

## Statement on principal adverse impacts of investment decisions on sustainability factors

**Nikko Asset Management Luxembourg S.A. (LEI: 549300FGDQCC2A0R2432)**

### Summary

Nikko Asset Management Luxembourg S.A. (“NAML”) considers principal adverse impacts of its investment decisions on sustainability factors (“PAIs”). The present statement is the consolidated statement on principal adverse impacts on sustainability factors of NAML, covers the reference period from 1st of January 2022 to 31st December 2022 and is being disclosed in line with Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”)

Although this first publication doesn’t allow yet to comment on PAIs evolution, NAML observed large discrepancies in terms of data coverage which ranged from 5.9% (unadjusted gender pay gap) to 95.4% (lack of carbon emission reduction initiatives, violations of the UNGC principles or OECD Guidelines for Multinational Enterprises and exposure to controversial weapons). All PAIs are Integrated in sustainable investment risk management or monitoring processes and in some cases used within binding risk limits or processes of NAML Article 8 or 9 Sub-Funds.

PAIs are prioritized by NAML whenever they correspond to environmental and social characteristics promoted by a product, if their impact is severe or repeated and if they contradict NAML internal policies or external commitments. Their monitoring is performed by NAML Risk Management Function (in addition to the monitoring that may be performed as part of the investment process). Potential findings and recommended actions are reported to NAML ESG & Stewardship Oversight Committee, NAML ComEx and NAML Board.

Although NAML Engagement Policy and Nikko Asset Management Group Engagement and Stewardship Strategy require ESG to be integrated in proxy voting and engagement processes, they do not specifically refer to SFDR PAIs. The management of these indicators for NAML Article 8 or 9 Sub-Funds is the responsibility of its investment managers. Each investment manager retains the ability to consider principal adverse impacts as defined within the prospectuses of the Sub-Funds by taking relevant actions where required, including when exercising voting rights.

Nikko Asset Management Group adheres to the following international standards that may be monitored through PAIs:

- Net Zero Asset Managers initiative (GHG - greenhouse gas - emissions and Carbon Footprint)
- Task force on Climate Related Financial Disclosures (GHG emissions, Carbon Footprint and GHG Intensity of Investee Companies)

## Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies						
Adverse sustainability indicator	Metric	Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period	
<b>Climate and other environment related indicators</b>						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	20,831 TCO2e	N/A	Data or proxies were collected for 81.0% of the holdings. Impact figure was scaled back to 100%	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
		Scope 2 GHG emissions	15,632 TCO2e	N/A	Date or proxies were collected for 81.0% of the holdings. Impact figure was scaled back to 100%	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
		Scope 3 GHG emissions	430,225 TCO2e	N/A	Data or proxies were collected for 80.9% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
		Total GHG emissions	466,687 TCO2e	N/A	Data or proxies were collected for 80.9% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Used within binding risk limits/processes for Article 8 or 9 Sub-Funds.
	2. Carbon footprint	Carbon footprint	0.00 TCO2e /EURm Sales 9.44 TCO2e /EURb Sales	N/A	Data or proxies were collected for 80.9% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.

	3. GHG intensity of investee companies	GHG intensity of investee companies	399 TCO2e /EURm Sales	N/A	Data or proxies were collected for 83% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	0.93%	N/A	Data was collected for 95.4% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Used within binding risk limits/processes for certain Sub-Funds.
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	87.86%	N/A	Data was collected for 63.1% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	1.24 GWh /EURm sales	N/A	Data was collected for 65.8% of the holdings. Impact figure was scaled back to 100%..	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.00%	N/A	Data was collected for 95.4% of the holdings The data should however not be considered as highly reliable as the ESG data service provider used doesn't clearly state whether the companies reviewed did confirm there was no adverse impact or whether they simply didn't disclose an adverse impact.	Integrated in the sustainable investment risk management or monitoring process. Used within binding risk limits/processes for certain Sub-Funds.

					reports. Impact figure was scaled back to 100%.	
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	45.40 T /\$m invested	N/A	Data was collected for 12% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Used within binding risk limits/processes for certain Sub-Funds.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	0.25 T /\$m invested	N/A	Data was collected for 21.8% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
<b>Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters</b>						
Social and employee matters	10. Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.00%	N/A	Data was collected for 95.4% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	87.72%	N/A	Data was collected for 89.5% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	-4.27%	N/A	Data was collected for 5.9% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.

