



1Q 2019

NOMURA ASSET MANAGEMENT U.K. LTD.

# Responsible Investing Report

# Introduction

Nomura Asset Management U.K. Limited (“NAM UK”) is committed to Responsible Investment and has a strong track record of acting in a manner that maximises both the experiences of our clients and the other stakeholders impacted by our investments. Nomura Asset Management has been a signatory to the UNPRI since 2011 and NAM UK has been integrating ESG research (both proprietary internal research and external data providers) into all individual equity investment committee reviews since 2013. Our engagement activity and ESG research have been published publicly online since 2Q16 in an effort to promote transparency and increase the impact of our activity.

It is our view that Responsible Investment is best undertaken by taking into consideration the impact of a corporation’s existence and the associated investment decisions on all stakeholders, not just ourselves as shareholders and/or bond investors. As responsible investors we must take into account the broader impact of our investment decisions and it is our duty to engage with the businesses we own and/or lend to, and even those we don’t, to push for better practices where necessary. Targets for engagement are identified through our ongoing ESG research programme, which takes into consideration the ESG risks within our client portfolios and ongoing evaluation of the impact that our investee companies have on all stakeholders. An assessment is made as to the severity of the engagement topic and the engagement itself is carried out at the appropriate level. Where we feel our engagement activity is not having the desired effect we will escalate our concerns to more senior management or directly to the board. We are proactive with regards to proxy voting as a means to express our views and we actively seek to collaborate with other investors to maximise the impact of our activity.

"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 17 companies were reviewed and assigned ESG ratings by the NAM UK equity and fixed income teams. Of these, 2 were awarded a rating of ‘N’ (No Issues), 3 a rating of ‘I’ (Issues but Improving), 12 a rating of ‘I’ (Issues, Not Improving). In addition, 19 further companies were engaged with, supplementary to full company reviews, to discuss ESG related queries that arose over the period. In total 28 companies were contacted to discuss ESG concerns – of these engagements 9 were focused on Environmental Impact, 8 on Social Impact, 8 Governance and 3 Remuneration. Of the companies we engaged with 13 were based in North America, 14 in Europe, and 1 within Emerging Markets. Responses were received from 24 companies (86% response ratio).

### Companies reviewed

N (No Issues)	2
I (Issues, but improving)	3
I (Issues, not improving)	12
U (Uninvestable)	0
<b>Total</b>	<b>17</b>

### Engagements

Number of contacts	28
Number of responses	24
<b>Response Ratio</b>	<b>86%</b>

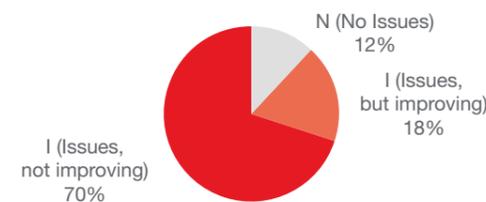
### Engagements by Region

Europe	14
Japan	0
North America	13
Emerging Markets	1

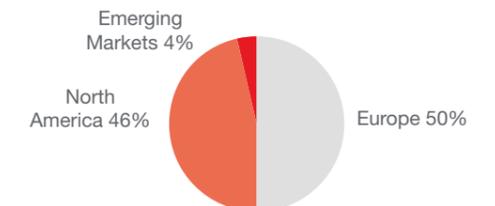
### Engagements by Subject

Capital Allocation	0
Environmental Impact	9
Social Impact	8
Remuneration	3
Governance	8

