

Nomura Asset Management U.K. Limited

# The Task Force on Climate-related Financial Disclosures (TCFD) Recommendations 2023 Report

## Compliance statement

In accordance with ESG 2.2.7R, I confirm that the disclosures included in this report, including any third party or group disclosures cross-referenced in this report, comply with the requirements in chapter 2 of the FCA's ESG sourcebook.

鈴木健一

Kenichi Suzuki / CEO, Nomura Asset Management U.K. Limited

## Climate-related financial disclosures

### Our climate ambition and strategy

Nomura Asset Management U.K. Limited ("NAM UK") is a wholly-owned subsidiary of Nomura Asset Management Co., Ltd. ("NAM"). NAM recognises climate change as a high priority issue and in recognition of this, became a signatory of the Net Zero Asset Managers initiative in August 2021. To reduce the impact of climate change, the Paris Agreement sets a shared long-term goal of limiting the global average temperature increase to well below 2°C, and striving for 1.5°C, above pre-industrial levels. In October 2021, NAM announced its goal to achieve net zero greenhouse gas (GHG) emissions for both its investment portfolios and its own operations by 2050, and that by 2030 an interim target of 55% of its portfolio assets to be managed in alignment with achieving net zero emissions by 2050 or sooner.

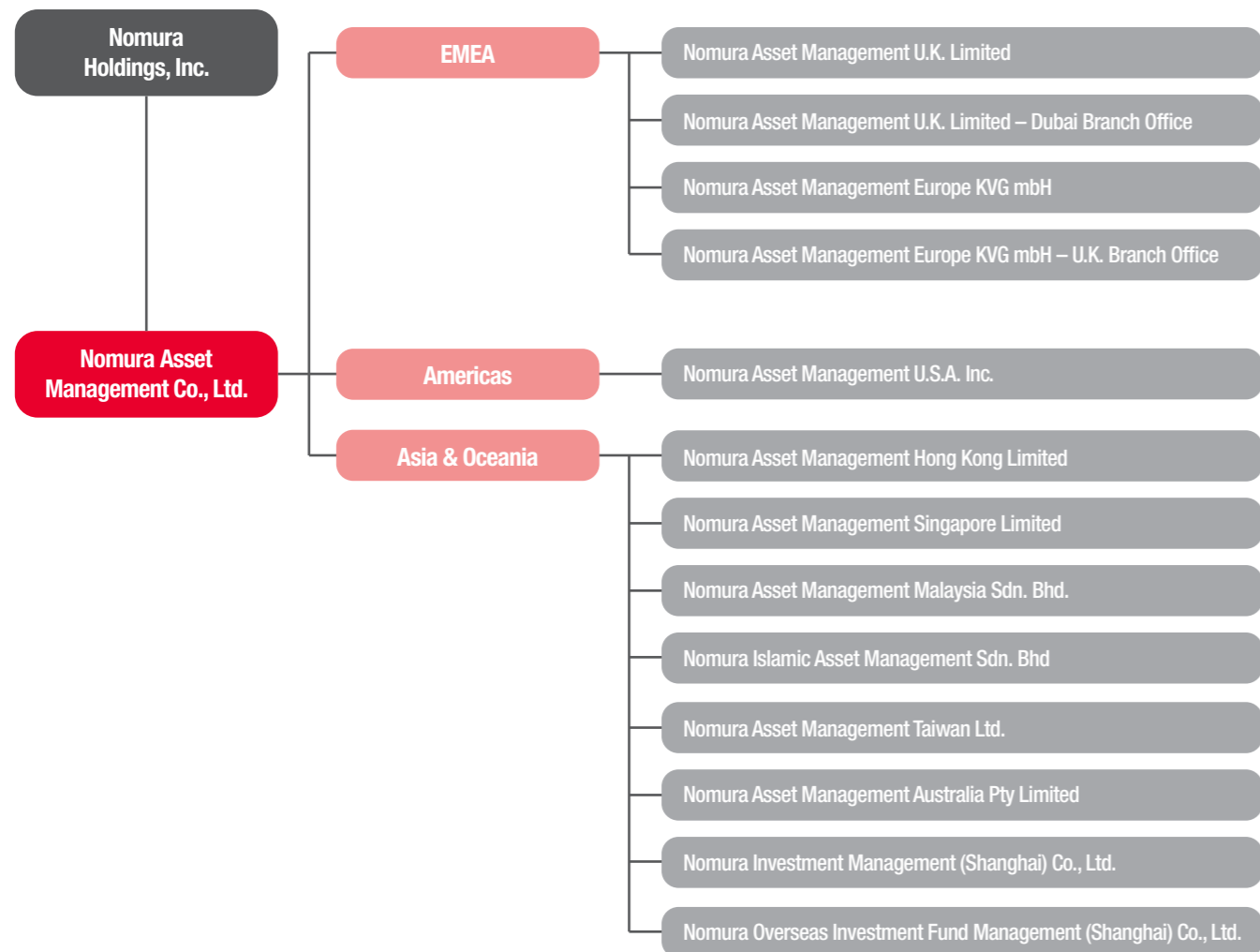
Nomura Holdings, a parent company of NAM, has a long-standing mission "to enrich society through our expertise in capital markets" which applies to all group companies. With this mission at our core, NAM UK endeavours to be a responsible investor seeking to provide sustainability capabilities that can contribute to enhanced corporate value and a sustainable society side by side.

As an entity of the larger Nomura Asset Management Group ("NAM Group", see "NAM Group Structure" below), NAM UK is in scope of producing our own TCFD report to comply with the current regulatory requirements as set out in the FCA's ESG sourcebook. Through this report, NAM UK aims to provide transparency to assist our stakeholders in understanding the impact of climate change on our businesses. This is our first iteration of climate-related disclosures and as such, with this being the commencement of our journey, we recognise that enhancements need to be made.

For your reference, the following definitions will be used throughout this document:

"NAM" "NAM Tokyo"	This refers to Nomura Asset Management Co., Ltd., the Head Office of the NAM Group based in Tokyo, Japan.
"NAM Group"	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" "We" "Our" "Us"	This refers to Nomura Asset Management U.K. Limited, the UK based subsidiary of NAM Tokyo.

## NAM Group structure



## TCFD achievements 2023

### Governance

#### Achievements

##### Board's Oversight of climate-related risks and opportunities:

- NAM UK has agreed to establish a new Sustainability Committee, whose primary purposes will include setting, monitoring and reviewing entity-level climate-related targets, strategies and frameworks. The Sustainability Committee will report directly to the NAM UK Executive Committee ("Exco"), which reports to the NAM UK Board of Directors ("BoD") (see figure "Governance Structure" below).

##### Management's role in assessing and managing climate-related risks and opportunities:

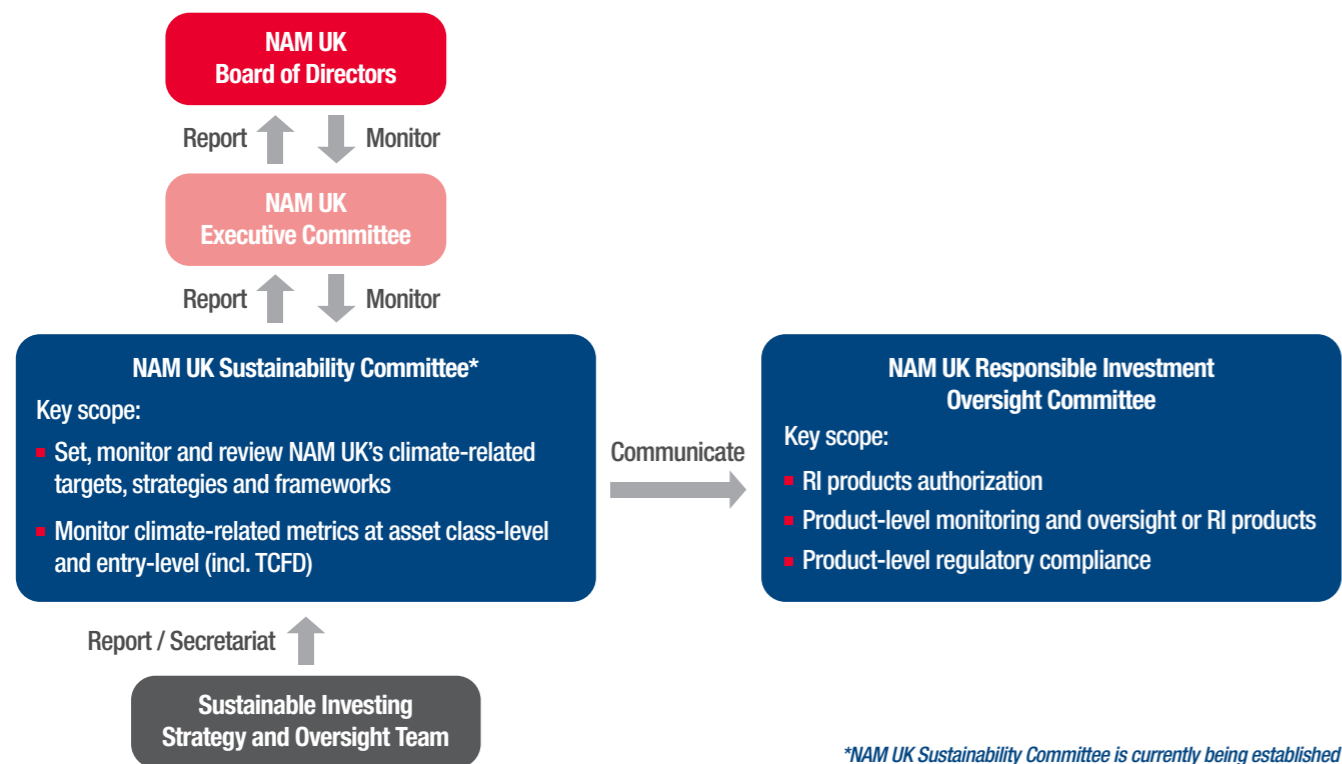
- It has been agreed that the NAM UK Sustainable Investing Strategy and Oversight ("SISO") team, which currently functions as the secretariat for the Responsible Investment Oversight Committee, will be the secretariat to the new Sustainability Committee with the role of assessing and reporting climate-related risks and opportunities for NAM UK.
- NAM UK has the Responsible Investment Oversight Committee ("RIOC") which has functioned as an oversight entity to monitor product-level sustainability-related commitments including carbon metrics and climate-related risks & opportunities for NAM Group Article 8 and 9 products.

