3Q 2016

NOMURA ASSET MANAGEMENT U.K. LTD.

Responsible Investing Report

Introduction

Nomura Asset Management U.K. Ltd. ("NAM UK") is committed to Responsible Investing on behalf of our clients.

Responsible Investing requires that we balance the objectives of multiple stakeholders – our clients, the investment community, the broader community and the environment. Over time we expect that through investing responsibly we can achieve superior returns for our clients and the broader stakeholder group.

Our equity investment process involves gaining sufficient information about the companies in which we may invest through research and due diligence. As a result we may have concerns about a company's performance or outlook which could be, for example, a financial or operational issue, or one of an environmental, social or governance (ESG) nature.

We actively engage with those companies in which it is felt that stakeholder objectives are not being fully met. Engagement may be in a variety of forms, though it is most likely to start with an initial telephone discussion with the investor relations team, with escalated action if necessary. Where appropriate, we may consider and partake in joint action with other institutional investors and companies. We hope that through our engagement and encouragement these companies will improve internal practices to the benefit of our clients and other stakeholders.

Proxy voting is an important way in which we discharge our stewardship responsibilities. We may direct our vote based on the recommendations of a third party proxy voting service vendor but will also take our own independent decisions where appropriate.

In this report we set out our Responsible Investment and corporate engagement activity over the last quarter.

"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 40 companies were reviewed and assigned ESG ratings. Of these 20 were awarded a rating of 'N' (No Issues) and 20 a rating of 'I' (Issues to Address), with no companies assigned a 'U' (Uninvestable) rating.

Of the companies reviewed 28 were within Developed Markets, whilst 12 were within Emerging Markets.
In total 24 companies were contacted to discuss ESG concerns. Of these, responses were received from 21 (88% response ratio).

Companies reviewed	
N (No Issues)	20
I (Issues to Address)	20
U (Uninvestable)	0
Total	**40**

Companies contacted	
Number of contacts	24
Number of responses	21
Response Ratio	**88%**

Notes from our Responsible Investing Research

- **Governance**: Over the quarter we ran into a number of circumstances in which the listed company was majority owned or had a voting majority held by a parent. In these circumstances particular attention was paid to whether minority shareholders' interests have historically been protected. A common activity in which shareholders' interests can be compromised is M&A, and particular attention was given to assessing past track records – whether transactions were related to the core business or benefitted the parent company in any way.
- **Remuneration**: We continued to find that companies tend not to utilise return on capital as a driver of management compensation. Having said that, we have found a few examples of return on capital metrics being used, but often we notice that the metric is not a simple calculation, rather one that includes adjustments or ignores certain costs that we, as shareholders, do have to bear. We would prefer companies to keep to simple metrics that are aligned exactly to what we, as shareholders, are exposed to.
- **Environmental / Social**: The level of carbon emissions and the efforts being taken to reduce these emissions was a common theme across a number of companies reviewed over the quarter. We believe that this theme will become ever more relevant as governments place greater emphasis on limiting greenhouse gas emissions and combatting global warming. Within this context, the ratings take in to consideration both the inherent carbon footprint of the industry the company is in and the steps it is taking to limit emissions and how this compares vs. peers.
- **Other (Pension Assumptions)**: We continue to find that a growing number of companies, most notably within the United States, are using aggressive pension plan assumptions (high discount rate for future liabilities and high return assumptions for plan assets). We presented our concerns to the management teams of these companies and further discussed internally the level of risk in relation to our individual company valuation analysis. We take into consideration, for example, how aggressive the return assumptions are, the level of underfunding, and the industry in which the company operates (for example within the utility sector often regulation mitigates the risk for shareholders).

Responsible Investing Case Study

Over the quarter we engaged with the Chairman of a Swiss-based FMCG company to discuss both the evolution of its corporate governance policies and our concerns surrounding the responsible sourcing of raw materials.

We spent considerable time discussing board and executive remuneration practices and were generally pleased with the openness of the discussion and the board's focus on ensuring that targets are aligned with long term value creation for shareholders. We were further advised that the board is considering changing longer term incentives to incorporate Return on Invested Capital (ROIC), as opposed to relative TSR & EPS growth. We are strongly in favour of remuneration targets that incentivise working towards a higher, sustainable ROIC as this will drive shareholder returns over the long-term.