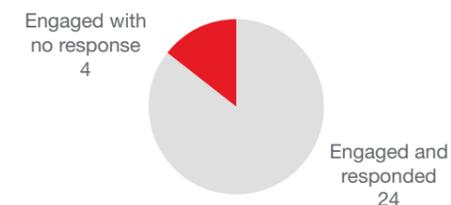
### Ratings Assigned Over the Period



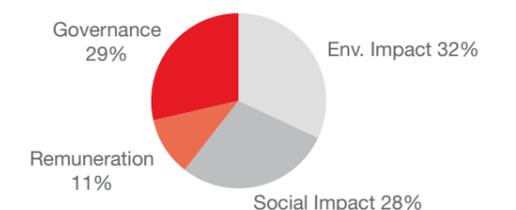
### Engagement by Region



### Engagement Over the Period



### Engagement by Type



# Notes from our Responsible Investing Research

- Collaboration:** Over the quarter we engaged with six companies as part of a series of collaborative engagements managed by the UNPRI platform. The particular focus was on lobbying disclosures. We strongly believe that current legally mandated disclosures do not go far enough and leave substantial scope for companies to mislead investors over the lobbying that is taking place on their behalf, and ultimately what investors are supporting as owners of these businesses. It is our opinion that the legally required disclosures should also be simplified by companies for investor consumption. We strongly believe that through collaborating with other like-minded investors we have a greater chance of bringing about positive change.
- Policy:** Nomura Asset Management (UK) participated in multiple roundtable discussions and surveys to support the development of Responsible Investment practices and the harmonisation of principles. We are very encouraged by the developments taking place and that we have the opportunity to push for greater responsibility across the industry. However, we also recognise that we are at the very early stages and there are vast complications with regards to reaching harmonised industry wide definitions and principles.
- Environmental Impact:** This was again a strong focus for the team over the quarter. We engaged with a number of businesses that we believe do not properly report lobbying activity, both directly and indirectly through trade associations, in relation to emissions and climate change. The complexity surrounding lobbying was illustrated recently within a report by the Financial Times that alleged a very well-known Integrated Oil & Gas company had lobbied against stricter methane regulation whilst publicly claiming to take a leading role in limiting methane emissions.

# Engagement Tracking

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 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 unlikely to be significant. As such we have identified a number of companies where we believe ongoing engagement has a high likelihood of precipitating change. We typically re-engage with these companies on a quarterly basis (at the very least biannually).

Description	Nature of Engagement	Status of Engagement	Status of Engagements/Notes
<b>US Apparel Retailer</b>	Environmental – Sourcing of wood based raw materials was flagged as unsustainable by the Rainforest Action Network (RAN)	Completed – Monitoring	<b>Meeting (CFO) Sep 2016; Call w/ Head Sustainability Jun 2018; Call w/ CFO &amp; Head Sustainability Dec 2018; Call w/ Canopy (NGO) Feb 2019</b> Following multiple engagements the company has adopted a raw materials sourcing policy that is in line with RAN's expectations. We are continuing to engage regularly with the company to ensure that adequate progress is made. We most recently engaged with Canopy, an NGO dedicated to ensuring supply chain sustainability and holding companies accountable
<b>UK Telecom</b>	Governance – Concerns over the timing of disclosures to the sell side and management remuneration	Ongoing	<b>Meeting w/ CFO Oct 2017; Meeting w/ IR March 2018; Call w/ Remuneration committee Jun 2018; Meeting w/ RemCo Chairman Oct 2018; Email exchange w/ Corporate Secretary Mar 2019</b> We have held multiple meetings and calls with the CFO & remuneration committee to express our disappointment with policies. Whilst we were pleased to see certain changes in the remuneration policy we still believe the company is not doing enough to address our (and the market's) concerns and continue to engage proactively
<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 w/Head Agricultural Services Dec 2017; Meeting w/ Chairman Mar 2018 Emailed Governance Head Jun 2018; Update call Nov 2018; Meeting w/ Chairman Feb 2019</b> Attended an initial group investor call, followed up through engagement with the group Chairman. We have continued to monitor the company's progress through NGO's and recently engaged with the company on reports by RAN on the use of illegal labour in Indonesia to stress to the company that we are disappointed to see them being singled out
<b>Swedish Bank</b>	Governance – It is alleged that improper control practices have allowed money laundering through its Baltic divisions. There have been further allegations of providing inside information to top shareholders	Ongoing	<b>Email exchange w/ IR Feb 2019; Meeting w/ Vice Chairman at HQ Mar 2019</b> Engaged extensively with the bank at the highest level to better understand the allegations that have been made in the media. We have strongly pushed for senior management change and expressed disappointment at how communication has been handled
<b>Canadian Integrated Oil &amp; Gas</b>	Environmental – Incidents of birds being killed following contact with tailings ponds	Completed – Monitoring	<b>Email Exchange with Senior ESG Analyst Dec 2018</b> Engaged with the senior ESG analyst to gain clarification on the incidents of birds being killed following contact with tailing ponds. It would appear they do have some adequate plans in place to prevent further bird deaths but we will continue to monitor the situation
<b>US Food Retail</b>	Environmental – Practices around the excessive use of plastics in the supply chain	Dis-Engaged	<b>Email Exchange w/ IR Oct 2018; Call w/ Investor Relations Dec 2018</b> We were disappointed by the company's approach with regards to not having any policy or approach to this, and felt there was very low likelihood of being able to achieve change in the medium term therefore we have dis-engaged
<b>Korean Automotive OEM</b>	Governance – 'Chaebol' structure and a track record of not acting in the best interests of minority structure	Dis-Engaged	<b>Meeting w/ Head of Governance Nov 2017; Email exchange Jun 2018; Multiple attempts to re-engage via Email</b> Governance practices are far behind those of DM peers; we believed that efforts to reach out to investors might provide an opportunity to push for improved governance. Certain improvements were made following our engagement however we found the company to be broadly unresponsive and decided to dis-engage in 4Q18

