



4Q 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 16 companies were reviewed and assigned ESG ratings. Of these, 3 were awarded a rating of 'N' (No Issues) and 13 a rating of 'I' (Issues to Address). In addition, 7 further companies were contacted, supplementary to full company reviews, to discuss ESG related queries that arose over the period. Of the companies reviewed, 13 were within Developed Markets and 3 were within Emerging Markets. In total 17 companies were contacted to discuss ESG concerns. Of these, responses were received from 12 (71% response ratio).

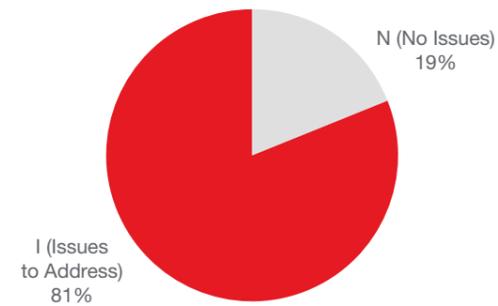
### Companies reviewed

N (No Issues)	3
I (Issues to Address)	13
U (Uninvestable)	0
<b>Total</b>	<b>16</b>

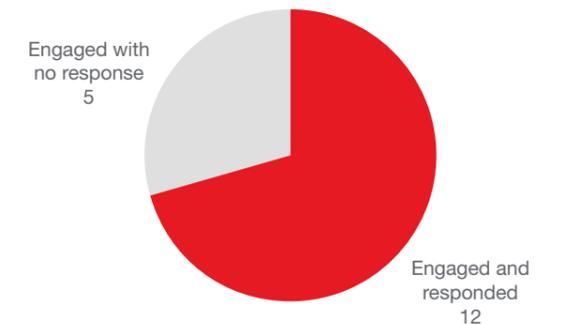
### Companies contacted

Number of contacts	17
Number of responses	12
<b>Response Ratio</b>	<b>71%</b>

### Ratings Assigned Over the Period



### Engagement Over the Period



## Notes from our Responsible Investing Research

- Environmental / Social:** Over the period we engaged with a company that we have concerns with over its ability to limit child labour within its cocoa supply chain. We have previously also engaged with the company in relation to the sustainability of its palm oil sourcing. The company provided the opportunity for a broad group of investors to participate in a discussion with the Head of Agricultural Services on the issues faced and steps being taken. We continue to see investors taking greater interest in company supply chains and indeed the companies themselves taking greater efforts to address issues within their own supply chains.
- Governance:** We did not encounter any major governance concerns in the quarter. However, we did meet with the Head of the Corporate Governance Committee for a Korean Automotive OEM which we have historically considered (alongside a number of its peers) as borderline uninvestable. Our viewpoint has been driven by a track record of very poor governance practices, and a history of not acting in the best interests of shareholders. Whilst we were pleasantly surprised to learn that the company has taken steps to establish a corporate governance committee and made the effort to engage with investors, we did not feel that the governance committee has sufficient power or influence to enforce change in its current form.
- Remuneration:** Just 2 of the 16 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.

## Engagement Tracking

In order to optimise both the efficiency and impact of our engagement activity we operate a prioritised 'engagement tracking' policy. Whilst we seek to engage with all companies that we feel can improve their ESG related practices, we also recognise that focused and ongoing engagement activity will have a greater impact on specific ESG concerns, and indeed there are certain companies that are more receptive to engagement. For instance, we believe we can have a very positive impact by engaging in an active, continued dialogue with retailers in relation to sustainability issues within supply chains. However, for tobacco companies where the primary ESG issue is the impact of their products on consumer health, the effect of our ongoing engagement effort is likely to be much less. As such, we have identified a number of companies for which we believe ongoing engagement has a high likelihood of supporting change. We typically re-engage with these companies on a quarterly basis (at the very least biannually).