#### Development & Improvement Plans 2024

- New Sustainability Committee to be established.
- Conduct training(s) for the BoD and Exco for sustainability upskilling.
- Establish the processes and procedures required to enable the board to perform effective monitoring and oversight of climate-related risks and opportunities, set targets and strategies and to monitor progress against them.
- New Sustainability Committee to communicate with relevant committees across NAM UK to provide guidance, oversee and embed climate-related risks and opportunities.
- Review the remuneration structure to reflect the sustainability ambitions of NAM UK.
- NAM UK will work to enhance a sustainability risk framework at entity-level with the help of an external advisor.
- Conduct training(s) for BoDs and Exco for sustainability upskilling.
- New Sustainability Committee to report climate-related metrics to the BoD and Exco to enable management and the Board to make appropriate and informed business decisions.

# TCFD achievements 2023

## Governance structure



At NAM UK, the governance framework is to be established and embedded within our overarching corporate structure for the purpose of managing sustainability risks and opportunities including climate-related risks and opportunities. This governance structure will encompass the participation of various committees and departments, including the BoD, Exco, new Sustainability Committee, RIOC and SISO team (see figure above). The new Sustainability Committee will set, monitor and review NAM UK climate-related targets, strategies and frameworks amongst other sustainability-related topics. The Committee will also monitor climate metrics and analysis at asset class-level and entity-level which enables the NAM UK Exco and BoD to make appropriate and informed decisions. The primary objective of this governance structure is the implementation of continuous loop of 1) assess, 2) set targets & strategies, 3) review for the purpose of climate-related risk and opportunity management for products managed by NAM UK. The new Sustainability Committee will communicate targets, strategies and frameworks set by the Committee and other topics with relevant committees and departments across NAM UK to ensure sustainability risks and opportunities (including climate-related risks and opportunities) are embedded across the entity.

We are aware that our climate ambitions can only be achieved through the successful integration of climate-related risks and opportunities into our governance and management structure. To that end, we aim to continuously enhance our governance structure through the assessment of best practices and market development.

# TCFD achievements 2023

## Strategy

### Achievements

#### Climate-related risks and opportunities identified over the short, medium, and long term:

- NAM UK has conducted a climate-related impact analysis by using the tool provided by the ISS-ESG, which has helped us in enhancing our understanding of our investment portfolio's exposure to climate-related risks, including both transitional and physical risks. We believe that these analytics will also help us identify potential climate-related opportunities in the short-, medium- and long-term.

#### Impact of climate-related risks and opportunities on NAM UK's businesses, strategy, and financial planning:

- NAM UK has conducted climate-related impact analysis which highlights the climate impacts of our investment portfolio. This analysis includes several metrics to assess these impacts, such as total carbon emissions, carbon footprint, carbon intensity, power generation exposure, and physical risk exposure by sector and geography.
- Specifically for products categorised as Article 8 and 9 under the EU Sustainable Finance Disclosure Regulation ("SFDR") that are managed by NAM Group entities, the periodic monitoring process entails evaluating carbon emissions, carbon footprint, carbon intensity and exposure to fossil fuels for each portfolio. This evaluation is conducted using data provided by external data providers, ISS-ESG and MSCI as well as a tool developed within the NAM Group.
- For a number of Article 8 and 9 funds, NAM UK has focused on engagement to encourage investee companies to disclose Scope 3 GHG emissions as well as setting SBTi approved targets (where applicable).

#### Resilience of NAM's group strategy taking into consideration climate-related scenario analysis for NAM UK:

- NAM UK has recently assessed the alignment of our four asset-class aggregate portfolio with the Sustainable Development Scenario (SDS). In addition, NAM UK has conducted a comparison of the total carbon emissions and carbon budget of our aggregated portfolio under different scenarios. Please refer to page 12-13 for the scenario analysis.

### Development & Improvement Plans 2024

- NAM UK to define time horizons of short-, medium- and long-term for climate related risks and opportunities.
- NAM UK recognises the opportunity to expand our scenario analysis to deepen our understanding of climate-related risks. Work will be undertaken in 2024 to expand the scope of scenarios to assess the financial impact on the portfolio under different scenarios.
- Identify additional physical risks and distinguish between chronic and acute risks for organisational operations and portfolio performance.
- Assess the impact of different transition risks on our operations and investment portfolio.

- NAM UK will consider opportunities, particularly in the area of transition investments.
- Take necessary steps to measure the financial impact on our investment portfolio under different scenarios.
- Advance discussions at NAM UK in relation to transition planning for the net zero commitment made by NAM Group.
- Measure & monitor carbon emissions for broader strategies managed by NAM Group.
- Strengthen our climate-related stewardship activities.

- Identify and address material risks, including those associated with power generation sectors and physical risks based on sector and geography. This will be accomplished by conducting Value at Risk (VaR) analysis.
- Leverage the data provided by the ISS-ESG and conduct scenario analysis to identify potential opportunities.

### Climate-related stewardship spotlight

NAM UK and a group of investors have co-filed a shareholder proposal requesting that TD Bank provide more specifics regarding its climate transition plan in February 2024.

**“It is significant that Nomura Asset Management UK has joined as a co-filer as this is our first ever climate-related resolution filing,” said Alex Rowe, Portfolio Manager Nomura Asset Management UK. “We decided to join because we believe this issue is material to the ongoing value of TD Bank and that shareholders have a right to understand how banks will be changing their business model to meet their important net zero targets.”**

*(Source: Investors for Paris Compliance, “More investors join TD climate shareholder proposal” on 5 February 2024.)*

The proposal received 28.6% support compared to the previous year’s 23.5% support.

**“This growing show of support from shareholders signals to management that they remain concerned about how the bank will manage its growing climate transition risk,” said Kyra Bell-Pasht, Director of Research and Policy with Investors for Paris Compliance. “Investor pressure will only grow for accountability at the bank as the climate crisis accelerates.”**

*(Source: Investors for Paris Compliance, “TD releases voting results on climate transition shareholder proposal” on 18 April 2024.)*

## TCFD achievements 2023

### Risk Management

#### Achievements

##### Processes for monitoring and assessing climate-related risks:

- NAM UK has a sustainability risks framework whereby we consider sustainability risks in our investment research process. In this context, sustainability risks are defined as “environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment”.
- NAM UK has started to utilise climate-related risk analysis provided by ISS-ESG for asset class-level monitoring of climate-related risks. As described under the Governance section, it has been agreed to establish a new Sustainability Committee at NAM UK and this will enable the Committee to monitor climate-related risks with regard to NAM UK’s products.

##### Processes for managing climate-related risks and opportunities:

- Specifically for products categorised as Article 8 and 9 under the SFDR that are managed by NAM Group entities, strategies have been taken which include limiting portfolio-level carbon emissions, carbon footprint, carbon intensity and exposure to fossil fuels against broad market benchmark or evaluating certain climate-related indicators on a continuous basis and engaging with investee companies if mid- or long-term trajectories are not in line with their decarbonisation plans. This evaluation is conducted using data provided by external data providers, ISS-ESG and MSCI as well as a tool developed within the NAM Group.

