigation, including numerous fines and settlements for misleading investors, abusive foreclosure practices, and investigations from a number of authorities about interest rate manipulation and accounting fraud	N	N/A	N/A

ESG queries raised (cont'd)

Stock	ESG Rating	ESG queries raised		ESG queries raised				
		Governance	Specific Management/Pay	ROIC Driven Pay?	Environmental/Social	Company Contacted?	Company Responded?	Notes from Company Contact
US Bank	I	Flagging over boarded directors, dual chairman and CEO role and long tenured board members that could compromise independence from management. Restructuring is an ongoing issue at the company and high leverage which is inherent in the banking industry	CEO & Chairman roles combined. Long tenured board	N	List of controversies is lengthy with several investigations, lawsuits, and settlements over its business practices	N	N/A	N/A
Japanese Retailer	I	Scores relatively poorly - independence of the board, low diversity. Founding family owns 24% of the company, but is not a controlling shareholder, however there is a poison pill. Accounting relatively conservative	We found management inaccessible to outside investors. Board independence is low	N	There are concerns on emissions and raw material sourcing. Has visibly demonstrated efforts to reduce CO2 emissions and made attempts to use more reclaimed wood and plastics. Involved in various social initiatives and charitable giving	N	N/A	NA
Norwegian Food Products Business	I	Accounting relatively aggressive (revenue recognition)	-	N	MSCI ESG ranks it poorly 4.2 vs. industry average 5.1 (26th percentile) in product safety and quality, given various incidents of product recall in the past. Low scores in water stress	N	N/A	N/A
German Supermarket	I	Over boarded directors and audit committee independence flagged	Company has undergone significant transformation, spun off in July 2017, and disclosures around pay are currently limited	N	Just modest initiatives to minimize GHG emissions, and failure to assess carbon emissions or energy usage throughout its agricultural supply chain. Flag labour management (risks to labour disruptions and litigation due to its large European workforce) and Opportunities in Nutrition & Health (moderate opportunities to benefit from growing demand for healthier products)	N	N/A	N/A
Australian Materials Business	I	Scores well on governance (7.2/10); majority independent board but Chairman / CEO not considered independent	CEO has served in the position for six years and previously served as CEO of building products from 2009. CEO pay does appear very high vs peers and internal officers. Remuneration driven predominantly by EPS growth and TSR relative (50/50 wrt LTIP)	N	We note the considerable asbestos liability. Aluminium is exceptionally energy intensive (10% of total New South Wales electricity demand!) and can emit high levels of by-products, the environmental impact somewhat negated by the positive light weighting impact of aluminium	Y	Y- Call July 2017	We passed on our feedback to management with regards to management compensation being too high given performance
UK Online Estate Agent	N	OK on governance, although accounting flagged as slightly aggressive	-	N	No environmental concerns but the industry has been afflicted by corrupt practices in the past	N	N/A	N/A

ESG queries raised (cont'd)

