

Nomura Asset Management U.K. Ltd.

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**Explanation of non-compliance with SFDR's principal adverse impacts regime**

**10 March 2021**

This document sets out disclosures by **Nomura Asset Management U.K Limited** ("NAM UK," the "**Firm**"), in respect of the principal adverse impacts of our investment decisions on sustainability factors.

The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firm to make a "comply or explain" decision whether to consider the principal adverse impacts ("**PAIs**") of our investment decisions on sustainability factors, in accordance with a specific regime as outlined in SFDR. The Firm has decided not to comply with that regime at present. The Firm is therefore required to publish and maintain on our website a statement to explain our reasons for not complying with the PAI regime in SFDR, and information as to whether and when we intend to comply with such regime.

**1. Non-compliance with the PAI regime in SFDR**

- 1.1 The Firm has carefully evaluated the requirements of the PAI regime in Article 4 SFDR, and in the draft Regulatory Technical Standards which were published in April 2020 (the "**PAI regime**").
- 1.2 The Firm is supportive of the policy aims of the PAI regime, to improve transparency to clients, investors and the market, as to how asset managers integrate consideration of the adverse impacts of their investment decisions on sustainability factors. However, we have chosen not to comply with the regime for the time being, primarily as the regulatory technical standards supplementing SFDR which will set out the content, methodology and information required in the principal adverse sustainability impact statement remain in draft form and have been delayed.
- 1.3 In addition, certain products may involve portfolio management strategies where it is not possible to conduct detailed diligence on the principal adverse impact of investment decisions on sustainability factors, such as:
  - passively managed or tracker strategies,
  - a client may have instructed us not to comply with the PAI regime, as a matter of commercial preference;
- 1.4 The Firm will monitor the development of the regulatory technical standards and formally re-evaluate the decision once the regulatory technical standards are finalised.
- 1.5 Notwithstanding our decision not to comply with the PAI regime, the Firm also wishes to re-affirm its overall commitment to ESG matters. We summarise in the remainder of this document the positive ESG-related initiatives and policies adopted by the Firm. For the avoidance of doubt, none of the following information is intended to suggest that the Firm complies with the PAI regime.

## **2. Responsible Investment Philosophy**

- 2.1 The Firm has integrated consideration of ESG issues into our investment processes, with a view to ensuring that our investments promote positive environmental, social and governance outcomes and seek to mitigate the negative impact of those investments on environmental, social and governance factors.
- 2.2 Our analyst / portfolio manager teams identify and record sustainability issues associated with our (potential) investee companies as part of their research of the securities that (potential) investee companies issue. These assessments are updated regularly. Any adverse impacts to sustainability should be identified as part of this research process.
- 2.3 Upon the identification of adverse impacts, the relevant portfolio management team would decide the most appropriate course of action for any mandates investing in the impacted security / securities, taking into account the investment objectives and guidelines of each mandate.
- 2.4 Our policy does not prohibit investment or require divestment of any security unless the issuing firm is a cluster munitions manufacturer. However, for many mandates, including those mandates classified under Article 8 or 9 of SFDR, it is likely that divestment will follow any material downgrade of our analysts' views of an investee company's sustainability profile. For each mandate, the relevant portfolio manager would determine the suitability of a security for inclusion.
- 2.5 More details of the due diligence carried out are contained in the Firm's Sustainability Risks Policy, which includes links to more specific descriptions of the processes employed by the Firm's investment professionals, depending on the strategies being managed.

## **3. Shareholder Engagement**

- 3.1 Shareholder engagement is incorporated into our investment strategy in the following ways:
  - monitoring of investee companies on relevant matters (including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance)
  - conducting dialogue with investee companies
  - exercising voting rights and other rights attached to shares
  - cooperating with other shareholders
  - communicating with relevant stakeholders of the investee companies
  - managing actual and potential conflicts of interests in relation to our engagement.
- 3.2 Our engagement policy is available on our website at:

<https://www.nomura-asset.co.uk/responsible-investment/engagement/>

#### **4. Adherence to responsible business codes and international standards**

4.1 In connection with ESG, the Firm adheres to responsible business codes and internationally recognised standards for due diligence and reporting. For these purposes, the Firm refers to its adherence to the following codes and standards:

- Nomura Asset Management is a signatory to the United Nations Principles for Responsible Investment (UNPRI)
- The Firm is a signatory to the UK Stewardship Code 2012 and will publish its report confirming adherence to the 2020 Code during 2021.