##### Integrating climate-related risk processes into overall risk management:

- For products categorised as Article 8 and 9 under the SFDR that are managed by NAM Group entities, sustainability-related investment restrictions and exclusions are coded by NAM UK’s Compliance team on the trading system, which ensures pre-trade and post-trade compliance monitoring of adherence to the sustainability commitments made at product-level.

#### Development & Improvement Plans 2024

- NAM UK to consider climate-related metrics for NAM Group managed in-scope products.
- Enhance a sustainability risk framework and establish processes for managing climate-related risk.
- With the new Sustainability Committee, NAM UK will identify high priority climate-related risks based on scenario analysis. Subsequently, appropriate mitigating action will be taken to address any risks that are not in line with our risk appetite.
- Steps will be taken to embed climate-related risk into the risk control self-assessment (RCSA) process across NAM UK. This will enable the identification of climate-related risk in a proactive manner as well as promoting the right climate risk conscious behaviours across the NAM UK.

- NAM UK to examine analysis to identify high priority climate-related risks and determine appropriate strategies to mitigate them.
- NAM UK to revisit sustainability risk framework to address each of the identified risks in a proportionate manner.
- Closely engage with NAM Group’s Net Zero Strategy Department to better align NAM UK’s products and strategies with the net zero goal committed to at the Group-level.

- An on-boarding review (ESG framework maturity assessment) process will be established for all new business at origination from a climate risk standpoint.
- The new Sustainability Committee will establish targets, strategies and frameworks for funds where NAM UK functions as the lead investment manager. These targets, strategies and frameworks will be integrated into our broader firm risk management framework, ensuring a comprehensive approach to risk mitigation and management.
- NAM UK’s Operational Risk Management Framework empowers the Operational Risk Committee (“ORC”) to identify key risks and assess control effectiveness, addressing any imbalances to achieve an acceptable risk tolerance. The ORC is tasked with the maintenance and awareness of department-specific Risk Control Self-Assessments (RCSAs), crucial for understanding and mitigating risks. Assigned action owners ensure cross-departmental familiarity with risk responsibilities, with periodic tracking of progress feeding into ORC updates. Currently sustainability-related risks that are considered in this process are primarily regulatory and reputational risks and NAM UK is aware that climate-related risks should be incorporated more widely and appropriately.

# TCFD achievements 2023

## Metrics and Targets

### Achievements

#### Metrics used to assess climate-related risks and opportunities:

- In assessing climate-related risks and opportunities, NAM UK aligns with the metrics used by NAM Group, such as total carbon emissions, carbon footprint, carbon intensity, weighted average carbon intensity (WACI), to enable comparison between NAM entities.

#### Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions and the related risks:

- NAM UK reports Scope 1, Scope 2, and Scope 3 emissions for our investment portfolio consisting of four asset classes (Japanese equities, global (ex. Japan) equities, Japanese bonds and global (ex. Japan) bonds).
- NAM UK's analysis examines several metrics, including total carbon emissions, carbon footprint, carbon intensity and WACI. These metrics are compared to relevant benchmarks to assess the environmental impact.
- These metrics are also utilised to determine the exposure of each asset class to power generation mix and physical risk by geography. Additionally, they help calculate the portfolio's Value at Risk (VaR) by asset class and by sector, in comparison to the relevant benchmark.

#### Targets used to manage climate-related risks and opportunities:

- As a signatory of NZAM, NAM Group has set the following interim and long-term targets at the group-level.
  - 2050 net zero goal is to achieve net zero emissions in operations and investment portfolio.
  - 2030 interim target of 55% of assets under management to be managed in alignment with achieving net zero emissions by 2050 or sooner.
- NAM UK utilises analysis provided by ISS-ESG on portfolio alignment to the sustainable development scenario (SDS) carbon budget and the status of portfolio companies' carbon emission reduction targets for each asset class in the four-asset aggregated portfolio.

### Development & Improvement Plans 2024

- Further metrics and targets to be defined as NAM UK continues our sustainability journey. These are expected to include but are not limited to:
  - Environmental KPIs such as water, energy, land use, waste management (metrics to monitor progress against overall business strategy and risk appetite)
- NAM UK recognises the challenges in availability and reliability of reported and estimated data particularly for Scope 3 GHG emissions. NAM UK will engage with investee companies to encourage disclosure of GHG emission data as well as reviewing data from different sources.
- Plan to start historical analysis for carbon emissions reductions, disclosing base year.
- We will measure our own Scope 1 and 2 carbon emissions.
- Consider NAM UK specific targets that contribute NAM Group-level sustainability targets.
- Seek to understand the implication of scenario analysis and feed the implication back into targets and strategies.

# Analysis of carbon metrics in investment portfolios

In this section, NAM UK analysed climate-related risks and opportunities (where applicable) in four asset class groupings: Japanese equities; global (ex. Japan) equities ("Global equities"); Japanese bonds and global (ex. Japan) bonds ("Global bonds") in line with the TCFD reports disclosed by NAM. Products in scope of the analysis are products where NAM UK acts as the lead investment manager (such as our UCITS funds including those sub-delegated to other parties) as well as products where NAM UK acts as the sub-investment manager and advisor (such as products delegated by other NAM Group entities or clients) ("In-Scope Products"). We perform analysis in accordance with assessment and disclosure methods including those set forth in The Global GHG Accounting and Reporting Standard for the Financial Industry published by the Partnership for Carbon Accounting Financials ("PCAF"), which NAM is a member of, as well as data and analysis methods provided by ISS-ESG. All Scope 1, Scope 2 and Scope 3 GHG emissions consist of a combination of company-reported and estimated data depending on the availability and reliability of the data. Companies without data were removed from the analysis.

## Four asset class groupings

<p style="text-align: center;"><b>Global Bonds</b></p> <ul style="list-style-type: none"> <li>▪ Benchmark: Bloomberg Barclays Global Aggregate Index (only corporate bonds)</li> <li>▪ USD 7.16 billion, approx. 39% of total AUM in scope of the analysis</li> </ul>	<p style="text-align: center;"><b>Global Equities</b></p> <ul style="list-style-type: none"> <li>▪ Benchmark: MSCI ACWI ex-Japan</li> <li>▪ USD 6.01 billion, approx. 32% of total AUM in scope of the analysis</li> </ul>	<p style="text-align: center;"><b>Japanese Equities</b></p> <ul style="list-style-type: none"> <li>▪ Benchmark: TOPIX</li> <li>▪ USD 5.24 billion, approx. 28% of total AUM in scope of the analysis</li> </ul>	<p style="text-align: center;"><b>Japanese Bonds</b></p> <ul style="list-style-type: none"> <li>▪ Benchmark: NOMURA-BPI (overall) (only corporate bonds)</li> <li>▪ USD 0.12 billion, approx. 1% of total AUM in scope of the analysis</li> </ul>
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### Total Carbon Emissions

- Absolute GHG emissions associated with a portfolio
- Unit: tCO<sub>2</sub>e (CO<sub>2</sub> equivalent)
- GHG emissions from portfolio companies are Scope 1, 2 and 3

$$\text{Total Carbon Emissions} = \sum_n^i \left( \frac{\text{current value of investment } i}{\text{Portfolio companies' EVIC } i} \times \text{issuer's Scope 1 2 and 3 GHG emissions } i \right)$$

### Carbon Footprint

- Total carbon emissions for a portfolio normalized by the market value of the portfolio
- Unit: tCO<sub>2</sub>e/US\$ million (investment amount)
- Portfolio companies' GHG emissions in total carbon emissions are Scope 1 and 2

$$\text{Carbon Footprint} = \frac{\text{Total Carbon Emissions}}{\text{market capitalization of portfolio}}$$

### Carbon Intensity

- Volume of carbon emissions per million dollars of revenue (carbon efficiency of a portfolio)
- Unit: tCO<sub>2</sub>e/US\$ million (revenues)
- Portfolio companies' GHG emissions in total emissions are Scope 1 and 2

$$\text{Carbon Intensity} = \sum_n^i \left( \frac{\text{current value of investment } i}{\text{issuer's EVIC } i} \times \frac{\text{revenues of portfolio companies } i}{\text{Total Carbon Emissions}} \right)$$

