



1Q 2018

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 18 companies were reviewed and assigned ESG ratings. Of these, 4 were awarded a rating of 'N' (No Issues) and 14 a rating of 'I' (Issues to Address). In addition, 4 further companies were engaged with, supplementary to full company reviews, to discuss ESG related queries that arose over the period. Of the companies reviewed, 17 were within Developed Markets and 1 was within Emerging Markets. In total 9 companies were contacted to discuss ESG concerns. Of these, responses were received from 9 (100% response ratio).

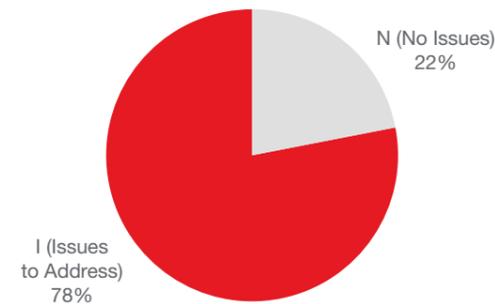
Companies reviewed

N (No Issues)	4
I (Issues to Address)	14
U (Uninvestable)	0
Total	18

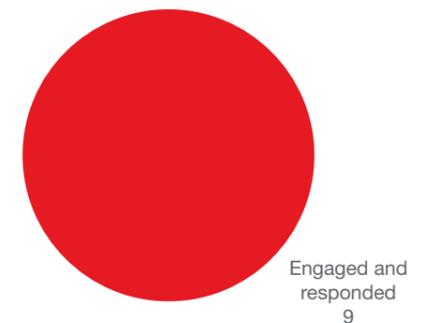
Companies contacted

Number of contacts	9
Number of responses	9
Response Ratio	100%

Ratings Assigned Over the Period



Engagement Over the Period



Notes from our Responsible Investing Research

- **Environmental / Social:** Over the period we took the opportunity to revisit a number of businesses within the European Insurance space. We were impressed by the advancements that have been made with regards to the integration of ESG research and engagement within both the underwriting and investment business.
- **Governance:** We encountered a number of companies with multiple share classes and differing voting rights. We believe the presence of such voting classes to be unnecessary under almost all circumstances and engage with those businesses that utilize these ownership structures.
- **Remuneration:** Just 3 of the 18 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 optimize both the efficiency and impact of our engagement activity we operate a prioritized '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 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
US Apparel Retailer	Environmental – Sourcing of wood based raw materials was flagged as unsustainable by the Rainforest Action Network (RAN)	Completed – To Monitor	Call with IR July 2016 Follow up meeting (CFO) September 2016 Email exchange with IR September 2017 Following multiple engagements the company has adopted a raw materials sourcing policy that is inline with RAN's expectations
UK Telecom	Governance – Concerns over the timing of disclosures to the sell side	Ongoing	Preliminary call June 2017 with IR Follow up meeting with CFO October 2017 Meeting with IR March 2018 Continue to push for more timely and even disclosure of guidance. Met with IR in advance of the issuance of management remuneration report
Swiss Food Products Business	Social – Ensuring the necessary steps are taken to limit the use of child labour in the cocoa supply chain	Ongoing	Call with Head of Agricultural Services Dec 2017 Meeting with Group Chairman Mar 2018 Attended an initial group investor call, followed up through engagement with the group Chairman
Korean Automotive OEM	Governance – 'Chaebol' structure and a track record of not acting in the best interests of minority structure	Initiated	Meeting with Head of Governance November 2017 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

Nomura Asset Management has a partnership with GES International AB, a leading provider of responsible investment and engagement services to institutional investors. Over the period we joined GES in a meeting with a large European oil company. The company had come to visit GES in advance of its Annual General Meeting to promote the management view on several topics, most important of which was the proposal to retain the combined CEO/ Chairperson. The company presented the case that the combined role is a national tradition so for a specific company to move away from it would be difficult (without a change in the law), presumably from a recruitment perspective, and, more practically, such a combined role provides gravitas in negotiations with host countries for oil exploration.