We were further informed that the company's Nomination Committee has expanded its role to cover ESG related matters. The committee will review measures to ensure sustainability and the monitoring of economic, social and environmental issues.

We also took the opportunity to question the Chairman on the expected timeline for achieving 100% sustainable sourcing of the palm oil used in the company's food manufacturing business, and whilst the Chairman was not able to comment in detail on the strategy, company management were forthcoming in providing an update report on this a few days later. We were informed that the company is working towards being in a position in which it can fully demonstrate that no palm oil is sourced from deforested areas by 2020. It is believed this can be achieved through 100% traceability to individual plantations and will be supported by the increased usage of satellite imagery.

In summary we were comforted by the steps that the company is taking to improve ESG practices and we find it pleasing that the board continues to look for ways to improve their corporate governance standards as part of their long-term strategy to enhance shareholder returns. However, with regards to the sustainable sourcing of raw materials, we will continue to monitor and engage with the company to ensure that they continue to work towards their stated targets.

Proxy Voting Record 3Q16

Nomura Asset Management (UK) seeks to act in a manner that it believes is 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. Nomura Asset Management (UK) employs the services of ISS (Institutional Shareholder Services) to efficiently apply our proxy voting policy to individual proposals. ISS are provided with comprehensive guidelines detailing Nomura Asset Management (UK)'s proxy voting policy.

Nomura Asset Management (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). Where we believe that a specific agenda item is not in the best interests of shareholders, Nomura Asset Management (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 Nomura Asset Management (UK) voted on 130 proposals across 11 shareholder meetings and 11 ballots. In total 53% of proposals were director related with a further 29% in relation to the general course of business. Other proposals related primarily to capitalisation, compensation and M&A.

Nomura Asset Management (UK) voted 'With' management on 102 (78.5%) proposals and 'Against' management on 28 (21.5%) proposals. The 28 votes 'Against' management were related predominantly to Directorship proposals. Examples of votes 'Against' management included:

- Voted against the Directorship proposals of a Switzerland based luxury goods company on the grounds that the board would not have an independent majority if the proposals were implemented.
- Voted Against the proposal of a South African cable business to place authorised but unissued shares under director control as this could give the board power to undertake certain activities without SH approval.

Proposals voted on in 3Q16

Proposal subject	Count	Percentage
Anti-takeover	1	0.8%
Capitalisation	7	5.4%
Directorships	69	53.1%
Compensation	9	6.9%
Reorg / M&A	6	4.6%
Routine Business	38	29.2%
Total	**130**	**100.0%**

Proposals voted 'Against' in 3Q16

Proposal subject	Count	Percentage
Anti-takeover	0	0.0%
Capitalisation	3	10.7%
Directorships	15	53.6%
Compensation	3	10.7%
Reorg / M&A	1	3.6%
Routine Business	6	21.4%
Total	**28**	**100.0%**