### Weighted Average Carbon Intensity

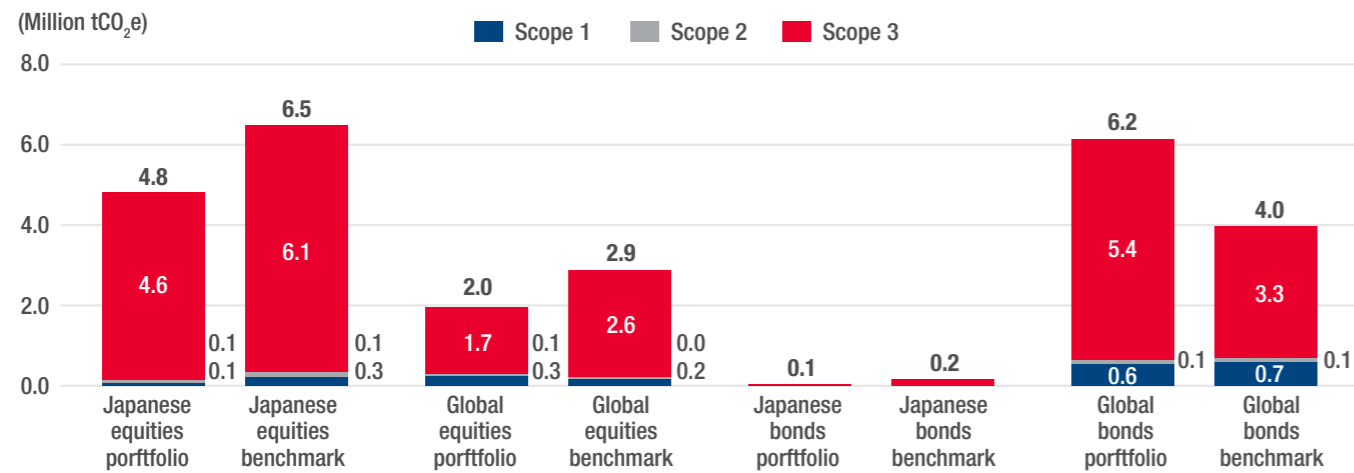
- Portfolio's exposure to carbon-intensive companies and metric recommended by TCFD
- Unit: tCO<sub>2</sub>e/US\$ million (revenues)
- Portfolio companies' GHG emissions are Scope 1 and 2

$$\text{Weighted Average Carbon Intensity} = \sum_n^i \left( \frac{\text{current value of investment } i}{\text{market capitalization of portfolio}} \times \frac{\text{issuer's GHG emissions } i}{\text{revenues of portfolio companies } i} \right)$$

Note: EVIC is Enterprise Value Including Cash, and refers to corporate value including cash. EVIC = Market capitalization of shares (ordinary shares, class shares such as preferred shares) + debt (book value) + non-controlling shareholders' interests (book value).

## Analysis of carbon metrics in investment portfolios

### Total carbon emissions of NAM UK's investment portfolio

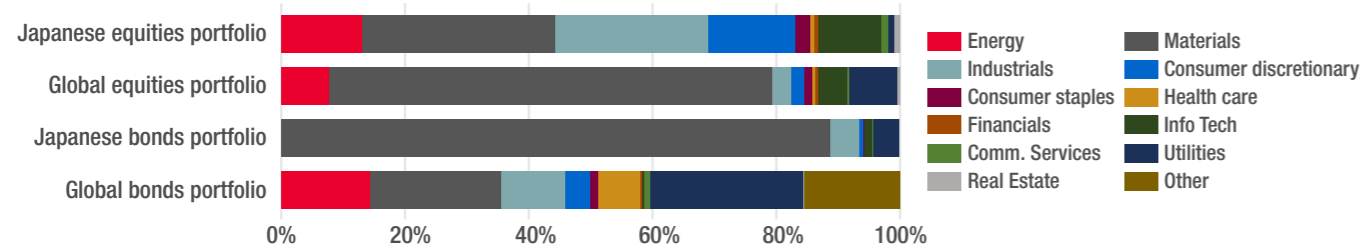


Note: For Japanese bonds, scope 1 and 2 GHG emissions were 0.0 million tCO<sub>2</sub>e in the graph above.

Scope	Asset Class	Portfolio	BM	% of BM
Scope 1 (Million tCO <sub>2</sub> e)	Japanese equities	0.1	0.3	45%
	Global equities	0.3	0.2	128%
Scope 2 (Million tCO <sub>2</sub> e)	Japanese equities	0.1	0.1	90%
	Global equities	0.1	0.0	115%
Scope 3 (Million tCO <sub>2</sub> e)	Japanese equities	4.6	6.1	76%
	Global equities	1.7	2.6	63%
Total of Scope 1,2,3 (Million tCO <sub>2</sub> e)	Japanese equities	4.8	6.5	75%
	Global equities	2.0	2.9	70%

The analysis indicates that total carbon emissions (Scope 1 and 2) of our Japanese equities, Japanese bonds and Global bonds portfolios were lower than those of their relevant benchmarks (by using the same monetary amount invested), while Global equities portfolio has higher total carbon emissions (Scope 1 and 2) compared to the benchmark. When Scope 3 carbon emissions were taken into account, Global bonds portfolio had higher total carbon emissions than those of the benchmark.

### Proportion of total carbon emissions by industry

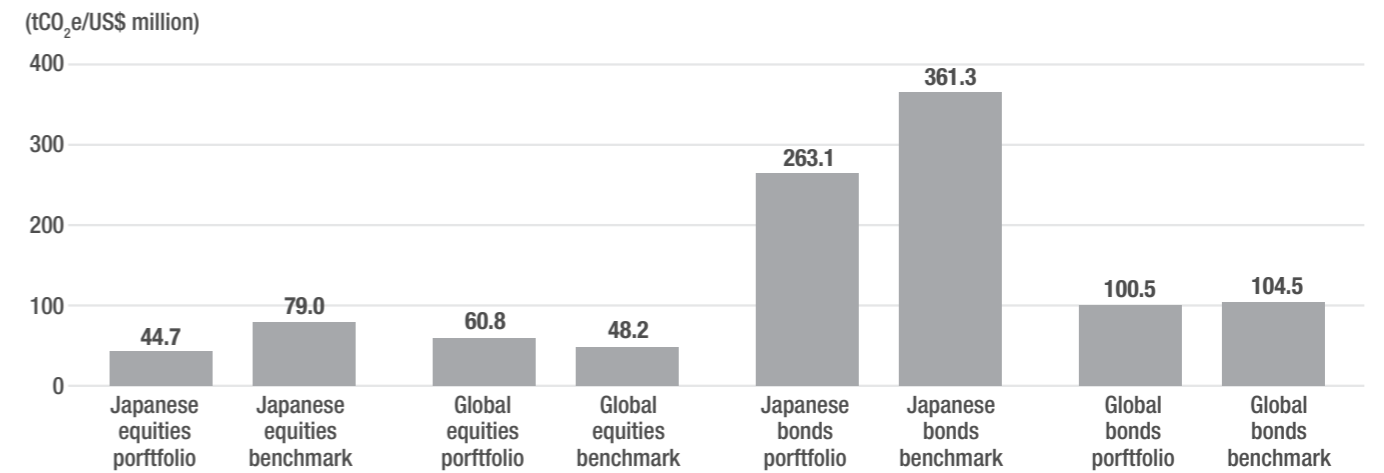


Notes: The scope of total carbon emissions above is Scope 1 and Scope 2 GHG emissions. Industry classification is based on 11 sectors based on the Global Industry Classification Standard ("GICS"). "Other" in Global bonds portfolio includes government managed companies which do not fall under GICS sectors.

In terms of the proportion of total carbon emissions (Scope 1 and 2) accounted for by each industry, high proportions of emissions were observed from the Materials sector across all asset classes. Energy, Industrials, Consumer Discretionary and Utilities have seen high proportions in certain asset classes. These five sectors are considered as high impact sectors in line with the Net Zero Investment Framework.