The discussion focused on the credibility of these arguments and GES raised an additional point, that there is some risk of a loss of both Chair and CEO should the shareholders vote against the proposed combined role, because the CEO might resign in response to such a scenario. Although we do not have a view on that risk, we do continue to believe that a separate Chair and CEO is the appropriate governance structure and actually we do not find the company's arguments persuasive, especially since several other similar companies do have a separate Chair and CEO. The company's defence of their case was robust, but since, in addition to the failure to convince us, a significant portion of their shareholder base typically votes in line with ISS recommendations, and the ISS recommendation is to vote against a combined CEO/ Chairperson, it seems likely that the company will experience some significant opposition to its proposal.

Proxy Voting Record 1Q18

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 262 proposals across 13 shareholder meetings and 16 ballots. In total 53% of proposals were director related, with a further 18% in relation to routine business.

In total Nomura Asset Management (UK) voted 'With' management on 248 (95%) proposals and 'Against' management (or 'Withheld' our vote) on 14 (5%) proposals. Examples of where we voted 'Against' management, or elected to 'Withhold' our vote included:

- An advisory vote was held on golden parachutes for a US aerospace business. We held the view that the presence of the golden parachutes was unnecessary and therefore voted against the proposal
- Voted against the Named Executive Officers' compensation plan for a US building products business. In particular we felt that the severance packages awarded have been excessive

Proposals Voted on in 1Q18

Proposal subject	Count	Proportion of Total Votes
Anti-takeover	8	3.1%
Capitalisation	32	12.2%
Directorships	140	53.4%
Compensation	28	10.7%
Reorg/M&A	2	0.8%
Routine Business	48	18.3%
Health/Environment	1	0.4%
Other	3	1.1%
Total	262	100.0%

Proposals Voted 'Against' Management in 1Q18

Proposal subject	Count	Proportion of Total Votes
Anti-takeover	0	0.0%
Capitalisation	0	0.0%
Directorships	7	50.0%
Compensation	5	35.7%
Reorg/M&A	0	0.0%
Routine Business	0	7.1%
Health/Environment	0	7.1%
Other	3	0.0%
Total	14	100.0%

Voting Record vs. Management in 1Q18

	With	Against
Votes	248	14
Proportion	94.7%	5.3%

Voting Record vs. ISS in 1Q18

	With	Against
Votes	258	4
Proportion	98.5%	1.5%

ESG queries raised

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
US Software	I	Score of 5.5/10. MSCI highlighted dual share class structure. AGR Report flags litigation risk (we agree). We do not agree with accounting issues raised.	-
French Integrated Oil Company	Contacted Outside Formal Review	The company wish to retain a combined Chairman/ CEO and also to approve a significant portion of annual cash remuneration driven by qualitative factors.	-
US Machinery	I	Some concerns over historic capital allocation. Points lost for pay (Pay is high and the CEO seems to get a lot vs others at >3x the next highest), CEO/ Chairman combined and change control provisions (CEO would get a \$6.4mn pay-out on termination at change of control).	Remunerated on FCF, ROIC, organic sales growth and adj OPM
French Bank	Contacted Outside Formal Review	-	-
Swiss Pharmaceutical	Contacted Outside Formal Review	The company has been involved in a number of recent scandals in relation to bribery.	-
Swiss Consumer Goods Business	Contacted Outside Formal Review	-	-

ESG queries raised				
ROIC Driven Pay?	Environmental/Social	Company Contacted?	Company Responded?	Notes from Company Contact
N	MSCI upgraded from BB in June 2017 due to appointment of a lead independent director, but recent developments (data abuse allegations) will likely lead to a downgrade.	N	N/A	N/A
Contacted Outside Formal Review	-	Y	Y	Extensive discussion on the merits of a combined Chair/ CEO for French companies, where such a structure is traditional. The company claim that it is necessary for the CEO to be seen as the principal power in the company when negotiating with host country leaders but are worried that US and passive shareholders will follow the recommendation of Institutional Shareholder Services (ISS) to vote against. The company accepted some proposed/ possible changes to the remuneration drivers.
Y	There is an outstanding litigation issue relating to electric motors supplied to a ventilation manufacturer up to 2004. The ventilation units using these motors are alleged to have caused fires. The related provision is included in the warranty provisions (\$19mn).	Y	Y	Company confirmed that a small provision has been made to account for the motor fires.
Contacted Outside Formal Review	There are concerns over board composition, bribery and fraud and cases of workplace discrimination.	Y	Y	Participated in a GES hosted corporate governance engagement meeting with the Chairman of the group. Topics discussed included executive remuneration policy, board composition and employee conduct. In the Q&A we queried the logic of the group's recent decision to withdraw from financing shale oil and gas, but to continue financing offshore projects.
Contacted Outside Formal Review	-	Y	Y	We participated in a call hosted by GES to discuss the steps that the company is taking to improve internal compliance. Whilst the company is clearly taking solid steps forward we would like to see an external audit of these efforts.
Contacted Outside Formal Review	There are concerns over the supply chain with regards to human labour and also the sustainability of palm oil sourcing.	Y	Y	We attended a group meeting with the Chairman of the group to discuss evolving remuneration practices and the evolving approach to ESG/ the supply chain.