Description	Nature of Engagement	Status of Engagement	Notes
<b>US Apparel Retailer</b>	Environmental – Sourcing of wood based raw materials was flagged as unsustainable by the Rainforest Action Network (RAN)	Completed – To Monitor	<b>Call with IR July 2016</b> <b>Follow up meeting (CFO) September 2016</b> <b>Email exchange with IR September 2017</b> Following multiple engagements the company has adopted a raw materials sourcing policy inline with RAN's expectations
<b>UK Telecom</b>	Governance – Concerns over the timing of disclosures to the sell side	Ongoing	<b>Preliminary call June 2017 with IR</b> <b>Follow up meeting with CFO October 2017</b> We continue to push for more timely and even disclosure of guidance. Company provided EBITDA guidance for its aviation division for the first time in Q3
<b>Swiss Food Products Business</b>	Social – Ensuring the necessary steps are taken to limit the use of child labour in the cocoa supply chain	Ongoing	<b>Call with Head of Agricultural Services December 2017</b> Attended an initial group investor call, following up with management in January
<b>Korean Automotive OEM</b>	Governance – 'Chaebol' structure and a track record of not acting in the best interests of minority structure	Initiated	<b>Meeting with Head of Governance November 2017</b> Whilst we feel that governance practices are currently far behind those of DM peers, we believe the recent steps taken and efforts to reach out to investors, gives us a better opportunity to push for improved governance

## Responsible Investing Case Study

We have a partnership with GES International AB, a leading provider of responsible investment and engagement services to institutional investors. We joined GES on a call to engage with a large technology company on CEO compensation.

In January 2016, the board of directors granted 1.5m stock options to the CEO. This was despite the share price declining for three years prior to the grant. The date of the grant coincided with a bottom in the share price and therefore, even with a premium pricing policy for the stock options (four tranches with strike prices progressively higher than the share price on day of the grant), three out of the four tranches are comfortably in the money and one tranche is at the money. There is a three year vesting period and the options expire ten years from the date of the grant.

We questioned the company on how the size, timing, and premium pricing of the stock options were determined. Revenues had been declining for years prior to the grant and we believe this is partly due to the company's misreading of future trends in the IT industry. Why should such a large grant be awarded? The company responded by stating that in a period of transition for the company, the board determined it was necessary for the CEO to be incentivised to stay on and head the company over the long term, hence the three year vesting period. The timing of the grant was driven by the desire of the board to improve the share price and incentivise the CEO to take actions that would lead to a higher share price, hence the premium pricing of strike prices.

Our opinion is different. We believe that a lot of the company's troubles have been self-inflicted and the CEO should not have been rewarded for poor performance. The company acknowledged that other shareholders have expressed similar views and that the stock option grant was a one-time event. We will continue to monitor CEO compensation of this firm and engage when necessary.

## Proxy Voting Record 4Q17

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 63 proposals across 4 shareholder meetings and 4 ballots. In total 67% of proposals were director related with a further 21% in relation to remuneration.

In total Nomura Asset Management (UK) voted 'With' management on 56 (89%) proposals and 'Against' management (or 'Withheld' our vote) on 7 (11%) proposals. Examples of where we voted 'Against' management, or elected to 'Withhold' our vote included:

- Withheld our vote in relation to the audit committee election for a US Tech Software company driven by concerns over risk oversight
- Voted For a proposal that would require the same US Tech Software company to provide additional information on lobbying activities. Management had advised a vote 'Against' the proposal

### Proposals Voted on in 4Q17

Proposal subject	Count	Proportion of Total Votes
Anti-takeover	0	0.0%
Capitalisation	2	3.2%
Directorships	42	66.7%
Compensation	13	20.6%
Reorg/M&A	0	0.0%
Routine Business	3	4.8%
Health/Environment	0	0.0%
Other	3	4.8%
<b>Total</b>	<b>63</b>	<b>100.0%</b>