	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	29.24%	N/A	Data was collected for 88.8% of the holdings and only covers Q3 and Q4 2022. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, biological weapons)	0.00%	N/A	Data was collected for 95.4% of the holdings. Impact figure was scaled back to 100%.	Exclusion
<b>Indicators applicable to investments in sovereigns and supranationals</b>						
	<b>Adverse sustainability indicator</b>	<b>Metric</b>	<b>Impact [year n]</b>	<b>Impact [year n-1]</b>	<b>Explanation</b>	<b>Actions taken, and actions planned and targets set for the next reference period</b>
Environmental	15. GHG intensity	GHG intensity of investee countries	547.02 TCO2e /\$m GDP Nominal	N/A	Data was collected for 90.6% of the holdings. Impact figure was scaled back to 100%	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	0.37%	N/A	Data was collected for 91.0% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.
<b>Other indicators for principal adverse impacts on sustainability factors</b>						
Environmental	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission	22.17%	N/A	Data was collected for 95.4% of the holdings. Impact figure was scaled back to 100%	Integrated in the sustainable investment risk management or monitoring process. Can be used

		reduction initiatives aimed at aligning with the Paris Agreement				within binding risk limits/processes of some Article 8 or 9 Sub-Funds.	
Social	9	Lack of a human rights policy	Share of investments in entities without a human rights policy	55.35%	N/A	Data was collected for 95.3% of the holdings. Impact figure was scaled back to 100%.	Integrated in the sustainable investment risk management or monitoring process. Can be used within binding risk limits/processes of some Article 8 or 9 Sub-Funds.

## Description of policies to identify and prioritise principal adverse impacts on sustainability factors (PAIs)

### *Identification of principal adverse sustainability impacts and indicators*

NAML shall systematically consider principal adverse impacts of investment decisions on sustainability factors. The approach through which this impact will be assessed shall take into account nature and scale of the relevant product activities as further defined below.

NAML will be monitoring the following principal adverse impacts of investment decisions on sustainability factors through the indicators that are described in Appendix I of Commission Delegated Regulation 2022/1288 as well as third-party developed indicators that may be based on third party vendors and NAM own research.

Whenever coverage obtained through third party vendors or investee company is insufficient NAML may define proxies or use third party proxies to the extent it considers that it provides a fair representation of the relevant PAIs.

### *Prioritization of PAIs*

The indicators retained and prioritized by NAML in order to assess the PAIs of investment decisions will depend on:

- the specific environmental and social characteristics promoted by the product
- the severity of the adverse impact on the sustainability factor
- the probability of re-occurrence of the adverse impact
- the coverage ratio (indicators which can be assessed a large number of companies may be favored amongst those that lacks comparability)

As a general rule, PAIs indicators will more specifically prioritized in line with:

- NAML Sustainability Risk Policy
- NAML Engagement Policy
- NAM external commitments as further described under: <https://sustainability.nikkoam.com/investment-management>.

### ***Governance and actions on PAIs***

NAML Risk Management Function is in charge of monitoring PAIs and reports its findings to NAML ESG & Stewardship Oversight Committee, NAML ComEx and NAML Board on a regular basis.

NAML will engage with the relevant investment manager whenever it considers that a PAIs may have a material impact of the product sustainability risk level, is not coherent with the defined PAI prioritization or creates a risk that is not in line with the defined Product Risk Profile.

NAML will more specifically take actions by:

- engaging with investment managers to assess how material PAIs are affecting product sustainability risk
- ensuring that NAML product strategies have integrated sustainability investment risk in their investment process, have respected the environmental or social characteristics promoted and their sustainable investment objectives
- ensuring that the NAML engagement policy has been implemented as required
- ensuring that PAIs level and evolution are coherent with NAM external commitments
- seeking to reinforce product specific ESG policies
- supporting the development of products that have promote environmental or social characteristics or have a sustainable investment objective.

Specific care will also be taken to understand and report PAIs of events that are likely to cause an irremediable impact on a specific sustainability factor.

### **Engagement policies**

NAML has established and keeps up to date an Engagement Policy as referred to in Article 3g of Directive 2007/36/EC of the European Parliament and of the Council. This policy is part of the more general framework of the Nikko Asset Management Group Engagement and Stewardship Strategy.

#### ***NAML Engagement Policy***

Pursuant to the Luxembourg law, NAML has developed and publicly disclosed an engagement policy that describes how it integrates shareholder engagement in its investment strategy. This policy describes how NAML (i) monitors investee companies on relevant matters, including strategy, financial and non-financial performance, risk, capital structure, social and environmental impact and corporate governance. (ii) conducts dialogues with investee companies, (iii) exercises voting rights and other rights attached to shares, (iv) cooperates with other shareholders, (v) communicates with relevant stakeholders of the investee companies and (vi) manages actual and potential conflicts of interests in relation to its engagement. The NAML engagement policy sets out 12 principles which aim at describing the above-mentioned points.

NAML has delegated the exercise of voting rights to the Investment Managers of the managed Funds, and it ensures that the exercise of voting rights is done in accordance with the investment objectives and policies of the relevant Sub-Funds. The Investment Managers notably expect from the investee companies that they ensure strong environmental and social performance and disclosures.