## Responsible Investing Case Study

Over the quarter one of our investee companies, a Swedish bank, was the subject of serious allegations that weaknesses in its Anti Money Laundering practices had allowed billions of dollars to be laundered through its Baltic branches. The Swedish network 'Sveriges Television' (SVT) initially identified 50 "high risk" bank accounts involved in transfers of greater than \$5.8bn up to 2015 between itself and another Danish bank implicated in a high profile money laundering scandal. It alleged that there must have been serious flaws in the bank's Anti Money Laundering controls given the nature of the entities involved (shell companies, BVI & Cayman headquarters etc) and the length of time over which the transfers took place.

In response to the allegations the bank launched external investigation to look through SVT's report. The bank has further highlighted that it makes "a couple of thousand" suspicious activity reports to authorities every year. The results of the initial investigation by the Forensic Risk Alliance (FRA) identified that all of these 50 accounts are now closed, but it states that it is not clear as to whether these specific accounts were closed by the bank itself (following KYC procedures) or by the clients themselves. The bank was subsequently raided by the Swedish Authorities, and SVT alleged that over ten years €135bn of high risk money has moved through the bank's Estonian branch.

We have engaged extensively with the company since the initial accusations, first meeting with the CEO in October 2018 at which time the accusations were very strongly rebuked. Following the subsequent allegations in February 2019 we then engaged initially with investor relations and held an internal committee meeting to discuss as to whether the stock had become uninvestable. Subsequently our Responsible Investment lead Alex Rowe travelled to Sweden to meet with the Vice Chairman of the board and to meet with retail clients of the bank in Stockholm to investigate the facts behind the allegations.

We have been especially disappointed by the company's communication, in particular comments about having no overlap with 'suspicious clients' previously identified in AML failings at the Danish bank. The bank later stated it had only meant overlap with the publically disclosed Danish bank accounts, but clearly the market took this statement very differently. The company has suggested that the mistake it made was an overestimation of the understanding of the difficulties involved in preventing money laundering, however we feel strongly that the CEO's credibility had been irreparably damaged, especially given her prior role at the Baltic branches, and her position was no longer tenable. We have strongly pushed to the board that sweeping changes must be made to executive management. The CEO was subsequently fired in advance of the company AGM.

We recognise that anti money laundering has become exceptionally complex and that criminals are rapidly developing new, more technically advanced ways to misuse the system. Moreover the bank is clearly not alone with regards to being caught in money laundering scandals, however time will tell as to whether the bank has taken the required measures to prevent laundering. We are however very unhappy with the communication by the company and believe there are clear signs that the control systems in place at the time did not allow the bank to appropriately understand and monitor its underlying business, especially within the Baltics. We disinvested from the bank in our sustainable equity strategy very shortly after the February allegations and reduced positions selectively across our fund range. We do however continue to remain invested in certain funds and maintain a dialogue with the bank.

## Sustainalytics Engagement (formerly GES International)

In addition to the extensive ESG research and engagement activity carried out at NAM UK, the services of Sustainalytics' engagement arm (formerly GES International) are used to maximise our engagement voice and ability to push for better practices and fairer outcomes for all stakeholders. The Sustainalytics engagement team has over 40 employees globally dedicated to corporate engagement and represent €1.5 trillion of investments worldwide. We include herein a summary of the engagement activity carried out on behalf of Nomura Asset Management as at the fourth quarter of 2018.