### Proposals Voted 'Against' Management in 4Q17

Proposal subject	Count	Proportion of Total Votes
Anti-takeover	0	0.0%
Capitalisation	0	0.0%
Directorships	3	42.9%
Compensation	1	14.3%
Reorg/M&A	0	0.0%
Routine Business	0	0.0%
Health/Environment	0	0.0%
Other	3	42.9%
<b>Total</b>	<b>7</b>	<b>100.0%</b>

### Voting Record vs. Management in 4Q17

	With	Against
<b>Votes</b>	56	7
<b>Proportion</b>	88.9%	11.1%

### Voting Record vs. ISS in 4Q17

	With	Against
<b>Votes</b>	63	0
<b>Proportion</b>	100.0%	0.0%

## ESG queries raised

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
<b>German Multi Utility</b>	I	OK but we note the controlling shareholder, related party transactions, and over boarded directors.	We have concerns over the quality and competence of management. We note that the CEO has very recently been fired.
<b>German Multi Utility</b>	I	Corporate governance is flagged as weak (5/10 as per MSCI) with three of the board members over boarded and aggressive accounting.	Remuneration targets have been changed to relative TSR from ROCE (LTIP) and adj EPS (vs. planned) from adj EBITDA, which we do not believe fully reflects what we as shareholders experience.
<b>Swiss Food Products Business</b>	Contacted Outside Formal Review		
<b>US Insurance Broker</b>	I	Rating of 4.6/10 as per MSCI with poor scores on the board due to the audit committee not being fully independent / lacking industry experience. In addition, accounting is flagged for intangible assets and pension liabilities.	LTIP for the CEO is not linked to specific targets and is at the discretion of the compensation committee.
<b>US Tech Software</b>	Contacted Outside Formal Review		Concerns over the level of stock based compensation given to the CEO despite performance.
<b>US Tech Software</b>	Contacted Outside Formal Review		
<b>Korean Automotive OEM</b>	Contacted Outside Formal Review	History of not acting in the best interests of minority shareholders.	Circular ownership and family influence are a major concern.

ROIC Driven Pay?	ESG queries raised Environmental/Social	Company Contacted?	Company Responded?	Notes from Company Contact
N	Scores well on carbon emissions and its significant push in the renewables space.	Y	Y - Call in December	We expressed our view to management that changing from ROCE to Relative TSR was not more beneficial to shareholders. We also expressed that we expect the decommissioning of nuclear plants to be carried out in the safest manner possible (even if this is a burden on shareholders).
Contacted Outside Formal Review	Some concerns over child labour within the supply chain (particularly in relation to Cocoa).	Y	Y	We participated in a collaborative engagement with the Head of Agricultural Services, on child labour within the supply chain and the efforts being taken by the company to minimise this.
N	Disclosure is limited in product safety and data security.	Y	N	We flagged to investor relations that we would prefer if the LTIP portion for the CEOs remuneration would include objective targets rather than being at the discretion of the compensation committee. We would like the compensation committee to consider adding a return on invested capital target to it.
Contacted Outside Formal Review		Y	Y	We participated in an engagement with the company hosted by GES focusing on corporate governance and CEO compensation. We appreciated the company's time and response but did not agree with the explanation given.
Contacted Outside Formal Review	Whilst we find the company to be strong on ESG factors but noted an article in the press highlighting inadequate filtering on the website of a subsidiary that was leading to inappropriate video content.	Y	Y	We contacted management with regards to a news article highlighting inadequate filtering on the website of a subsidiary. That was leading to inappropriate content being uploaded. We note that steps have been taken to increase the number of people working on filtering.
Contacted Outside Formal Review		Y	Y	We met with the Head of the corporate governance committee to discuss the efforts the company is taking to address the market's governance concerns. Whilst we appreciated that progress is being made, the governance committee does not have sufficient power or influence to really enforce change and we were left disappointed.