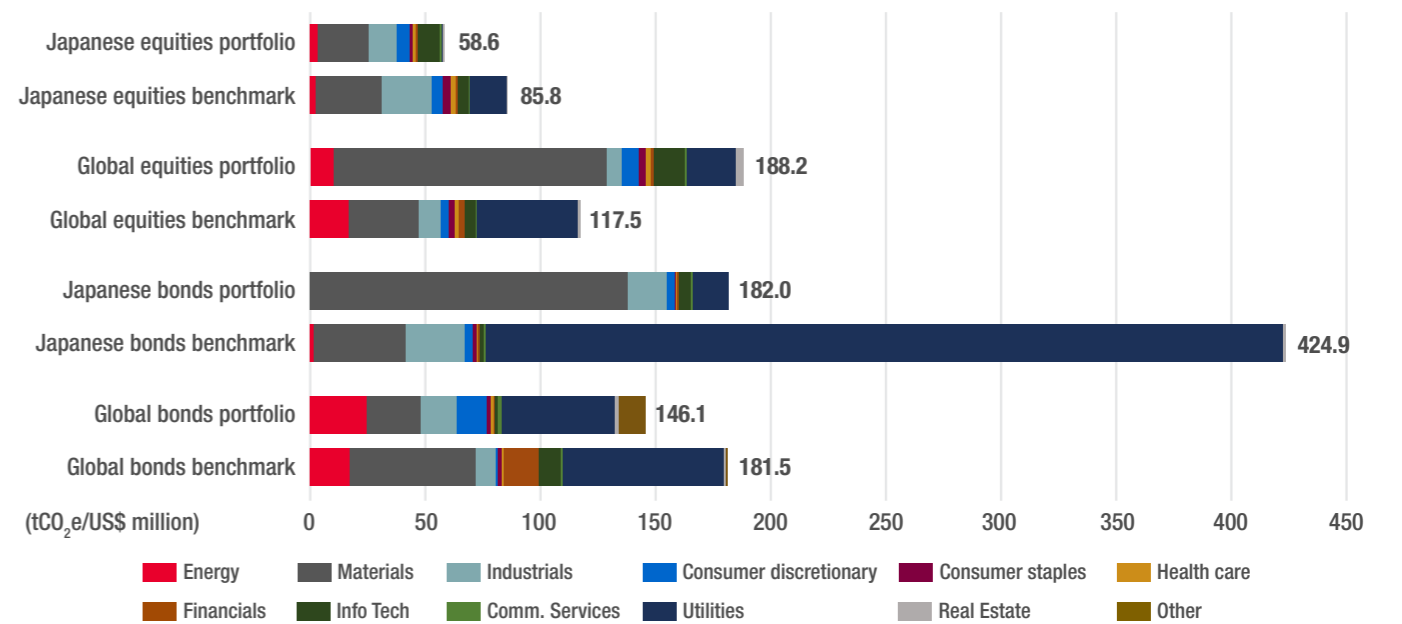
## Analysis of carbon metrics in investment portfolios

### Carbon footprint of NAM UK's investment portfolio



Note: The scope of carbon footprint above is Scope 1 and Scope 2 GHG emissions.

### Weighted average carbon intensity by industry



Notes: The scope of Weighted Average Carbon Intensity above is Scope 1 and Scope 2 GHG emissions. As Japanese bonds portfolio had a limited number of holdings compared to other asset classes, certain holdings had larger impact on the weighted average carbon intensity.

# Scenario analysis and status of GHG emission reductions of portfolio

## 1

### Sustainable Development Scenario (SDS)

Scenario aligned with the goal of the Paris Agreement adopted at COP21 held in December 2015, which is to limit global warming to well below 2°C compared to pre-industrial levels and pursue efforts to limit warming to 1.5°C. Under this scenario, the earth's temperature is projected to rise approximately 1.5°C by the end of this century.

## 2

### Announced Pledges Scenario (APS)

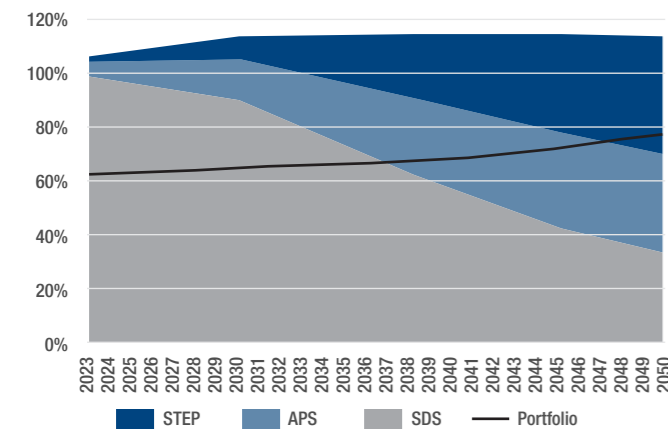
A scenario which assumes that countries carry out the pledges they have made, including their Nationally Determined Contributions ("NDCs") submitted under Article 4 of the Paris Agreement and their long-term net zero goals, both fully and on time. Under this scenario, the earth's temperature is projected to rise approximately by 2.1°C by the end of this century.

## 3

### Stated Policies Scenario (STEPS)

A scenario which assumes that countries carry out policy initiatives their governments have already announced, on the assumption that countries will keep ambitions and goals of the policies they are currently implementing. Under this scenario, the earth's temperature is expected to rise approximately 2.6°C by the end of this century.

## NAM UK four asset-class aggregated portfolio's current and future GHG emissions vs. climate scenarios budgets



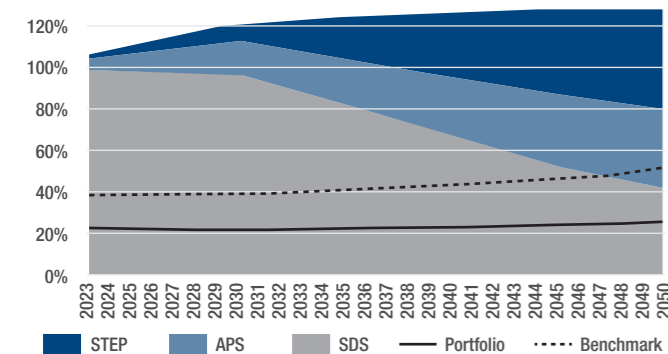
Note: 2023 carbon budget for SDS is set at 100% on the graphs' y-axis.

As shown on the left, NAM UK used the ISS-ESG to perform a scenario analysis to understand the alignment of NAM UK's four asset-class (i.e. Japanese equities, Global equities, Japanese bonds and Global bonds) aggregated portfolio against three different scenarios (i.e. SDS, APS and STEPS as further described above) in the World Energy Outlook 2021 issued by the International Energy Agency (IEA).

As shown on the left, NAM UK used the ISS-ESG to perform a scenario analysis to understand the alignment of NAM UK's four asset-class (i.e. Japanese equities, Global equities, Japanese bonds and Global bonds) aggregated portfolio against three different scenarios (i.e. SDS, APS and STEPS as further described above) in the World Energy Outlook 2021 issued by the International Energy Agency (IEA).