### Sustainalytics Engagement Summary Report

#### Ongoing Business Conduct Engagements (as at 4Q18).

Norm Area Breakdown	#	%	Industry Sector Breakdown	#	%	Geographic Breakdown	#	%
Labour Rights	102	30%	Industrials	61	18%	Asia	139	41%
Human Rights	94	28%	Materials	58	17%	Central/South America	59	18%
Environment	73	21%	Energy	50	15%	North America	48	13%
Corruption	69	20%	Consumer Staples	40	12%	Africa	43	13%
Inhumane Weapons	3	1%	Consumer Discretionary	38	11%	Europe	30	8%
			Financials	32	9%	Middle East	16	5%
			Utilities	29	9%	Oceania	6	2%
			IT	15	4%			
			Healthcare	14	4%			
			Telecoms Services	4	1%			

## Proxy Voting Record 1Q19

NAM UK seeks to act in a manner 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. NAM UK employs the services of Institutional Shareholder Services (ISS) to efficiently apply our proxy voting policy to individual proposals. ISS are provided with comprehensive and proprietary guidelines set out in our proxy voting policy.

NAM 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 and other stakeholders). Where we believe that a specific agenda item is not in the best interests of shareholders, NAM 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 NAM UK voted on 259 proposals across 11 shareholder meetings and 15 ballots. In total 59% of proposals were director related, with a further 19% in relation to 'Routine Business'. In total NAM UK voted 'With' management on 234 (90%) proposals and 'Against' management (or 'Withheld' our vote) on 25 (10%) proposals. Examples of where we voted 'Against' management, or elected to 'Withhold' our vote included:

- Voted 'Against' the election of a non-executive director for a Danish Pharmaceutical business as we did not believe that the direct nominee was truly independent.
- Voted 'For' a proposal that would require a US Technology company to disclose board diversity and qualifications on the grounds that this would address 'Social' ESG concerns. Management had advised a vote 'Against' this proposal.

### Proposals Voted on in 1Q19

Proposal subject	Count	Proportion of Total Votes
Directorships	152	58.7%
Routine Business	49	18.9%
Capitalization	30	11.6%
Compensation	21	8.1%
Antitakeover	3	1.2%
Health/Environment/Social	2	0.8%
Other	2	0.8%
Reorg/M&A	0	0.0%
<b>Total</b>	<b>259</b>	<b>100.0%</b>

### Proposals Voted 'Against' Management in 1Q19

Proposal subject	Count	Proportion of Total Votes
Directorships	21	84.0%
Routine Business	0	0.0%
Capitalization	0	0.0%
Compensation	4	16.0%
Antitakeover	0	0.0%
Health/Environment/Social	0	0.0%
Other	0	0.0%
Reorg/M&A	0	0.0%
<b>Total</b>	<b>25</b>	<b>100.0%</b>

### Voting Record vs. Management in 1Q19

	With	Against
<b>Votes</b>	234	25
<b>Proportion</b>	90.3%	9.7%

### Voting Record vs. ISS in 1Q19

	With	Against
<b>Votes</b>	241	18
<b>Proportion</b>	93.1%	6.9%

## ESG queries raised

ESG queries raised			
Description	ESG Rating	Governance	Specific Management/Pay
<b>US Healthcare Equipment</b>	Contacted Outside Formal Review	MSCI reports “worst-in-class” accounting practises, and concerns regarding “expense recognition” and “asset-liability valuation” ratios.	–
<b>UK Speciality Chemicals</b>	I (Improving)	Scores “AAA” from MSCI, although it does get flagged for over-boarding of directors and pay practices.	The present management group is relatively new (all <5 years). Bonus is driven by profit before tax, working capital management and non-financial objectives (20% weight) and only ~70% (vs max 180%) of salary was paid out last year. 50% of the bonus is deferred as shares. The LTIP is based on EPS and ROIC with targets for vesting being 4-15% EPS growth.
<b>European Capital Goods</b>	Contacted Outside Formal Review	–	Following multiple years of strategic missteps and poor share price performance we engaged with the board on remuneration practices.
<b>Swedish Bank</b>	Contacted Outside Formal Review	The company has been involved in allegations of improper control practices that allowed money laundering through its Baltic divisions. There have been further allegations of providing inside information to top shareholders.	–
<b>UK Integrated Oil &amp; Gas</b>	Contacted Outside Formal Review	–	–
<b>European Brewer</b>	Contacted Outside Formal Review	–	–
<b>US Integrated Oil &amp; Gas</b>	Contacted Outside Formal Review	–	–