The portfolio managers of the Investment Managers consider the investee company's management strategy, financial standing and market environment when voting on resolutions relating to the issuing of capital. Specifically on climate change the portfolio managers analysis will consider the physical, liability and transition risks associated with the changing climate.

### ***Nikko AM Group Engagement and Stewardship Strategy***

At the level of Nikko Asset Management Group, the Engagement and Stewardship Strategy outlines our global corporate engagement approach and should be read in conjunction with Nikko AM's Commitment to Responsible Investing. We believe that the environmental, social, and governance ("ESG") factors are inherent to long-term value creation. Incorporating them in the investment process is consistent with the Nikko AM's fiduciary duty.

Nikko AM became a UN Principles for Responsible Investment signatory in 2007 and is dedicated to all six Principles, where consistent with its fiduciary responsibilities. In 2016, Nikko AM established an ESG Steering Committee which governs the fulfilment of ESG commitments. This Committee is responsible for evaluating effectiveness and maximizing Nikko AM's approach to ESG and the Principles.

### ***Adverse impact sustainability indicators***

The NAML Engagement Policy and the Nikko AM's Engagement and Stewardship Strategy do not specifically cover the indicators for adverse impacts. The management of these indicators for our article 8 or 9 funds is the responsibility of the Investment Managers. Each investment manager retains the ability to consider principal adverse impacts as defined within the prospectuses of the Funds. The Investment Managers review the indicators for adverse impact on an ongoing basis, before investing in a specific investee, and post investment. They will take relevant actions where required, including when exercising voting rights.

### ***Engagement policy for Nikko AM Global Green Bond Fund (Article 9 fund)***

The portfolio management team ("PM team", which includes Sustainable Investment staff) sees the value of engagement. Nikko AM Global Green Bond Fund assets are fully invested in sovereign, supranational and agencies issuers and while the PM team maintains an active dialogue, this engagement is used as a mean of building insight and market intelligence rather than as a form of influence that might change the behavior of these issuers. The PM team does however engage with all issuers that are held in the Sub-Fund to incite them to develop the processes that will lead to the systematic production of the ESG metrics that are required by the PM team to monitor the attainment of the Funds sustainability objective. The PM team also stresses the importance of continually improving reporting data within the SSAs annual impact reports by providing data at an aggregated approach at a project level for each bond that is hold in the Sub-Fund.

Adverse impact sustainability indicators are reviewed by the PM Team to ensure investments are performing in line with the depicted proceed uses. A specific focus is performed on the following indicators:

- Scope 1, Scope 2 and Total GHG emissions



- Carbon Footprint
- GHG Intensity
- Amount of non-renewable energy consumption and non-renewable energy production
- Violations of the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises
- Absence of policies to monitor compliance with the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises
- Water consumed and reclaimed
- Water recycled and reused
- Investments not certified as green
- Bonds not certified as green

Principle adverse impacts on sustainability factors ("PAIs") are taken into account by the PM Team in two ways:

- The PAIs indicators are reviewed to assess whether they are coherent with the sustainable investment objective of the relevant bond issue (ensuring for example for a specific bond that the share of recycled water or renewable energy production has increased over time/as proceeds were invested);
- The PAIs indicators are also reviewed to assess whether they are not harming other sustainability factors in a way that is significant with regards to the benefits achieved and the mitigating measures that could have been taken.

The information on these principal adverse impacts on sustainability factors will be disclosed in the audited annual report of Nikko AM Global Umbrella Fund.

***Engagement policy for Nikko AM Global Equity Fund (Article 8 fund)***

The Sub-Fund's strategy involves portfolio managers, analysts and Sustainable Investment staff engaging with issuers as part of the investment process, both before and during the period of investment. This engagement would cover investee companies alignment with the Investment Manager's Future Quality, good governance criteria and environmental and social characteristics. Should a company, at any point, not fulfil the Investment Manager's Future Quality criteria, the Investment Manager would engage with management. The Investment Manager will seek commitments from companies to address any concerns raised by the portfolio managers. Subsequently, the Investment Manager monitors these issues and company progress. All engagements are recorded within the Investment Manager's research platform.

The environmental and social characteristics of the Nikko AM Global Equity Fund involve managing targets and limits that are set against several principle adverse impact on sustainability factors ("PAIs") and ensuring that:

- The Sub-Fund carbon intensity remains at least 20% lower than the MSCI ACWI Total Net Return Index carbon intensity.
- No investments are made in companies exposed to controversial weapons, contravening to the UN Global Compact Principles or to the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises

In addition, the Sub-Fund will not invest in securities that belong to the tobacco GICs sector.