ESG queries raised (cont'd)

Description	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 Agricultural Chemicals	I	Rating of 6/10 with points lost for lack of committee independence and lack of remuneration committee. Assume this is simply as a result of very recent merger and that a remuneration committee will be set up.	Company formed following merger, previously CEO saw his annual bonus driven by safety and environmental targets (15% weight), succession planning/ culture (15%), EPS/ CFO (30%), project delivery/ retail growth (20%), operational improvements (20%). LTIP based on relative TSR.	N	One worker was killed and another injured in two accidents in 2016. IR told us that this has prompted a huge effort to improve safety and the safety culture and there have been no issues since. Supportive of: "No Poverty", "Zero Hunger", "Life on Land" and "Decent Work and Economic Growth".	N	N/A	N/A
European Capital Good	N	MSCI Governance rating of 5.5/10. Flags the controlling shareholder, although this is no longer the case since ownership has been reduced to 29%. Also flags presence of related parties on the supervisory board.	20% of management's LTIPS are tied to sustainability targets.	N	In 2016 78% of revenue derived from products offering a >10% improvement in energy efficiency. 20% of management's LTIPS are tied to sustainability targets.	N	N/A	N/A
UK Bank	I	Rating of 6.6/10 is OK, however, MSCI flag a decline in governance standards since 2016. Most notably investigations of alleged misconduct by the CEO, related party transactions and over boarded directors. Should however be credited for returning to private ownership.	CEO remuneration flagged.	N	Scores relatively poorly (BB), with MSCI flagging very high (highest vs. peers) customer complaints as a proportion of assets. The level, and continuous revision of, PPI provisions is a further concern. On the positive side have established an E&S risk framework in to its financing operations.	Y	Y	We engaged with the company on product safety, particularly around the suitability of products given the ease of which they can be applied for and what steps are in place to educate and protect consumers in this regard.
European Multi-Line Insurance	N	MSCI Governance rating of 8.7 brought down by ownership and control from a large single shareholder with 14% of capital ownership and 24% voting rights. This has been a long-term shareholder, we do not view this as an issue. Positively we note high levels of financial and risk expertise, and female representation, both at leading levels among financial companies.	-	ROE - more relevant for financials	IVA Report scores the company well on social and environmental issues relative to peers. Continues to lead investment peers through its relatively deep integration of ESG factors into its investments and underwriting activities. It discloses a clear ESG engagement and voting framework.	N	N/A	N/A

ESG queries raised (cont'd)