ESG queries raised				
Environmental/Social	Company Contacted?	Engagement Issue	Company Responded?	Notes from Company Contact
Hindered by lower-than-average scores in Product Safety & Quality, due to a number of US FDA warning letters being handed in recently.	Y	Social Impact	Y	Reached out to the company to discuss our understanding of product safety issues and accounting practices.
Is involved in supplying the auto industry but the focus of these operations is on emission control and reduction. Is involved in precious metal recycling and also the production of battery materials for EVs. Hence from a business involvement perspective there don't seem to be any issues. Involved in the production of opiates, but largely for anti-addiction and other complex products.	N	N/A	N/A	N/A
–	Y	Governance	Y	We participated in a collaboration with GES to discuss remuneration practices. We engaged with the Chairman of the Board and Head of Executive Remuneration.
–	Y	Governance	Y	We met with the Vice Chairman in Sweden to discuss the issues and better understand the facts behind the media coverage. We also met with clients of the bank. We passed on our view that we do not believe it is tenable for the CEO to remain in charge and disappointment at the quality of communications.
Reports in the Financial Times allege that the company lobbied against stricter methane emissions regulation despite its opposing public stance on the matter.	Y	Environmental Impact	Y	The company disputed that it supports regulation of methane emissions by one federal agency (EPA) and not a range of different bodies.
MSCI raises two major areas for improvement, “Packaging Material & Waste” and “Health & Safety”. In particular risk of injuries holds back the score, particularly in Africa where this kind of issue seems more prevalent.	Y	Social Impact	Y	Reached out to the company to find out further details on the concerns flagged by ESG research data providers.
Does not disclose fully total lobbying (including indirect, trade associations etc.).	Y	Environmental Impact	Y	We reached out to the company to discuss a proxy resolution through the UNPRI collaboration platform. We advised that we support full transparency with regards to lobbying disclosure (not just the direct lobbying disclosures legally mandated).

## ESG queries raised (cont'd)

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
<b>US Integrated Oil &amp; Gas</b>	Contacted Outside Formal Review	-	-
<b>US Air Freight &amp; Logistics</b>	Contacted Outside Formal Review	-	-
<b>US Investment Bank &amp; Brokerage</b>	Contacted Outside Formal Review	-	-
<b>US Telecom</b>	Contacted Outside Formal Review	-	-
<b>European Automotive OEM</b>	I (No Improvement)	Lame duck CEO and CFO is a clear concern, in addition to over boarded directors and cross-shareholdings.	Historically the bonus has been driven by EBIT and non financial metrics, LT share plan driven by Return on Sales over 3 years relative to comparable peers and TSR relative. This will be reviewed for the incoming executives.
<b>US Automotive OEM</b>	I (Improvement)	Solid (7.9/10 from MSCI) though would note the CEO/Chair position and some concerns we have over the board of director's experience from our engagement last year (academics, military etc.).	-

Environmental/Social	ESG queries raised			Notes from Company Contact
	Company Contacted?	Engagement Issue	Company Responded?	
Does not disclose fully total lobbying (including indirect, trade associations etc.).	Y	Environmental Impact	N	We reached out to the company to discuss a proxy resolution through the UNPRI collaboration platform. We advised that we support full transparency with regards to lobbying disclosure (not just the direct lobbying disclosures legally mandated).
Does not disclose fully total lobbying (including indirect, trade associations etc.).	Y	Environmental Impact	Y	We reached out to the company to discuss a proxy resolution through the UNPRI collaboration platform. We advised that we support full transparency with regards to lobbying disclosure (not just the direct lobbying disclosures legally mandated).
Does not disclose fully total lobbying (including indirect, trade associations etc.).	Y	Environmental Impact	Y	We reached out to the company to discuss a proxy resolution through the UNPRI collaboration platform. We advised that we support full transparency with regards to lobbying disclosure (not just the direct lobbying disclosures legally mandated).
Does not disclose fully total lobbying (including indirect, trade associations etc.).	Y	Environmental Impact	Y	We reached out to the company to discuss a proxy resolution through the UNPRI collaboration platform. We advised that we support full transparency with regards to lobbying disclosure (not just the direct lobbying disclosures legally mandated).
Rated BBB by MSCI, with carbon footprint noted as a weakness alongside potential litigation risk.	Y	Governance	Y – Call February	Engaged on the board composition and remuneration targets.
Scores very poorly as per MSCI (CCC) given the product carbon footprint issues (very large, highly polluting trucks) and the issues the company has faced over time with legacy ignition switch related deaths etc.	Y	Environmental Impact	Y	We reached out to the company to discuss a proxy resolution through the UNPRI collaboration platform. We advised that we support full transparency with regards to lobbying disclosure (not just the direct lobbying disclosures legally mandated).