Voting record vs. management in 3Q16

	With	Against
Votes	102	28
Proportion	*78.5%*	*21.5%*

Voting Record vs. ISS in 3Q16

	With	Against
Votes	128	2
Proportion	*98.5%*	*1.5%*

ESG Queries Raised

Stock	ESG Rating	ESG queries raised: Governance	ESG queries raised: Specific Management/Pay	ESG queries raised: ROIC Driven Pay?	ESG queries raised: Environmental/ Social	Company Contacted?	Company Responded?	Notes from Company Contact
Hong Kong Listed Luggage Manufacturer	I	Governance practices are OK, but we note there is not an independent board majority and inadequate pay disclosure. Related party transactions between the company and entities controlled by the family of the CEO are flagged	Inadequate disclosures - we note that the CEO and Chairman total compensation in 2015 was $3.7m & $2.3m respectively	N	No material concerns	Y	Y	Further information could not be provided on performance targets though it was highlighted that EBITDA & working capital efficiency are important components. We strongly suggested that ROIC should be a component
Eastern European Airline	I	Related party transactions are flagged, and notably within the most recent directorship elections negative voting (greater than 10%) was seen. Accounting practices are Average – primary flags include officer turnover and a high level of accounts receivable & prepaid expenses	Short term bonuses are driven predominantly by group profit, whilst the long term incentive plan is driven by EPS growth and TSR relative to EU airline peers. We have expressed our view to management that we would prefer for remuneration to be linked to return on capital	N	The airline industry clearly has a negative environmental impact given the level of CO2 and other emissions, and we have followed up with the company to request an overview of the steps that are being taken to mitigate this	Y	Y	The company highlighted that the fleet is the youngest in Europe, and therefore very likely the most efficient. Negative directorship votes were in relation to a certain director not meeting minimum attendance levels
Brazilian Utility	I	Company is controlled by a European parent (51% ownership). Given the ownership structure, and rights of the parent, the board does not have an independent majority and the audit committee is not entirely independent	Lack of disclosure with regards to remuneration. CEO of the parent group chairs the remuneration committee	N	Scores relatively well given the focus on hydropower generation, though we also note the ever increasing focus on the potential impact that hydropower plants can have on the rainforests	Y	Y	We pushed the company on pursuing better practices with regards to executive remuneration, whilst our comments were taken on board it is unlikely these will change in the near future. It was explained that the unusual structure of the board/committees (lack of independence) is a result of the parent's rights as controlling shareholder
European Pulp & Paper Business	N	Close to 70% of shares are owned by listed parent holding company. Accounting flagged as slightly on the aggressive side	Quantitative remuneration KPIs are EBITDA, pre-tax profit and cash flow. There is no stock based compensation	N	Relatively strong with most wood sourced from accredited forests	N	N	N/A
US Railroad	I	Combined CEO/Chair. Directors flagged as over-boarded	–	Y	Reduction in carbon intensity compares favourably to other railroads. Health and safety ranking is poor relative to sector due to several accidents	Y	N	Did not respond
US Railroad	I	–	Cash severance for CEO exceeds 5x annual salary. Excessive golden parachute	Y	Better than average on reducing carbon intensity	Y	N	Did not respond
US Railroad	I	Board flagged as entrenched due to several long-serving committee chairs	Some LTIPs vest over passage of time rather than being performance-dependent	Y	Carbon emissions mitigation compares unfavourably relative to peers	Y	Y	We contacted investor relations to express our concerns with regards to director tenure. The company was disappointingly unreceptive to our queries
US Railroad	I	Bill Gates owns 15% of the company through his charitable foundation. Directors are flagged as long-tenured and over-boarded	–	Y	Strong carbon emissions targets in place. Several accidents over 2014/15	Y	Y	We questioned management over the influence that the largest shareholder (the Bill and Melinda Gates Foundation) has over the company. Management confirmed that the foundation has been a very passive shareholder with no influence over the board
US Railroad	N	–	CEO pay of $20m is twice the industry average	Y	–	N	N	N/A

ESG Queries Raised (cont'd)