### By asset class

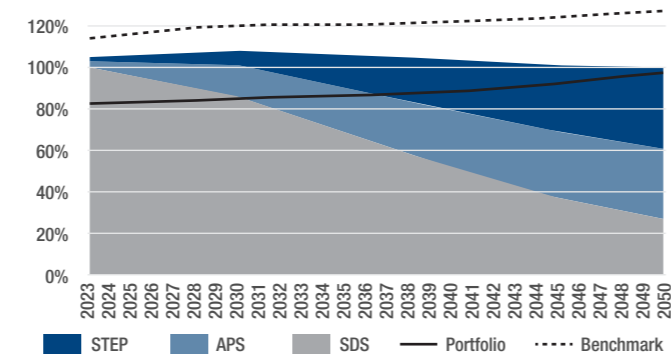
#### Japanese equities portfolio



Japanese equities represent approx. 28% of total AUM in scope of the analysis

Note: 2023 carbon budget for SDS is set at 100% on the graphs' y-axis

#### Global equities portfolio

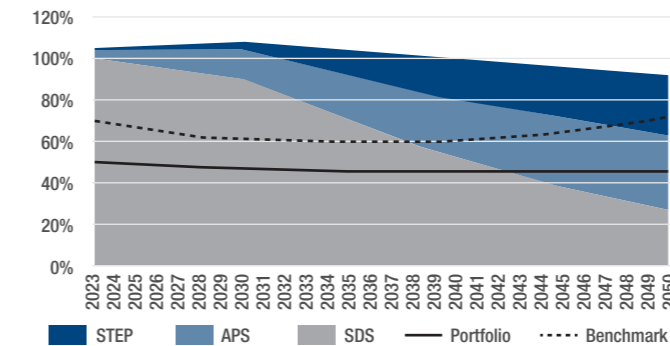


Global equities represent approx. 32% of total AUM in scope of the analysis

# Scenario analysis and status of GHG emission reductions of portfolio

### By asset class

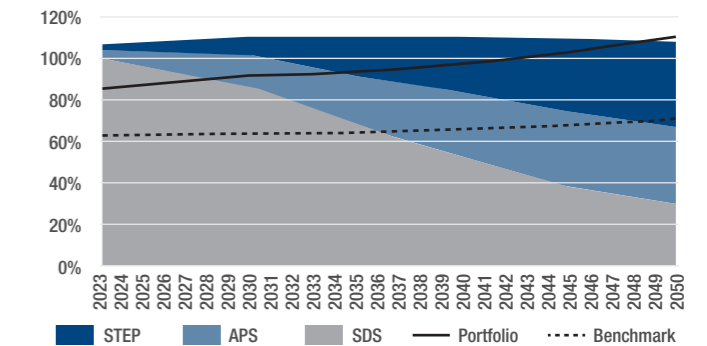
#### Japanese bonds portfolio



Japanese bonds represent approx. 1% of total AUM in scope of the analysis

Note: 2023 carbon budget for SDS is set at 100% on the graphs' y-axis

#### Global bonds portfolio



Global bonds represent approx. 39% of total AUM in scope of the analysis

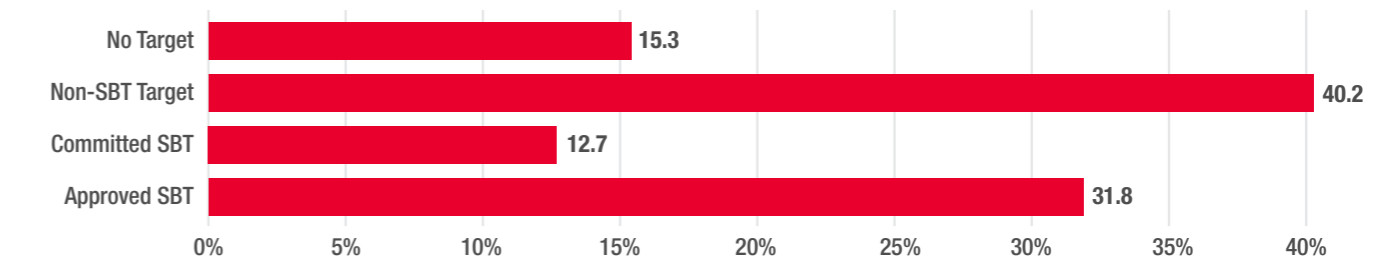
- The Japanese equities portfolio in its current state is **aligned** with a SDS scenario by 2050, representing a potential temperature increase of 1.5°C.
- The Global equities portfolio in its current state is **misaligned** with a SDS scenario by 2050, representing a potential temperature increase of 2.7°C, and an SDS-aligned budget-exceed year of 2031.
- The Japanese bonds portfolio in its current state is **misaligned** with a SDS scenario by 2050, representing a potential temperature increase of 1.8°C, and an SDS-aligned budget-exceed year of 2043.
- The Global bonds portfolio in its current state is **misaligned** with a SDS scenario by 2050, representing a potential temperature increase of 2.7°C, and an SDS-aligned budget-exceed year of 2029.

### GHG emission reduction targets committed by portfolio companies

Net Zero Asset Managers initiative ("NZAM") recommends the Science Based Targets initiative for Financial Institutions (also referred to as "SBTi for FI") as one of the methodologies for tracking the progress made on the 2050 net zero goal and the 2030 interim target for portfolio assets. Under the SBTi for FI, financial institutions should monitor the ratio of portfolio companies whose targets have been approved by SBTi (SBT portfolio coverage ratio) as well as the temperature ratings developed by the CDP and the WWF. NAM UK is utilising ISS-ESG's analytical tools to monitor GHG emission reduction targets of portfolio companies in our investment portfolio (including SBT approval).

As at the end of 2023, the ratio of companies with approved SBT for NAM UK's four asset-class aggregated portfolio was 31.8%. Companies with committed SBT means that they have committed to setting GHG reduction targets based on scientific evidence. NAM UK believe that SBT commitment is proof of investee companies' commitment to decarbonisation and an important stepping stone towards achieving a low-carbon economy. Therefore, NAM UK will continue to encourage portfolio companies to proactively commit to SBTs and obtain approval through stewardship activities including engagement.

### Status of portfolio companies' GHG emission reduction targets in four asset-class aggregated portfolio



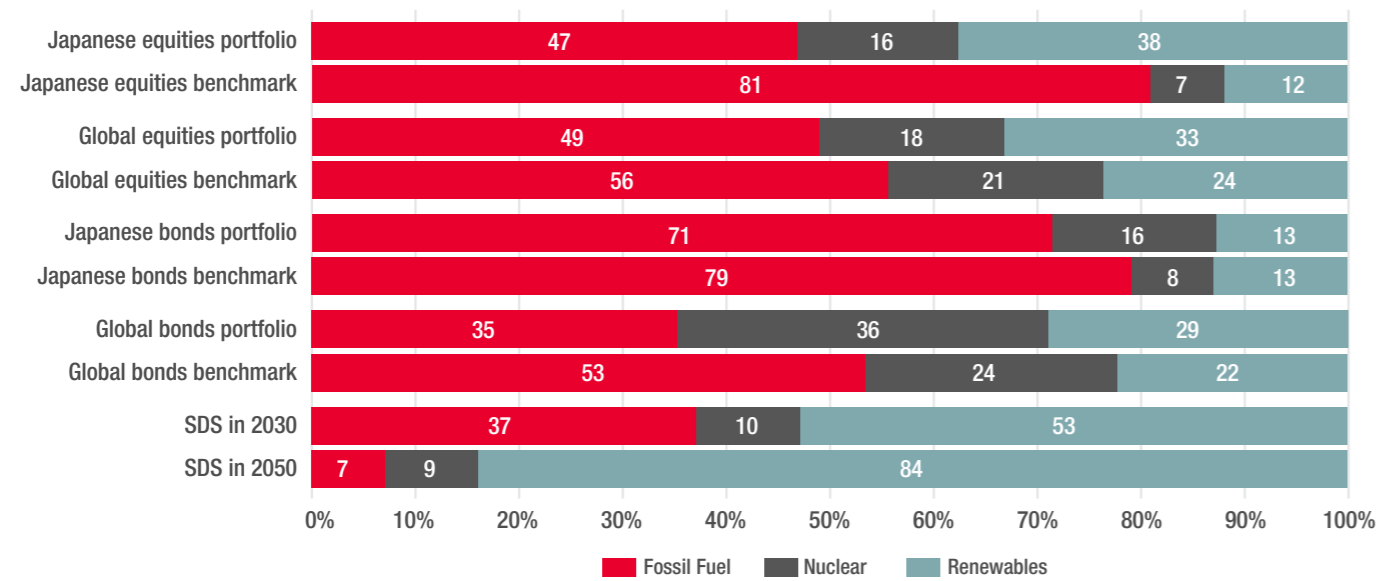
Source: ISS-ESG. "Non-SBT Target" includes "Ambitious" or "Non-Ambitious" assessed by ISS-ESG.

## Scenario analysis and status of GHG emission reductions of portfolio

### Transition risk analysis

It is important to analyse climate-related transition risks in detail as these risks could significantly affect companies' enterprise value and their cost of doing business. NAM UK focuses on a transition risk analysis method which involves using ISS-ESG data to analyse the power generation exposure and future GHG emissions (i.e. the risk of stranded assets) on an energy generation basis in the portfolio, and the ratio of problematic resource development (shale oil/gas development and fracking, crude oil or gas drilling in the arctic, oil sands development, etc.), along with using the carbon risk rating, which is ISS's proprietary transition risk assessment.

### Power generation exposure analysis (portfolio, benchmark, SDS)



The graph above compares the proportion of power generation exposure of our portfolios, the benchmarks, and the SDS based on the power generation volume. The SDS, based on IEA forecasts, shows the power generation exposure mix that is likely to limit the temperature increase in 2030 and 2050 respectively to less than 1.5°C above pre-industrial levels.

While the proportions of fossil fuel power generation exposure were lower than their broad market benchmarks across all asset classes, majority are still higher than the fossil fuel exposure compatible with SDS in 2030. As for the Global bonds' portfolio, while its fossil fuel exposure was lower than the level compatible with SDS for 2030, the exposure to renewables is significantly lower. NAM UK will aim to transition our power generation mix from fossil fuel to renewable sources through stewardship activities and transition investments. With regard to transition investments, we will continue to explore how best to identify transition investments in an appropriate and objective manner.