## ESG queries raised (cont'd)

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
<b>UK Telecom</b>	Contacted Outside Formal Review	–	Concerns over management remuneration that does not align with shareholders.
<b>US Cruise Line</b>	Contacted Outside Formal Review	–	–
<b>European Software Services</b>	Contacted Outside Formal Review	–	Since stock based compensation is primarily cash-settled it impacts free cash flow. Therefore, instead of using non-IFRS operating margin as a KPI, we think using IFRS operating margin is more appropriate. In addition, we think using FCF metrics would be appropriate as well.
<b>US Industrial Machinery</b>	I (No Improvement)	Governance OK, but there is an entrenched board and overboarded directors flagged, CEO/Chair combined role. Proxy access and shareholder rights to convene are flagged.	CEO paid USD18mn in 2018, very high for size of company. MSCI score as 3rd percentile in the US, fixed high, severance vesting, perks, dilution. Paid on revenue growth, earnings per share growth and return on invested capital during the three-year performance period.
<b>US Apparel</b>	I (No Improvement)	Upgraded to BB from CCC by MSCI.	Excessive comp (12% of FY 3/18 EBIT).
<b>EU Diversified Bank</b>	Contacted Outside Formal Review	–	–

Environmental/Social	ESG queries raised			Notes from Company Contact
	Company Contacted?	Engagement Issue	Company Responded?	
–	Y	Remuneration	Y	Contacted to provide feedback on suggested new remuneration policy. Whilst we acknowledge a good dialogue and that there has been significant progress on addressing the structural issues and non-aligned metrics that we had raised. One very big issue we potentially have with the new long-term metrics is that we are not clear if/when the company intends to publish threshold and target levels especially for Aggregate Free Cash Flow.
We are concerned by the level of particulate emissions emitted by cruise liners.	Y	Environmental Impact	Y	Met in Miami and discussed the future of cruise ship emissions including the types of fuel that should be used and the balancing of profits (SH returns) vs. environmental impact. Have opted to install scrubbers and have been retrofitting for several years now. Today have over 70% of their fleet fitted and compliant with new IMO 2020 standards.
–	Y	Remuneration	N	Engaged with management on remuneration. We believe growth in FCF would be a useful metric to monitor the financial performance. In order to include FCF, perhaps the "Discretionary" percentage could be peeled back.
Broad end market exposure including autos, O&G, trucking, heavy industry.	Y	Governance	Y – Call in February	We passed on our feedback to management that CEO remuneration is too high.
Flagged for supply chain labour standard issues.	Y	Remuneration	Y – Call in February	Engaged with the Head of Remuneration to discuss the remuneration levels which are in our opinion grossly excessive.
Broad end market exposure with decent amount of lending exposure to O&G.	Y	Environmental Impact	Y	We engaged with management on the strategy for aligning the loan portfolio with climate change. We were quite disappointed with management response which suggested very little to do with being responsible and more being used as a route to seek business opportunities.

## ESG queries raised (cont'd)

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
<b>US Aerospace &amp; Defence</b>	Contacted Outside Formal Review	–	CEO is paid ca. 1.5% of EBIT which is excessive.
<b>Swiss Packaged Foods</b>	Contacted Outside Formal Review	–	–
<b>Swiss Asset Management</b>	I (Improvement)	MSCI Governance rating of 8.5/10 brought down by less than 30% of the board being female and related party transactions with the COO. The transactions relate to a loan balance of SFr1.9m.	Variable components influenced by TSR against STOXX BANKS index and internal group targets.
<b>Swiss Diversified Capital Markets</b>	I (No Improvement)	MSCI Governance rating of 7.9/10. There have been significant votes against executive remuneration.	Metrics are 65% quant based on PBT, adjusted RoE and capital levels.
<b>Canadian Oil &amp; Gas Transportation</b>	Contacted Outside Formal Review	–	–
<b>French Investment Bank</b>	I (No Improvement)	MSCI governance score of 7.4	CEO widely disliked by investors given poor company performance and dubious capital allocation. Given the poor performance, his 10+ year tenure seems far too long but there is little appetite by the board to remove him. Incentive metrics include operating income and EPS.