Description	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
European Multi-Line Insurance	I	MSCI Governance rating of 6.9. Concerns over three supervisory board members being over boarded raising concerns about their availability. The board's composition is relatively new and we require time to see how this plays out.	–	ROE – more relevant for financials	IVA Report scores the company highly on social and environmental issues relative to peers. It is noted that the company has a strategic commitment towards responsible investing in its vast equity and fixed income portfolio. Its micro insurance reaches into 11 emerging markets and it has expanded into micro-savings and micro-equity program offerings.	N	N/A	N/A
UK Cap Good	I	Rating of 7.8/10, highlight the CEO stepping down in 2016 and the 72% vote against pay in 2016, otherwise governance seems fine.	Substantial shareholder voting against remuneration. CEO departed in 2016.	N	Scores relatively highly (A), which we feel is quite generous given the impact on the land/ climate from the end products (pumps used in mining/ fracking).	N	N	We have already engaged on remuneration.
US Food Retail	I	Rating of 6.2/10. Highlight that many of the board members are rather old, with almost half of the directors have served over 15 years. We do not find this concerning, indeed quite the opposite, as maintaining the culture of the company is a key competitive advantage.	–	N	Graded B (just upgraded from CCC), as they have started to publish new food safety standards. Has suffered from recalls of its private label products in the past, and MSCI highlights the fact they need to improve their controls.	N	N/A	N/A
US Tech Hardware	N	Score of 7.2/10. MSCI highlighted large equity awards to executives.	Large equity awards to executives.	N	Rating of A. Issues flagged were antitrust issues, tax policy.	N	N/A	N/A
Australian Airport	N	Rating of 6.5/10, with the primary flags in relation to accounting practices.	Management are paid on DPS growth, TSR and individual KPI's.	N	Scores very highly (AAA), which we feel is quite generous given the indirect exposure to airline emissions. However practices in general do appear to be robust in relation to factors that it has under its control.	N	N/A	N/A
LatAm Airline	I	Presence of controlling shareholder and low disclosure on management pay.	Management are best in class, though we note undesirable related party transactions and 'closeness' to the government.	N	Airlines have a considerably negative impact on the environment given the level of emissions.	Y	Y	Discussion with the company supported our initial view that the relationship with the government is close due to the company's strategic importance to the national economy which is also the rationale being the shareholding structure. The transition towards 737MAX planes will improve emissions due to an improvement in overall fleet fuel efficiency.

ESG queries raised (cont'd)

Description	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 Speciality Chemicals	I	Generally OK, we note the presence of robust corporate culture.	Equity incentive awards are based on the peer group of companies and previous awards, which doesn't seem a great approach.	N	Community activity appears to be a key focus. However the company does/ did have asbestos exposure.	Y	Y	We engaged with the company to provide our view on the approach to equity incentive awards.
US Speciality Chemicals	I	Broadly OK but the pay structure is not great.	Long term incentive: stock options, TSR contingent shares and performance based restricted stock is used. It is not very clear how the board judges the number of these units to grant.	N	Better than average on CO2 and water, but is not as transparent as it might be. However, the company does appear quite clear on progress vs their explicit 2020 ESG goals, so MSCI seems harsh here. Does/did have asbestos exposure.	N	N/A	N/A
US Utility	I	Rating of 5.3/10, there are signs of over boarding, and leadership concerns.	The STIP is driven by adj EPS (50%) and a mix of operational/ customer/ individual targets. The LTIP is driven by performance shares (TSR relative against peers, and EPS vs targets, which don't appear to be disclosed).	N	Whilst carbon emissions are OK in an industry context following a progression towards more natural gas fired generation, the major flag is the enormous burden (MSCI quote \$10bn) on the company to dispose of its coal ash.	Y	Y	We provided feedback to the company on our concerns on the level of CEO pay vs. operational performance, and the lack of disclosure on 'internal EPS targets' driving the LTIP. We also noted the poor view we had on the impact of coal ash spills.
US Utility	I	Governance is OK though there are some concerns with regards to accounting flagged - Very Aggressive, concerns over goodwill/ M&A.	Short term pay is primarily driven by adjusted EPS growth, qualitative is also a factor. Long term plan is based on performance share units focussed on TSR against Northern American utilities, other half is EPS cumulative.	N	Scores poorly on MSCI IVA rating (BBB), which is surprising given the proportion of the business in T&D (only ca. 12% is fossil generation). Notably human capital development is flagged.	N	N/A	N/A
European Household Products	I	MSCI rating of 6.9/10. We note the existence of multiple share classes with different voting rights, and the family control.	-	N	Quite advanced when compared with peers in tracking and targeting specific sustainability goals, as seen in their annual report and recent presentations.	N	N/A	N/A
European Apparel Business	I	Scores highly on MSCI's governance rankings.	Total comp for executive board members was €16m for 2016 (c. 1% of EBIT). LTIP is based on TSR vs. DAX, profitability and NI targets.	N	MSCI rates highly on E&S factors driven by industry leading practices to reduce emissions. However we feel the rating is overly generous.	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

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