Stock	ESG Rating	ESG queries raised			ESG queries raised				
		Governance	Specific Management/Pay		ROIC Driven Pay?	Environmental/Social	Company Contacted?	Company Responded?	Notes from Company Contact
US Capital Goods	I	Entrenched board members, and a number of acquisitions over the last 2 years, although this is commonplace within the industry. Accounting flagged – relates to the discount rate used in calculating the pension liability, which is slightly higher than average	In our view the targets used to incentivise management are reasonably well aligned with shareholders' interests, i.e. EBIT, Cash, ROIC, dividends and the share price		Y	Heavy consumer of steel which is negative from an environmental perspective	N	N/A	N/A
US Healthcare Equipment	N	Based on the company's disclosures and other public information, accounting and financial reporting practices appear to be generally appropriate and effective relative to global peers	CEO pay, in the context of the peer group, appears reasonable. Equity compensation is 50% geared towards ROIC - the 2016-2018 performance period, have a target average ROIC of 15.5%. Short-term performance is 25% geared towards FCF (target 15%)		Y	No major concerns flagged	N	N/A	N/A
UK REIT	I	Independent CEO and chairman. Six of eight directors are independent and must hold 5x annual cash retainer in shares	CEO remuneration at low range of peers, 80% of CEO compensation is based on objective targets. We would however prefer targets to be disclosed prospectively		N	–	N	N/A	N/A
European Capital Goods	N	No major concerns flagged by MSCI ESG, generally scores highly	We like the bonus driver structure (roughly same for several years) and it seems to have driven an improvement in margin and ROIC		Y	Not controversial, in fact the automotive business is generally targeted at light weighting of vehicles which helps with CO2 and other emissions reduction and the piping business should help utilities with reducing water wastage	N	N/A	N/A
US Tech Hardware	I	Several directors have questionable past directorship experiences, members of the Audit Committee may be over boarded, not a single independent director has industry-related experience, and more than half of the board has served together for a decade	Executive compensation is based on revenue growth, operating income growth, operating cash flow growth, EPS growth and relative TSR		N	Faced persistent criticism from human rights advocates over its business transactions in China for several years, particularly concerning the suspected use of its equipment to suppress freedom of expression and association	Y	Y	We contacted the company to express our view that ROIC should be incorporated. Investor relations passed on the commentary to the remuneration committee
Canadian O&G Transportation	I	The board has a high level of independence, though we note the combined CEO/Chairman roles	Medium & long term compensation is driven by ACFFO growth (relative to target) and TSR relative to peer for performance stock, and price hurdles for stock options		N	Involved in oil & gas transportation. Historically there have been some spills, though must somewhat take into consideration the size of the business. Two fatalities last year is an additional flag - must be monitored	Y	N	Contacted company to confirm that we feel that greater disclosure on project returns would help investors get more comfortable and furthermore we think management compensation could be improved by adding a ROIC target
UK Telecoms Company	N	No major concerns flagged	Remuneration policy clearly stated. No bonus or share incentive for CEO in FY 18		N	Operates in an industry that is not heavily exposed to environmental or social issues	N	N/A	N/A

Glossary

COGS	Cost of Goods Sold
COI	Conflict of Interests
DTA	Deferred Tax Asset
EBIT	Earnings Before Interest and Tax
EM	Emerging Markets
EPS	Earnings Per Share
ESG	Environmental, Social, Governance
FCF	Free Cash Flow
KPI	Key Performance Indicator
LTIP	Long Term Investment Plan
ND	Net Debt
Opex	Operating Expense
PSP	Performance Share Plan
RoA	Return on Assets
ROCE	Return on Capital Employed
ROIC	Return on Invested Capital
SH	Shareholder
SOE	State owned Enterprise
STIP	Short Term Investment Plan
TSR	Total Shareholder Return
WC	Working capital

Disclosures

This information was prepared by Nomura Asset Management U.K. Ltd. (NAM UK) from sources it reasonably believes to be accurate. This document is for information purposes only on the general environment of investment conditions.

As with any forms of investment, they carry risks and this material does not have regard to the specific objectives, financial situation or needs of the recipient. Unless otherwise stated, all statements, figures, graphs and other information included in this presentation are as of the date of this presentation and are subject to change without notice. Although this report is based upon sources we reasonably believe to be reliable, we do not guarantee its accuracy or completeness. The contents are not intended in any way to indicate or guarantee future investment results as the value of investments may go down as well as up. Values may also be affected by exchange rate movements and investors may not get back the full amount originally invested. Further, this report is not intended as a solicitation or recommendation with respect to the purchase or sale of any investment fund or product. Before purchasing any investment fund or product, you should read the related prospectus and/or documentation in order to form your own assessment and judgment and, to make an investment decision. To the extent permitted by law, NAM UK does not accept liability for any statement, opinion, information or matter (express or implied) arising out of, contained in or derived from, or any omission from this document, whether negligent or otherwise.

This report may not be reproduced, distributed or published by any recipient without the written permission of NAM UK.

NAM UK is authorised and regulated by the Financial Conduct Authority.

NOMURA

Nomura Asset Management U.K. Ltd.

1 Angel Lane
London
EC4R 3AB
+44 (0) 20 7521 2000

Alex Rowe, CFA

Equity Research Analyst, Global Industrials & Utilities
Nomura Asset Management U.K. Ltd.
alex.rowe@nomura-asset.co.uk
+44 (0) 20 7521 1059

Copyright © 2017 Nomura

This document is the sole property of Nomura. No part of this document may be reproduced in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior written permission of Nomura.