

## **Nomura Funds Ireland – Asia Investment Grade Bond Fund**

### **Sustainability Risks Policy**

**10 March 2021**

#### **Introduction**

The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) lays down harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products.

**Nomura Funds Ireland plc (the “Fund”)** is a UCITS umbrella investment company with variable capital incorporated with limited liability in Ireland. The Fund has segregated liability between each of its sub-funds (**the “Sub-Funds”**).

**Nomura Asset Management U.K. Limited (the “Investment Manager”)** has been appointed to act as an investment manager of the Fund. The Investment Manager may delegate the discretionary investment management of the Sub-Funds to one or more sub-investment managers.

#### ***Sustainability Risks***

The following sets out the sustainability risks policy in respect of the Nomura Funds Ireland – Asia Investment Grade Bond Fund (the “Sub-Fund”). Potential investors and shareholders are advised to read this policy in conjunction with the sustainability risks policy for the Fund.

#### ***Sustainability Risks Policy***

The management of sustainability risk forms an important part of the due diligence process implemented by the Investment Manager. When assessing the sustainability risk associated with underlying investments, the Investment Manager is assessing the risk that the value of such underlying investments could be materially negatively impacted by an environmental, social or governance (“ESG”) event or condition.

The type of sustainability risks, which are considered by the Investment Manager to be particularly relevant to the Sub-Fund are summarised below:

Environmental sustainability risks (Corporate Debt ESG framework):

- Greenhouse gas emissions
- Water stress
- Waste intensity
- Natural capital

Environmental sustainability risks (Sovereign ESG framework):

- Energy security
- Energy / CO2 intensity of GDP
- Environmental Capital (Environmental Vulnerability, Natural Resources)

Social sustainability risks (Corporate Debt ESG framework):

- Corporate Extended Responsibility
- SDG Contribution

- Social License
- Human Capital Management

Social sustainability risks (Sovereign ESG framework):

- Human Capital (Human Rights, Human Development, Female Participation)
- Socio-Economic Risk (Inequality, Social Cohesion)
- Demographics (Demographic Pressure and Policies)

Governance sustainability risks (Corporate Debt ESG framework):

- Corporate Sustainability Strategy including Climate Change initiatives by management
- Corporate Behaviour
- Governance Quality
- Regulatory Scrutiny

Governance sustainability risks (Sovereign ESG framework include):

- Strategic Governance
- Rule of Law
- Security

The Investment Manager aims to identify sustainability risks as part of its broader analysis of securities. For the purposes of the paragraphs in this section, the terms “sustainability” and “Environmental, Social and Governance” or “ESG” will be used interchangeably.

The Investment Manager will use a combination of quantitative and qualitative analyses within the research process to identify and understand ESG influences on the securities held within the Sub-Fund. The Investment Manager aims to identify sustainability issues that may impact the ability of a fixed income security issuer to meet its financial obligations, and consequently seek to lower the potential volatility of the investments held within the Sub-Fund due to future credit events, with a particular focus on avoiding downside ESG and sustainability risks. The Investment Manager’s ESG research and assessment processes apply for both corporate and sovereign issuers of fixed income securities.

For sovereign issuers, the Investment Manager uses a diverse set of non-financial data deemed material and relevant to assessing sustainability risks for investors at the macro-economic level (i.e. sovereign ESG risks). Using its proprietary method, the Investment Manager will systematically aggregate the data into relative scores (Sovereign ESG Scores), with weights based on a combination of the expected probability for each sovereign ESG risk factor to affect a country’s potential growth rate, and the relative time required for such impact to occur. The Investment Manager recognises sovereign ESG risk factors as potential indicators of growth risk, and that they tend to correlate with traditional credit ratings. The ESG ratings assigned are, therefore, relative and this process enables the Investment Manager to achieve more comprehensive assessment than with traditional economic and financial analysis alone and potentially improves its investment research and ability to take appropriate risks.

The Investment Manager’s ESG research into corporate issuers begins with a proprietary quantitative model which examines ESG-relevant data compiled by third party sources, with various ESG-related factors weighted according to their materiality for each sector, specific to the perspective of fixed income investors. For instance, for an issuer within the bank sector, more weight will be applied to social and governance factors than are applied to environmental factors, whereas for the chemicals sector, a larger emphasis on environmental factors is applied. The Investment Manager will assign a composite ESG score for each issuer in its coverage universe based on a consistent and transparent process and update them on a regular and frequent basis.

In addition, the Investment Manager will conduct broad-ranging qualitative research into the companies in its coverage. Although the quantitative scores derived by the aforementioned process may influence its analysis to probe areas of perceived strength or weakness with respect to ESG criteria, the Investment Manager will question and examine any element of a company's business model, income or balance sheet if it is necessary to understand the relative value characteristics of that company's bonds. This research can also lead to the discovery of ESG issues not identified by the quantitative analysis.

The Investment Manager will continuously question the scores generated by its quantitative model, and may adjust the overall ESG assessment based on its own expertise and bottom up research. These adjustments can be incorporated into future updates as feedbacks and may contribute to the improvements of the proprietary quantitative model described above, subject to its internal agreement.

The Investment Manager has an internal thorough review process whereby its analysts present to the investment team specific ESG-scores in addition to their overall recommendations based on their economic and financial analysis. Their views are challenged and questioned and further research may be requested prior to a formal ratification of the ratings and scores.

Where the Investment Manager identifies ESG issues which it believes can be improved or should be addressed, it will engage directly with the relevant companies to make its views known. This part of the investment processes is not limited only to companies in which the Sub-Fund has invested but also to potential investee companies.

During the life of the investment, sustainability risk is monitored through review of ESG data published by data providers to determine whether the level of sustainability risk has changed since the initial assessment has been conducted. This review is conducted on a periodic basis, not less than annually.

Should some new piece of ESG/sustainability information come to light regarding a security, the Investment Manager will assess the impact of the new information with a view to reassessing the security's ESG-scores.

ESG and sustainability risks are integrated in a manner that is tailored to each market and asset class. For example, investment themes such as emerging market sovereign external debt may apply Sovereign ESG scores directly to the assessment of relative credit risk, whereas for currency-focused and developed market rate investment themes, the focus is on considering certain long-term ESG trends such as structural decarbonisation and how these may affect specific economic variables including growth and inflation in specific countries.

The Investment Manager's portfolio managers do not necessarily prioritise ESG considerations in portfolio construction and risk taking. Internal ESG scores are interpreted as indicators of potential ESG-related downside risks and causes of potential sustainability-related volatility. Hence, issuers perceived to have high ESG-risk levels may be selected for the Sub-Fund if their valuations are sufficiently attractive on a risk adjusted-basis. The Sub-Fund may also invest in securities which are not subject to the ESG research process described above, including hedging instruments, unscreened investments for diversification purposes or investments for which data is lacking, or money market instruments.

#### *Assessment*

The likely impacts of sustainability risks are difficult to quantify. Although the ESG practices of a company may influence its long-term value, there can be no guarantee regarding the performance of

individual investments, nor on the returns of the Sub-Fund's portfolio as a whole despite the integration of sustainable risks.