Stock	ESG Rating	ESG queries raised: Governance	ESG queries raised: Specific Management/Pay	ESG queries raised: ROIC Driven Pay?	ESG queries raised: Environmental/ Social	Company Contacted?	Company Responded?	Notes from Company Contact
European Low Cost Airline	N	Presence of very large shareholder that clearly has influence over the board	LTIP is driven by ROCE (70%) and TSR Relative, which we feel aligns shareholders and management	Y (ROCE)	There are clearly industry level concerns related to the level of airplane emissions. However, we note that on a relative basis within the sector the company is taking substantial steps to limit emissions	N	N/A	N/A
US Retailer	I	–	–	Y	Concerns highlighted by the Rainforest Action Network that the company is not taking sufficient steps to limit deforestation (by its suppliers)	Y	Y -Meeting Sept	The company was contacted with regards to our environmental concerns . The company stated that policy is not to do business with any suppliers contributing to deforestation, but concede they must do more to prove this
Taiwanese Semiconductor Company	N	No major governance issues flagged. Accounting practices are reasonable	Limited disclosures surrounding management remuneration	N	–	N	N/A	N/A
US Industrial Conglomerate	I	Poor to average on ESG factors; remuneration practices are notably very poor (1st percentile globally). As with many US peers pension assumptions are aggressive	Early vesting provisions and total CEO compensation flagged. More than 10% of SH voted against remuneration. LT incentives are driven by share price , ROI & segment margin expansion and organic growth. CEO spent $600k on personal flights in FY15	Y	Has historically been involved in asbestos related litigation. Heavy user of chemicals and oil derivatives	Y	Y - Call Sept	New CEO compensation will be realigned, have taken on board shareholder discontent. Highlighted that company policy dictates CEO must use the company jet for safety reasons, for all personal flights. Little comfort given on pension assumptions
US Industrial Conglomerate	I	Poor to average with regards to ESG practices; notably accounting flags up as a concern. As with many US peers pension assumptions are aggressive	CEO received on average $18m pa. in Total Comp (0.26% EBIT). Long term Incentive plan is driven by organic growth (40%), ROIC (20%). FCF conversion (20%) and EPS growth (20%). Annual incentive driven by local sales growth & Economic Profit	Y	Heavy user of chemicals and oil derivatives	Y	Y - Call Sept	Little comfort given on pension return assumptions, but do note has come down substantially over the past 2 years. Suggest that current data does not reflect recent board turnover
HK Listed Auto Supplier	I	Controlling shareholder is a Chinese SOE, which could lead to capital allocation that is not in the best interests of minority shareholders	The US business (core earning driver) appears to be run relatively autonomously from the US	N	–	N	N/A	N/A
Norwegian Chemicals Business	N	Relatively strong governance, although a high level of M&A / divestures has been flagged	ST bonus driven by Cash Return on Gross Investment (we would prefer if this was more closely linked to FCF)	N	Fertilisers, in general, have been associated with water and soil contamination	Y	Y	IR stated that remuneration does not account for working capital or FCF due to the potential to miss out on opportunities in the LT
Moroccan Telecom Operator	N	Controlling shareholder owns 53% of the company. There was a sale of African telecom subsidiaries from the parent to this company in 2015 for cash which raises a red flag in terms of price paid	No concerns raised	N	Operates in an industry that is not heavily exposed to environmental or social issues	Y	Y -Meeting Sept	Sale of telecom assets to subsidiary was valued independently by an investment bank. The valuation was at 5.5 times EV/EBITDA which was in the range of comparable peers. During the sale, the parent did not hold a majority of board seats in the subsidiary
Argentinean Cable TV Company	N	Controlling shareholders own 71% of shares outstanding. Super-voting shares exist as well. Mobile entry may not be in the interest of minority shareholders	No stock incentive plan for employees	N	Operates in an industry that is not heavily exposed to environmental or social issues	Y	Y	Mobile network build out will be focused primarily in Buenos Aires and the company will not build a nationwide network. Roaming agreements will cover the other areas. ROIC will not be negatively impacted over the long term

ESG Queries Raised (cont'd)