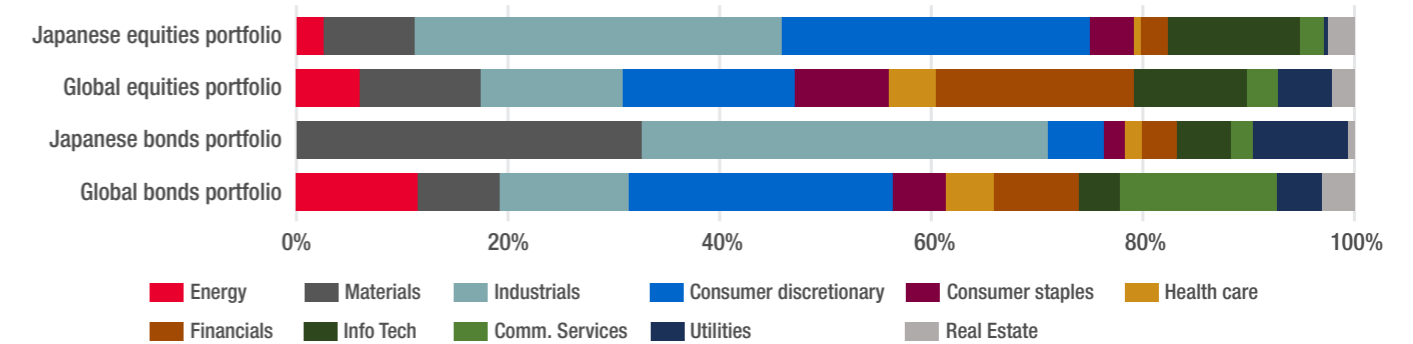
## Physical risk analysis

In recent years, hurricanes, cyclones, heavy rains, floods, heat waves, forest fires and droughts, which are thought to be driven by climate change, are increasing in frequency worldwide. The impact of these events on the businesses and assets held by portfolio companies can no longer be ignored, and analysing physical risks is becoming increasingly important. In analysing the physical risks of portfolio companies, in addition to ISS-ESG's risk analysis and physical risk score by industry and region, we utilise the portfolio's Value at Risk (potential negative impact of physical risk on the value of a portfolio) calculated as the potential value lost through to 2050 due to damage incurred to the business assets owned by portfolio companies from abnormal weather stemming from climate change.

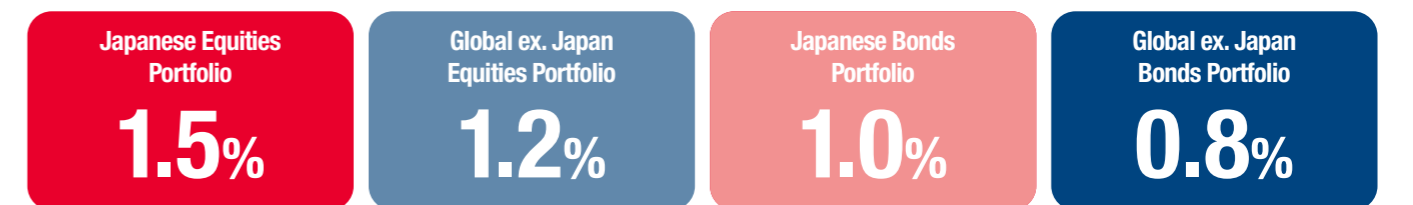
### Physical risk analysis by sector and region

NAM UK utilises ISS-ESG data to analyse physical risks by industry and region. The graph below shows the percentage of Value at Risk related to physical risk in each sector through to 2050 for NAM UK's four asset classes (i.e. Japanese equities, Global equities, Japanese bonds and Global bonds portfolios). The higher the ratio, the greater the potential negative impact of physical risks is on the value of companies in the relevant industry.

### Value at risk by sector



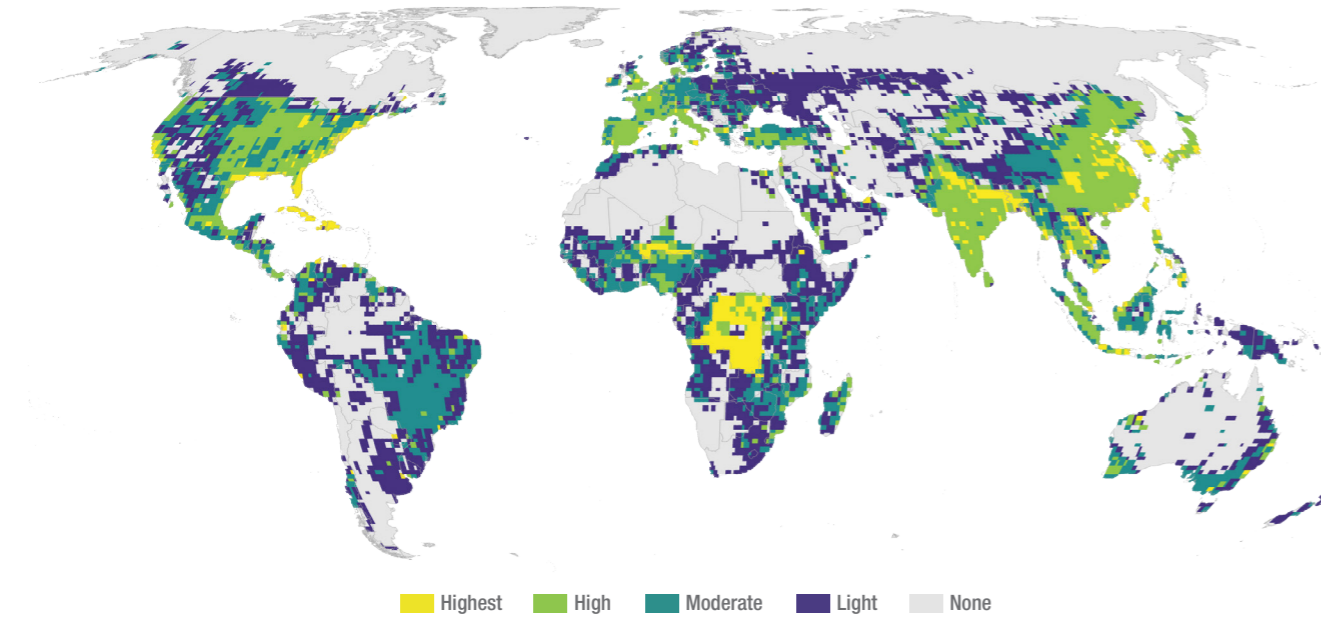
### Portfolio value at risk (%)



## Physical risk analysis

### The physical risk by region

The below map shows the physical risk by region for our four asset-class aggregated portfolio. Along with the physical risk by industry, this map is a useful reference for NAM UK for investment decision making purposes when considering industry and regional allocations. This analysis enables us to identify sectors and regions with high physical risks.



## Analysis of sovereign debt portfolio emissions (financed emissions)

In December 2022, the Second Edition of the PCAF's "The Global GHG Accounting and Reporting Standard for the Finance Industry" (the "Standard") was released. In this Second Edition, the sovereign debt asset class was added to the methodologies for measuring and disclosing GHG emissions for investment and loan portfolios. NAM UK measured the emissions of our investment portfolio for both Japanese and global ex-Japan ("Global") sovereign debt held as of December 31, 2023 based on the Standard.

$$\text{Sovereign debt portfolio emissions} = \sum_n \left( \frac{\text{Book value of amount invested } i}{\text{PPP-adjusted GDP } i} \times \text{GHG of CO}_2 \text{ emissions } i \right)$$

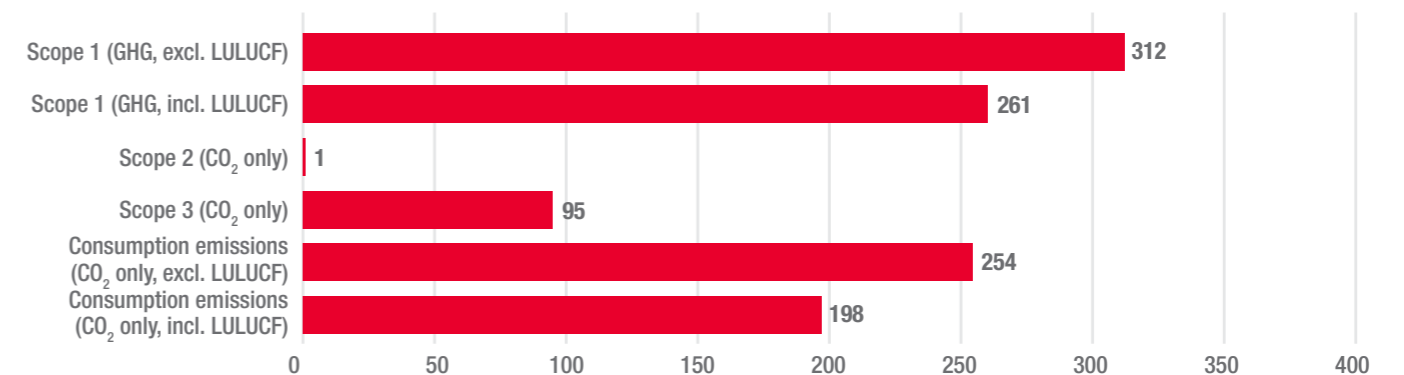
$$\text{Sovereign debt portfolio production emissions intensity} = \sum_n \left( \frac{\text{Book value of amount invested } i}{\text{Book value of portfolio}} \times \frac{\text{Production emissions } i}{\text{PPP-adjusted GDP } i} \right)$$

$$\text{Sovereign debt portfolio consumption emissions intensity} = \sum_n \left( \frac{\text{Book value of amount invested } i}{\text{Book value of portfolio}} \times \frac{\text{Consumption emissions } i}{\text{Population } i} \right)$$

