

## **Nomura Funds Ireland – Japan Small Cap Equity 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 – Japan Small Cap Equity Fund (the “Sub-Fund”). Potential investors and shareholders are advised to read this policy in conjunction with the sustainability risks policy for the Fund.

#### ***Philosophy***

The Investment Manager believes that non-economic sustainability factors such as environmental, social and corporate governance tend to have positive correlation with more typical economic factors such as profitability and return on investment in the long term. In this way, the Investment Manager places sustainability factors / risks as part of its core investment approach.

The Investment Manager defines “Responsible Investing” as the process of giving consideration to the total impact of investee entities on all stakeholders, including customers, suppliers, broader society, employees, the environment as well as investors. To put the philosophy into practice, the Investment Manager will look into the total utility or “total value” created by the investee or potential investee entity. The “total value” created could be measured as the overall benefit delivered to all stakeholders such as the happiness brought to customers, the employment and growth opportunities brought to employees, the impact on the environment, and not limited to financial value. In addition, the Investment Manager will put emphasis on the fair sharing of the total value among the various stakeholders.

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

The Investment Manager has taken steps to identify key environmental, social and governance risks which could, if they occur, cause an actual or a potential material negative impact on the value of an investment. These risks are summarised in the section headed “Sustainability Risks” contained under “Risk Factors” in the Prospectus.

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

In order to evaluate sustainability risks and the total value created by the investee / potential investee entity and its fair sharing among the various stakeholders, the Investment Manager has implemented the following steps to (i) identify and assess, (ii) decide, and (iii) monitor sustainability risks.

(i) Identify and Assess

The Investment Manager has a requirement that every Japanese stock analysed for investment must be assessed for sustainability/ESG risks.

For stocks covered by the Investment Manager’s analysts, the Investment Manager will produce its own ESG scores based on its broader analysis and assessment that are consistent with its Responsible Investment philosophy. In this process, the Investment Manager’s ESG specialists will make use of data from third party ESG specialists such as ISS, Sustainalytics and MSCI (“Data Providers”). Although this data will assist the Investment Manager in identifying and assessing sustainability risks, the Investment Manager does not rely on ESG scores or ratings produced by third parties. The focus of an analysis will vary depending on the security in question, as some are more prone to environmental, and others are to social risks, however, the Investment Manager will always incorporate a detailed review of the governance practices of the security’s underlying entity.

The evaluation of sustainability risks will be conducted from both implicit and explicit perspectives. The implicit perspective will involve factors that are not readily visible such as negative reputations and the effectiveness of the management team. The explicit perspective will assess more visible potential downside risks for its investment, for example, the impact on the investment due to a natural disaster. The conclusion of the assessment is a proprietary ESG score which is logged and stored for future reference with any updates similarly stored.

In most cases, the Investment Manager’s ESG specialists will have some interaction with its investee companies and will take that opportunity to raise ESG/sustainability risks. After rating a company, the Investment Manager’s ESG specialists or analysts will provide their feedback which involves raising any ESG / sustainability issues identified and encouraging improvement.

For stocks that are not covered by the Investment Manager’s ESG analysts, the Investment Manager’s portfolio managers will conduct an independent assessment of the sustainability/ESG risks that is consistent with its Responsible Investment philosophy.

(ii) Decide

The Investment Manager’s portfolio managers are ultimately responsible for the investment decisions of the Sub-Fund. Therefore, the final investment decision, as pertains to ESG / sustainability risks, is at the portfolio manager’s discretion. However, the portfolio managers are required to take account of the ESG scores given and the sustainability factors associated with the investment more generally.

(iii) Monitor

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 reassess the security's rating. The Investment Manager has developed a consistent framework for determining whether the new information is material, and the Investment Manager's ESG specialists will use this framework to assess securities as necessary and should a security be given a new score, all portfolio managers of the Investment Manager will be promptly alerted.

The Investment Manager will maintain dialogue with investee entities on multiple matters, and should a security be given a low ESG score, the dialogue will often focus on encouraging improvement.

In addition to the active engagement, the Investment Manager will actively exercise the proxy votes for all matters, including sustainability, based primarily on a bespoke in house created policy based on the Responsible Investment philosophy.

*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.