Stock	ESG Rating	ESG queries raised: Governance	ESG queries raised: Specific Management/Pay	ESG queries raised: ROIC Driven Pay?	ESG queries raised: Environmental/ Social	Company Contacted?	Company Responded?	Notes from Company Contact
UK Industrial	N	Accounting practices are OK but we note a relatively high level of goodwill and also restructuring	There is share based compensation but we would prefer if management ownership was higher	N	–	Y	Y- Call Sept	It was explained that CEO/CFO are foreign nationals, creating tax complications for share ownership. Company is working on improving remuneration targets (aligning with external objectives), but more clearly still needs to be done
Australian Packaging Company	I	Governance is strong with the sole flag being that accounting practices are seen as slightly aggressive, driven predominantly by the level of M&A	Remuneration practices are relatively strong (as considered vs. the industry and home market)	N	Scores well on Environmental concerns; have historically delivered beyond targets for sustainability. However, there are Social concerns with regards to labour management & chemical safety	Y	N	Did not respond
Australian Packaging Company	I	Governance is relatively strong	Early vesting provisions for share based awards, and unclear disclosures are the primary concern	N	The company does not produce a sustainability report	Y	Y- Call Aug	The company was pushed on producing a sustainability report, however there are no plans to produce a report of this kind
US Financial Services Provider	I	Governance practices are OK. Concerns include over boarded Non-Exec Directors, over boarded Audit Committee Members and Severance Vesting. Relatively aggressive accounting	Annual incentive award based on Revenues and Adjusted EBITDA less capex. LT incentive award is 50% Performance Restricted Stock (PRSU) and 50% stock options; based on adjusted EPS and FCF/share	N	Screens poorly on environmental concerns - notably with regards to raw material (paper) sourcing	Y	Y	We expressed our view that compensation should be more directly tied to organic growth. Management were not overly receptive to our suggestion but did highlight the group was internally more focussed on organic growth and noted the decrease in M&A activity since 2013
French Support Services Business	N	No major issues flagged, ownership structure is not a concern	Compensation practices are of average standard vs. global peers	N	No environmental or social concerns	N	N/A	N/A
UK Housebuilder	N	No major concerns, however, we do highlight that one non exec director saw 47% of SH's vote against his directorship election	Remuneration practices are adequate, though we would prefer to see measures reflecting return on capital (currently a blend of absolute profit, cash flow, dividend distribution)	N	No environmental or social concerns	N	N/A	N/A
US Aerospace Supplier	N	Flags as having relatively aggressive accounting policies, though this is somewhat a nature of accounting practices within the aerospace & defence sector	Annual bonuses are based on operating margin (50%) ,sales (30%) and operating cash flow (20%). LTIPS are based on return on sales (60%) and cumulative sales (40%) with a modifier based on TSR vs peers	N	Screens relatively well with regards to environmental and social issues	N	N/A	N/A
EU Cap Good	N	Relatively low level of concern with regards to governance. Of note is that the level of the underfunded pension is relatively high vs. revenues and level of divestures over the past 12m is also high	Bonus paid on 'Total Value Added'. Operating profit less pre-tax cost of capital. CEO paid $2m in 2015	Y - ROCE is a component	Company has some of the industry's strongest emissions improvement targets	N	N/A	N/A
Kenyan Bank	I	Poor level of disclosure when the company switches between reporting some numbers under Kenyan accounting rules and IFRS. Can lead to confusion in reported numbers	Poor pay-related disclosure and absence of an independent compensation committee	N	–	Y	Y	Indicated to management that disclosure improvement is required - was taken on board

ESG Queries Raised (cont'd)

Stock	ESG Rating	ESG queries raised: Governance	ESG queries raised: Specific Management/Pay	ESG queries raised: ROIC Driven Pay?	ESG queries raised: Environmental/ Social	Company Contacted?	Company Responded?	Notes from Company Contact
French Software Solutions Provider	N	Founding family has over 50% voting share; there is potential for minority interests to not be protected	CEO compensation in terms of stock-based compensation excessive. Performance targets include net income, efficiency, competitive position, strategy implementation, product portfolio development	N	There are industry concerns over data protection and privacy practices but we feel this is not applicable since most customers host their own data	N	N/A	N/A
UK Housebuilder	N	Board has 13 directors, 6 of which are executives. Additionally, the position of chairman is held by the former Managing Director and Founder, who also chairs the Nomination Committee	Pay is concentrated and possibly a little high but not too bad versus peers	N	–	N	N/A	N/A
Indonesian Pharmaceutical	I	Lack of independent majority on board or compensation committee, no fully independent audit committee. Company is 77% family owned	Poor disclosure on pay but we note that 92% of companies in Indonesia have the same problem	N	–	Y	Y - Call July	Unfortunately unable to answer questions over audit committee independence and it appears they had never considered it. A long track record of no issues being raised regarding the accounts give comfort that this company remains investable and that this is not an issue
US Internet Services Company	N	–	–	N	–	Y	Y	Expressed concern at issuing a 40 year bond with a coupon of 6% (why issue a bond with such a high coupon?) Their answer was essentially, interest rates are inherently unpredictable so why not lock in record low interest rates. Additionally the bond has a callable option in 5 years
US Regulated Utility	N	Governance stands out as towards the top end of peers. Accounting practices considered aggressive (notably pension assumptions) though given the fully regulated nature this is less of a concern	We note that management remuneration is slightly below average for slightly above average performance vs. peers	N	As primarily a Transmission & Distribution business direct emissions are low. We further note the company is planning large investments in transmission projects that will lower emissions in the region substantially	N	N/A	N/A
US Regulated Utility	N	ESG concerns include over boarded directors and negative director votes. Accounting practices considered aggressive (notably pension assumptions) though given the fully regulated nature this is less of a concern	Lack of full disclosure with regards to executive remuneration. Management pay is relatively high vs. peers though performance has been strong	N	Scores poorly on carbon emission - portfolio is dominated by coal generation fleet	N	N/A	N/A
US Regulated Utility	I	Accounting practices considered aggressive (notably pension assumptions) though given the fully regulated nature this is less of a concern. Shareholder dissent over a certain director's re-election also flagged	CEO pay has been very high given the track record of EPS growth and relative share performance vs. peers. EPS growth is the primary driver with the LTIP also driven by TSR	N	Scores poorly driven by its coal heavy generation fleet. Company is involved in a very large scale nuclear project which will lower emissions but increase exposure to spent nuclear fuel accidents	Y	Y	Management ran through the reasoning behind the individual payments (bonuses and LTIP) and highlight that the pay-out of performance shares was at just 28% of target in 2015. We still feel that remuneration was too high for the performance delivered