### Definition of scope and consumption emissions for measuring sovereign debt portfolio emissions

<b>Scope 1</b>	Domestic GHG emissions from sources located within the country territory
<b>Scope 2</b>	GHG emissions occurring as a consequence of the domestic use of grid-supplied electricity, heat, steam and/or cooling which is imported from another territory
<b>Scope 3</b>	Emissions attributable to nonenergy imports as a result of activities taking place within the country territory
<b>Consumption emissions</b>	GHG emissions on a consumption basis within the country (Scope 1 + Scope 2 + Scope 3 - exported emissions)

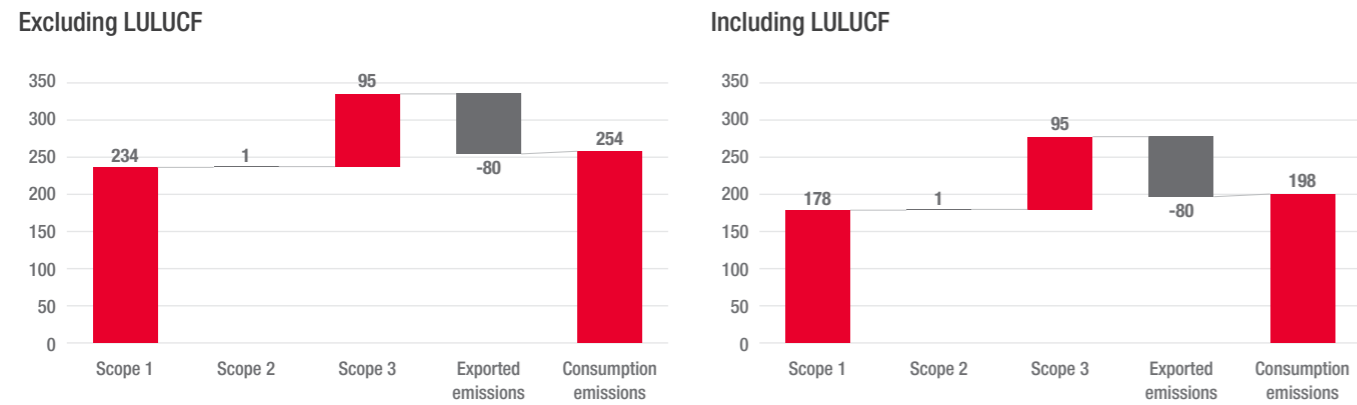
### Sovereign bond portfolio emissions (Units: ktCO<sub>2</sub>e (for GHG emissions), ktCO<sub>2</sub> (for CO<sub>2</sub> only))



Notes: LULUCF: Land Use, Land Use Change and Forestry. Due to data availability, the graph above only considers UNFCCC Annex 1 countries. Production emissions (Scope 1) used the latest (mostly 2021) GHG emission data from UNFCCC and 2022 PPP-adjusted GDP published by the World Bank. Scope 2 and Scope 3 used the latest (2018) CO<sub>2</sub> emission data from the OECD and 2022 PPP-adjusted GDP published by the World Bank. For the calculation of consumption emissions, the latest (mostly 2021) Scope 1 CO<sub>2</sub> emission data was collected from UNFCCC, the latest (2018) Scope 2, Scope 3 and exported emissions were collected from the OECD, with the adjustment made with 2022 PPP-adjusted GDP published by the World Bank. When including the most recent data (range from 1990 to 2021) released by each UNFCCC Non-Annex 1 country, Scope 1 emissions were 423 ktCO<sub>2</sub>e (GHG, excluding LULUCF) and 377 ktCO<sub>2</sub>e (GHG, including LULUCF), while consumption emissions were 308 ktCO<sub>2</sub> (CO<sub>2</sub> only, excluding LULUCF) and 257 ktCO<sub>2</sub> (CO<sub>2</sub> only, including LULUCF).

# Analysis of sovereign debt portfolio emissions (financed emissions)

## Breakdown of consumption emissions (CO<sub>2</sub> only, excluding LULUCF / including LULUCF)

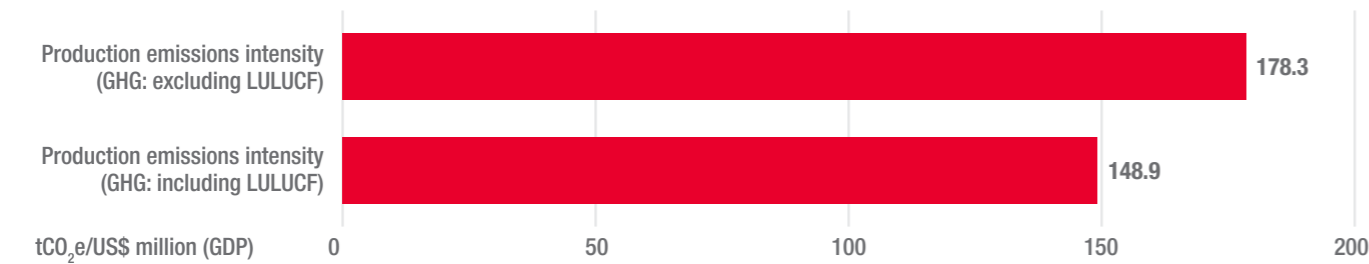


Note: When measured including the most recent data released by each UNFCCC Non-Annex 1 country, Scope 1 emissions (CO<sub>2</sub>, excluding LULUCF) were 315 ktCO<sub>2</sub>, while consumption emissions (CO<sub>2</sub> only, excluding LULUCF) were 308 ktCO<sub>2</sub>.

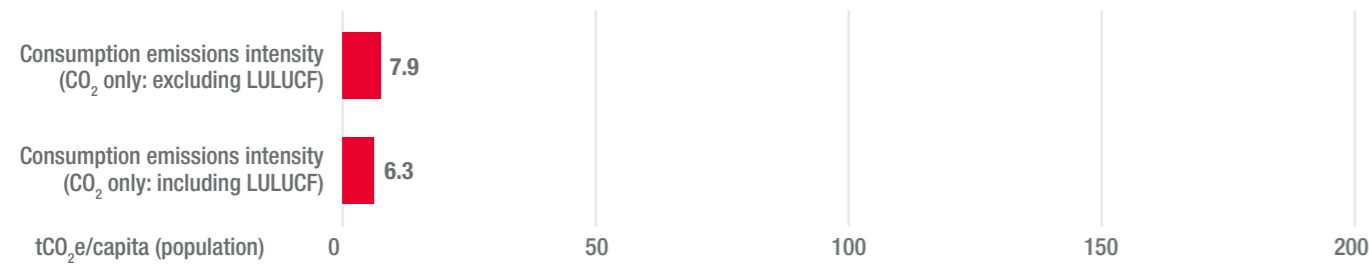
Note: When measured including the most recent data released by each UNFCCC Non-Annex 1 country, Scope 1 emissions (CO<sub>2</sub>, including LULUCF) were 264 ktCO<sub>2</sub>, while consumption emissions (CO<sub>2</sub> only, including LULUCF) were 257 ktCO<sub>2</sub>.

Note: For countries for which Scope 1 emissions are not available, even if Scope 2 and Scope 3 emissions are available, Scope 2 and Scope 3 are excluded from the calculation of consumption emissions. Therefore, the values for "Scope 1 + Scope 2 + Scope 3 - exported emissions" and consumption emissions do not match.

## Sovereign bond portfolio emissions intensity (carbon intensity)



Note: Scope 1 data above are used for production emissions. For GDP, 2022 PPP-adjusted GDP announced by the World Bank is used. When measured including the most recent data released by each UNFCCC Non-Annex 1 country, the above values are 241.6 tCO<sub>2</sub>e/US\$ million (GDP) (excluding LULUCF) and 215.2 tCO<sub>2</sub>e/US\$ million (GDP) (including LULUCF).



Note: Consumption emissions are defined the same as above. For populations, 2022 World Bank data are used. When measured including the most recent data released by each UNFCCC Non-Annex 1 country, the above values are 8.5 tCO<sub>2</sub>e/capita (population) (excluding LULUCF) and 7.0 tCO<sub>2</sub>e/capita (population) (including LULUCF).

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# NOMURA

## Nomura Asset Management U.K. Ltd.

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

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