Environmental/Social	ESG queries raised			
	Company Contacted?	Engagement Issue	Company Responded?	Notes from Company Contact
Company has long been blacklisted for involvement with cluster munitions and nuclear activity.	Y	Social Impact	Y	Engaged on remuneration strongly suggesting management pay was just too high – our views will be passed on to senior management and also on cluster munitions. Cluster munitions business exited in 2017 however the small nuclear exposure remains.
The company wants to be a responsible player in terms of quality and labour practices in coffee, cocoa and other supply chains. To rule out operating in these markets because they are complicated is not a solution, and actually the company is in a better position to improve conditions for stakeholders than its peers.	Y	Social Impact	Y	We attended a roundtable with the Chairman as part of our continued engagement on supply chain issues. There was a message of continuity and steady progress on both strategy and ESG developments.
Company has been implicated in a number of controversies including allegations of money laundering related to FIF organisation. It also paid a \$500m fine to the DoJ in 2015 related to US tax probes.	N	N/A	N/A	N/A
Company has been implicated in a number of scandals over the years from its investment bank including RMBS misselling. Within the wealth management division the company has been involved in cases related cross-border private banking assets.	N	N/A	N/A	N/A
There are concerns over the rights of indigenous people.	Y	Social Impact	Y – Call in February	We joined a collaborative engagement with GES (now Sustainalytics) to discuss the rights of indigenous people. We believe that our presence within these discussions and recognition of these important matters alongside other investors forces companies to act more responsibly.
ESG issues are inevitably par for the course with investment banks. The bank was recently fined for rate rigging. MSCI flag 2 severe and 11 moderate controversies.	N	N/A	N/A	N/A

## ESG queries raised (cont'd)

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
<b>French Investment Bank</b>	I (No Improvement)	MSCI governance score of 7.1	Better management team than its French peer with a pretty good track record of delivering on previous targets. Incentive metrics include operating income, Cost/ Income and EPS.
<b>US Defence</b>	I (No Improvement)	Broadly positive view of governance practices.	Shareholder friendly management with very strong compensation targets (relative TSR, FCF, ROIC). Total comp of \$20mm is high but not extraordinary given the size of the business and performance. CEO's accrued \$48m in pension benefits is eye-catching.
<b>US Defence</b>	I (No Improvement)	Broadly positive view of governance practices.	Shareholder friendly management with very strong compensation targets (relative TSR, FCF, ROIC). Total comp of \$15mm.
<b>US Defence</b>	I (No Improvement)	–	Shareholder friendly management with very strong compensation targets (relative TSR, FCF). Total comp of \$16mm.
<b>German Pharmaceutical</b>	Contacted Outside Formal Review	Certain concerns have been raised in relation to the current very large merger and ongoing integration (most notably with regards to the risk assessment).	–
<b>German Auto OEM</b>	I (No Improvement)	Nomura based FI ESG Z-score is 0.10 vs average peer of 0.0 score showing slightly better performance than average peer and better performance than MSCI score (assigned the lowest score of CCC).	–

Environmental/Social	ESG queries raised			
	Company Contacted?	Engagement Issue	Company Responded?	Notes from Company Contact
ESG issues are inevitably par for the course with investment banks. Most recently fined for rate rigging. MSCI flag 1 severe and 14 moderate controversies.	Y	Social Impact	N	Contacted to get some clarity around controls and procedures in place, particularly in the markets division, to prevent cases of market manipulation and other improper behaviour by employees in the future.
Obvious ESG issue is the nature of the products. We consider the underlying exposure (e.g. missiles vs. anti aircraft technology etc) and believe this business to be slightly 'better' than average. We note 5% of sales are to Saudi.	Y	Governance	Y	Contacted to provide feedback on pension. We were advised that our feedback would be taken into consideration by the corporate secretary.
Obvious ESG issue is the nature of the products. We consider the underlying exposure (e.g. missiles vs. anti aircraft technology etc) and believe this business to be slightly 'worse' than average given the missile exposure. 2.5% of sales are to Saudi Arabia.	N	N/A	N/A	N/A
Obvious ESG issue is the nature of the products. We consider the underlying exposure (e.g. missiles vs. anti aircraft technology etc) and believe this business to be slightly 'better' than average.	N	N/A	N/A	N/A
–	Y	Governance	Y – Call in January	Nomura collaborated with GES, participating in a GES arranged call on the risk assessment of the company's recent merger.
Nomura based model assigns a good E Z-score of 1.01 vs average peer of 0.35 E Z-score which diverges from MSCI assessment where Product Carbon foot print Score is 4.6 lower than industry 6.6 (Environment is 4.9) because of high regulatory pressure to reduce the average fleet emissions of its vehicles, especially in Europe where emissions standards are strict.	Y	Governance	N	Wrote to management to express our concerns and provide feedback from updating our ESG research.