The following PAIs are used to measure the attainment of each of the environmental or social characteristics promoted by the Sub-Fund:

- Scope 1 Greenhouse gas ('GHG') emissions
- Scope 2 GHG emissions
- Violations of UN Global Compact principles and OECD Guidelines
- Share of investments in investee companies involved in the manufacture or selling of controversial weapons

***Engagement policy for Nikko AM ARK Positive Change Innovation Fund (Article 8 fund)***

The investment manager will focus on innovative technologies and companies that are likely to have a positive impact on the environment and our society by assessing how they could accelerate progress towards the United Nations Sustainable Development Goals ('UN SDGs') categorized into four categories: economic convergence, healthy economic growth, environmental action and infrastructure for the future.

Engagement is not specifically performed in the context of Nikko AM ARK Positive Change Innovation Fund environmental or social investment strategy.

The extent to which environmental or social characteristics of the Sub-Fund were met and the UN SDGs to which the selected companies and technologies have aimed to contribute to will be disclosed in the audited annual report of Nikko AM Global Umbrella Fund.

**References to international standards**

Nikko Asset Management Group, Nikko Asset Management Co., Ltd. and its subsidiaries (hereafter collectively referred to as "Nikko AM" or the "Group") places fiduciary and ESG principles as guiding themes behind our corporate values and actions. To support this, Nikko AM adheres to a range of responsible business conduct codes and internationally recognised standards.

NAML is a European subsidiary of Nikko AM, to which the SFDR applies, and adheres to local Regulations as well as Group codes or standards as applicable.

Given their global nature, it is not possible to link all the codes or standards to which the Group adheres to the PAIs defined by the SFDR. To the extent applicable, the below section will outline the codes and standards with a clear link to the PAIs which includes:

- The Net Zero Asset Managers initiative
- Task force on Climate Related Financial Disclosures

Note that the above isn't an exhaustive list of the codes or standards that Nikko AM adheres to. In addition to the above, NAML uses UN Principles for Responsible Investment to monitor how its Investment Managers have integrated sustainability risk in their investment process and certain Sub-Funds or strategies have elected to report how they adhere to those principles.

**1. The Net Zero Asset Managers initiative**

*PAIs that may be used to monitor the adherence to the above international standard*

- GHG emissions (Scope 1 GHG Emissions, Scope 2 GHG Emissions, Scope 3 GHG Emissions, Total GHG Emissions)
- Carbon Footprint

*Methodology and data used*

Nikko AM recognises climate change as one of the greatest challenges the global community faces and considers it our fiduciary duty to address it in managing our clients' assets. Nikko AM became a signatory to the Net Zero Asset Managers initiative in 2021. As part of this, the Group has committed to achieving net zero emissions across all investments by 2050 as well as setting an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner

The Group has committed 43% of global assets under management (“AUM”) to be managed in line with net zero emissions. In scope AUM will be expected to reduce carbon footprint (currently Scope 1 & 2 emissions per \$mn invested) by 50% by 2030 against the baseline year of 2019.

Nikko AM primary data source for this information is MSCI Inc. Although climate change considerations are integrated across asset classes, we are commencing our journey towards net zero targets from our equity holdings, as this is the largest portion of our AUM and as the equity analysis methodologies have been more established, compared to other assets such as fixed income (especially sovereign debt). The data coverage also tends to be better for equities. Nikko AM monitors the recent developments in this space, and will be looking to apply these methodologies and data as it becomes more widely applicable to incrementally add further AUM to our net zero targets.

*Climate scenarios*

IPCC scenarios are used as the basis of our target.

## **2. Task Force on Climate Related Financial Disclosures**

*PAIs that may be used to monitor the adherence to the above international standard*

- GHG emissions (Scope 1 GHG Emissions, Scope 2 GHG Emissions, Scope 3 GHG Emissions, Total GHG Emissions)
- Carbon Footprint
- GHG Intensity of Investee Companies

*Methodology and data used*

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. Nikko AM is a signatory to this voluntary code and recognises the need to continually enhance and improve its efforts in relation to climate change.

In line with TCFD recommendations, we encourage our investee companies to take the following steps:

- Identify material climate change risks and opportunities in a range of scenarios, including sub-2 degree scenarios, over appropriate time horizons
- Integrate material climate change risks and opportunities into their overall business strategy and risk management
- Disclose their management policies and processes toward the goals, and the resultant performances based on the above activities

In 2022, Nikko AM took a further step by initiating a global project to assess and enhance its response to the recommendations of the TCFD, which includes purchase of advanced climate analytics data. The outcomes of this work will be published in our next version of the TCFD report in 2023.

*Climate scenarios*

Information on forward-looking climate scenarios used within Nikko AM TCFD disclosures will be updated once these have been made.

**Historical comparison – Not applicable this year**