## ESG queries raised (cont'd)

Stock	ESG Rating	ESG queries raised		ROIC Driven Pay?	ESG queries raised		Company Contacted?	Company Responded?	Notes from Company Contact
		Governance	Specific Management/Pay		Environmental/Social				
US Chemicals Business	I	Governance scores 3.8/10 as per MSCI with most of the flags for governance including over-boarded directors and votes against directors – may not be entirely relevant since business has just undergone large merger.	Two companies have merged: the first had a remuneration scheme driven by Cash bonus: (60% NOPAT, 40% CFO) x individual factor, LTIP: 50% TSR, 50% Operating RoC. The second had a scheme driven by STIP: (75% Operating EPS vs budget, Revenue vs budget) x individual modifier, LTIP: 60% TSR (relative), 40% stock price.	Y	GM crop development is seen as negative, though on the other hand the scientific evidence of environmental damage is actually limited; GM crops substitute chemicals so do have some positive impact. Was subject to an SEC investigation into misuse of funds (e.g. company resources used for holidays etc.) – this appears to be ongoing.	N	N/A	N/A	
US Apparel Retailer	I	Governance - scores 6.2/10 as per MSCI.		N	There are concerns over the company's carbon footprint. MSCI also flags labour management issues.	N	N/A	N/A	
International Oil Company	Contacted Outside Formal Review			Contacted Outside Formal Review	We have questions over the approach to human rights in Argentina and lobbying disclosure practices.	Y	Y	We participated in a call with the corporate governance team, arranged by GES to discuss human rights and community engagement in Argentina, in addition to lobbying disclosure practices.	
US Environmental & Facilities Services	I	CEO and Chairman is jointly held, but otherwise the board looks OK with an independent (89%) majority. We note level of receivables, goodwill and acquisitions are high given the nature of the business.	CEO was paid almost 4% of EBIT in total compensation, which we view as far too high.	Y	The company is geared towards having a positive environmental impact and resource management, but does touch both defence (DoD is 8%) and O&G (9%). However, we note that the exposure is not to do with weapons, weaponisation or conflict, it is the clean-up of contaminated sites etc.	Y	Y	We actively engaged on CEO remuneration. Management took on-board our feedback but in general did not appear to agree with our viewpoint.	
Asian Life Insurance	I	We think governance is strong with an experienced and shareholder orientated board.		N	Data security may be an issue given the sensitivity of the issue and the regulated environment in which they operate. Separately we identify that the complex nature of the long term policies along with bundling may not be well explained to clients and may be over priced.	Y	Y	We engaged with management to better understand the measures in place to keep policy holder data secure and what steps are taken to protect customers from entering into agreements that are not suitable for them. We received a very detailed response from the company outlining the multiple measures that are being taken.	
US Bank	Contacted Outside Formal Review	Concerns over management control and the impact of top management creating a culture that led to the practices carried out by its employees.		Contacted Outside Formal Review	Company was involved in fake account fraud scandal.	Y	Y	We participated in a call hosted by GES, with the incoming Chairwoman to discuss her strategy with regards to addressing the governance issues that have plagued the company over recent years.	