## ESG queries raised (cont'd)

Description	ESG Rating	ESG queries raised	
		Governance	Specific Management/Pay
<b>UK Advertising</b>	I (No Improvement)	MSCI Governance rating has been increasing recently to 7.4. MSCI flags significant votes against directors remuneration and executive misconduct, but previous CEO is now gone and there is a new CEO in place.	Compensation has historically been high and a subject of controversy, although it seems increasingly under control.
<b>Hong Kong Gaming</b>	I (No Improvement)	Governance is robust especially in relative to other Macau Casinos. Scores well as per MSCI score 7.6 (top quartile), with a strong influence from US parent. Note is controlled by US parent.	Controlled by US parent company, and we note the founding family own ca. 50% of US parent company and the founder still sits as CEO/Chair of both US company and Macau company.
<b>German Healthcare Services</b>	Contacted Outside Formal Review	-	-
<b>French Life Insurance</b>	N	Presence of strong controlling shareholders, with the government holding a 41% stake and another investor owning 36%. NAM FI quant score 6.0.	-
<b>French Utility</b>	N	Significant state-ownership is a negative on the equity and reflected in its valuation. However, from a creditor's and environmental and social perspective, the significant involvement of the sovereign should always incentivise good citizenship.	-

Environmental/Social	ESG queries raised			
	Company Contacted?	Engagement Issue	Company Responded?	Notes from Company Contact
Business risk report suggests avoids controversial industries, but flags involvement with some sanctioned nations: Cuba, Syria.	Y	Governance	Y	We contacted the company to provide feedback on our thoughts about the new CEO and issues with insider control. We further advised that compensation remains un-transparent. The company responded, but does not appear to have truly taken on our views.
Clear issues with regards to the 'Social' Impact of Casinos, given the association with addiction, money laundering and debt collection practices. Notably anticorruption practices commended by MSCI. A case could be made that Chinese casinos are uninvestable, however with far lower VIP/Junket exposure and superior risk practices this is the least unsustainable.	Y	Social Impact	Y – Call in January	Engaged with management to discuss practices around preventing money laundering and addiction, alongside the management of the controlling interest of the parent.
Labour management and Product Safety concerns raised by MSCI.	Y	Social Impact	Y – Call in January	Communicating with MSCI and other ESG research providers and are working actively on improving their ratings. Acknowledge that they are slightly behind the pack in terms of disclosures. Low rating in the "Product Safety and Quality" sub-category because it has a lot of product recalls (quantifiable). However, MSCI fails to factor in the fact that not a single patient was injured as a result of its very prudent product recall category.
Under our proprietary FI ESG score ranks among top insurance groups (E-Score 7.4, S-Score 7.6). Demonstrates strategic integration of ESG risks into its investment portfolio and consistently follows global standards on responsible investment across its asset classes.	N	N/A	N/A	N/A
Extremely low carbon footprint for an electric utility as a function of its significant nuclear fleet (77% of generation in 2017). In France specifically, reaching the Paris Climate Accord goals requires less structural changes to the production and consumption patterns for electricity.	N	N/A	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>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortization
<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>PSU</b>	Performance Share Unit
<b>RoA</b>	Return on Assets
<b>ROCE</b>	Return on Capital Employed
<b>ROIC</b>	Return on Invested Capital
<b>RSU</b>	Restricted Share Unit
<b>SAR</b>	Stock Appreciation Rights
<b>SH</b>	Shareholder
<b>SOE</b>	State owned Enterprise
<b>STIP</b>	Short Term Investment Plan
<b>TSR</b>	Total Shareholder Return
<b>UNSDG</b>	UN Sustainable Development Goals
<b>WC</b>	Working capital

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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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