ESG Queries Raised (cont'd)

		ESG queries raised		ESG queries raised				
Stock	ESG Rating	Governance	Specific Management/Pay	ROIC Driven Pay?	Environmental/ Social	Company Contacted?	Company Responded?	Notes from Company Contact
Global FMCG Company	N	Generally strong governance practices	Remuneration growth appears to be steady. ST bonus driven by 'operational objectives', LT comp by EPS growth and TSR	Y-One of numerous	Some concerns over the sourcing of Palm Oil	Y	Y	Contacted with regards to Palm Oil Sourcing; the proportion of responsible sourcing has improved over time to ca. 50%, and the Chairman believes 100% sourcing is possible LT
Nigerian Cement Company	I	Poor financial disclosure, no independent compensation committee and a number of related party transactions. Low free float (just 8.8%)	Insufficient disclosure on pay	N	Concern over unusually high margins	Y	Y- Meeting Sept	Company argued that margins can be attributed to scale and efficiency
Pakistan Cement Company	I	There is no real mechanism for protecting minority shareholders - Presence of dominate shareholder group	–	N	–	Y	Y - Call July	Conclusion of the call was that governance is a concern but not as bad as feared. All in all reasonably disciplined the only issue is the dominant shareholder
Japanese Mobile Messaging Business	N	Limited Information given pre IPO	Limited Information given pre IPO	N	–	N	N/A	N/A
US Defence Company	I	Pension assumptions and level of M&A activity flagged. However, the company state that pension costs are entirely recoverable from the government	Management highly regarded due to their track record, stock performance and shareholder friendly capital allocation. Long-term compensation is based on TSR vs peers (50%), cash generation (25%) and ROIC (25%)	Y	There are social concerns given the nature of the defence business	N	N/A	N/A
Indonesian Pharmaceutical	N	No major governance concerns were flagged	There are no disclosed, quantifiable performance target objectives for the CEO, although this is typical for Indonesia	N	In February 2014, the company faced recalls for its anaesthetic drug citing quality concerns and also faced regulatory action from the Food and Drug Monitoring Agency (BPOM) of Indonesia	N	N/A	N/A

Glossary

COI	Conflict of Interests
EBIT	Earnings Before Interest and Tax
EM	Emerging Markets
EPS	Earnings Per Share
ESG	Environmental, Social, Governance
FCF	Free cash flow
ND	Net Debt
Opex	Operating Expense
RoA	Return on Assets
ROCE	Return on Capital Employed
ROIC	Return on Invested Capital
SH	Shareholder
SOE	State owned Enterprise
WC	Working capital

Disclosures

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