## 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					
Canadian Food Retailer	N	OK on governance though we do note two different share classes (Class A shares not having voting rights, and therefore a controlling shareholder). Officer turnover and restructuring also flagged.	Management team has been turned over since the recent, ill timed acquisition.	N	Average scores vs. industry in environmental and social pillars. Has implemented the rigorous HACCP food safety guidelines across all of its operations, but has not conducted an energy use assessment of its products.	N	N/A	N/A
US Tech Hardware	N	Average on governance relative to peer group. Eleven of the thirteen board directors are independent. No controlling shareholder. Accounting flagged as aggressive.	Executive pay is in line with peers.	N	MSCI flags labour management scoring in the 5th percentile. Company has manufacturing facilities all over the world with 60,000 factory workers, and we are not aware of any labour unrest. Exposed to clean tech opportunities as 2~3x connector content is in EVs. Factory automation business improves society.	N	N/A	N/A
US Pharmaceutical	N	CEO and Chairman role combined, some related party transactions, accounting looks OK. Overall governance is average.	Pay broadly in line with peers. Targets are TSR, growth, profitability.	N	MSCI flags some concerns over ethics and product safety.	N	N/A	N/A
UK Listed Telecom	Contacted Outside Formal Review	Concerns over disclosures to the market with regards to timing.		Contacted Outside Formal Review	Operates in an industry that is not heavily exposed to environmental or social issues.	Y	Y	We followed up on our engagement with management in 2Q17 with a formal meeting with the CFO to discuss our concerns over the timely and fair release of data to the market.
Indian Cap Good	I	Governance is a concern with the promoter family still exerting too much influence on the business, and seemingly having too much control despite the majority of the company being held outside the promoter. For example, the company still pays for multiple family member's rent.	Management team is made up almost exclusively of promoter family. Low diversity on the board / management.	N	Very strong on environmental & social - irrigation in particular has a huge benefit to the India agricultural economy.	Y	Y-Call Oct	We provided feedback to management with regards to our view on the family control and practices such as providing rent to the family members.
Benelux Bank	I	MSCI Governance rating of 7.6 out of 10. AGR Report flags restructuring but this is within our expectation given the transformation of the bank.	Only 38% of the board of directors are independent of management which could reduce the objectivity of oversight. Further, half of the audit committee and risk committee are neither independent of management or of other interests.	N	Scores well except within financial product safety given the bank generated 67% of its revenues from Belgium where consumers are highly indebted. We argue that Belgium is a very wealthy nation with a strong social safety net. Bank was historically forced to take state aid and has repaid this.	Y	N	We contacted management to flag that we felt the lack of independence on the board was a concern. We also asked what controls have been put in place to mitigate anti money laundering related risks in the future and what steps have been taken to protect customers entering into agreements which may not be suitable for them.

## 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
Benelux Bank	I	MSCI Governance rating of 5.3/10 with the key metric flagged being the board (related party transactions are a concern and ownership by the Dutch State). Divestures and restructuring as well as officer changes also flagged. These are all within our expectation given the transformation of the bank.		N	Scores well across all categories except financial product safety where MSCI found no evidence of ensuring rights of retail customers are effectively protected, and financial stability -flagged for the historic need to be rescued by the government.	Y	N	We reached out to ask what controls have been put in place to mitigate anti money laundering related risks in the future and what steps have been taken to protect customers entering into agreements which may not be suitable for them.
Benelux Bank	I	MSCI Governance rating of 7.1 /10 with separation of CEO and Chairman roles. No real governance issues flagged. Scores well across all categories except financial product safety. We believe that the bank is well capitalised and their product offering is very transparent.	CEO and Chairman roles separated.	N	We would note that the company is very active in energy, commodity and transportation finance which are generally considered environmentally harmful activities, for example the Dakota access pipeline. Further it is involved in a money laundering scandal the outcome of which is unknown.	Y	N	We reached out to ask what steps have been taken to protect customers entering into agreements which may not be suitable for them.
US Consumer Goods	I	MSCI Governance rating of 5.2/10. Mainly due to aggressive accounting. M&A and divestures are flagged.	Annual bonus based on 'core' sales growth and normalised EBITDA. Long-term incentives based on TSR vs peer group. Absence of any cash flow target is unsatisfactory given the relatively poor cash conversion.	N	Fairly strong on carbon emissions and labour standards. Some of its products use crude derivatives as a raw material so some negative environmental impact here.	Y	Y	We provided feedback that we would prefer to see executive compensation include metrics related to cash flow generation and return on invested capital. We were informed that our comments were passed on to the management committee.
Japanese Industrial Machinery	I	Lacks an independent board (two over-boarded directors), lack of gender diversity, absence of pay committee and could improve on disclosure in relation to executive pay.		N	Rated very highly on health and safety, has a comprehensive list of social and environmental initiatives. The company is relatively strong on broader environmental matters though of course faces predominantly the mining sector.	N	N/A	N/A

# Glossary

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

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# 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

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