PRINCIPLES OF INTERNAL GOVERNANCE AND ASSET STEWARDSHIP

1. Organisational and Investment Approach

1.1. About Nikko AM Australia

Nikko AM Australia offers investors the benefits of extensive global resources combined with the local expertise and longstanding experience of our Sydney-based investment teams, with a history dating back to 1987.

With a track record of over twenty-five years in Australian equities and nineteen years’ experience in managing fixed income assets, Nikko AM Australia prides itself on its many years of accumulated market intelligence. Nikko AM Australia believes in active management and high conviction investing backed by intensive research conducted by experienced, cohesive investment teams. Our investment teams strive to achieve superior investment performance for our clients.

In the pursuit of excellence, we approach everything we do with an entrepreneurial mindset. This enables us to think differently, transforming intelligent insights into innovative, relevant investment opportunities for our clients. Leveraging our unique combination of a global perspective complemented by our Asian DNA, we aspire to create sophisticated and diverse solutions that set new standards in the asset management industry.

We believe in building progressive investment solutions. In a world where one-size-fits-all solutions are no longer the answer, our ability to turn insights into opportunities sets us apart. Our understanding of the drivers of investment markets underpins the innovation and relevance of the solutions we develop.

Our distinguishing characteristics include:

**Progressive Solutions**

We are committed to delivering progressive solutions that align to the various goals of investors. In an increasingly challenging market environment, we aim to support our clients with innovative, insight-driven and relevant investment opportunities.

**Performance**

Our primary focus is delivering real value for our clients. Our rigorous risk management framework and research-driven culture help to guide our investment decisions as we strive to generate sustainable outperformance for our clients.

**Global Citizen with Asian DNA**

We leverage our global perspective and Asian DNA to help our clients navigate dynamic investment markets. Our global investment teams share local expertise and regional perspectives to provide unparalleled insights that help us to develop relevant products and build strong investment portfolios for our clients.

**1.2. Purpose and values for clients**

At Nikko AM Australia we believe that supporting our culture through shared values and behaviours ensures that everyone in the firm knows what is expected of them and how they can contribute.

Globally, Nikko AM has an established set of values that bind us together, providing everyone with a common framework which helps us all to understand how we can perform at our best wherever we work or whatever role we play.

We strive for quality and excellence in everything we do and believe that holding ourselves to a high standard through our shared values is fundamental to carrying out our fiduciary duties to clients.

It is our embedded values that drive every decision we make on behalf of our clients and our vision and strategy to transform intelligent insights into innovative, relevant investment opportunities for our clients.

**1.3. Ownership and governance**

Nikko AM Australia is the collective name given to Nikko AM Limited (NAML) ABN 99 003 376 252 AFS Licence No: 237563, the investment management arm and parent company of Nikko Asset Management Australia Limited (NAMAU) ABN 34 002 542 038 AFS Licence No: 229664 which is the Responsible Entity / Trustee arm. Nikko AM Equities Australia Pty Limited (NEAL) is a joint venture company owned equally by NAML and the majority of the Nikko AM Australian equity team.
Our ownership structure is shown below:

Nikko AM Australia is governed by its Boards of Directors. The Boards are responsible for the overall governance of Nikko AM Australia and are accountable to shareholders for the performance of the company and to investors for the management of their assets. The primary function of the Boards is to chart the direction, strategies and financial objectives of the company and to monitor the investment performance of trust assets, monitor compliance with regulatory requirements, oversee the risk management framework, ethical standards and external commitments.

The Boards have delegated the day-to-day management and administration of Nikko AM Australia to the Managing Director who is assisted by the:
- Business Operating Forum
- Leadership team

A number of committees are also in place including:
- Risk and Compliance Committees
- Disclosure Committee
- Audit Committee
- Counterparty Risk Management Committee

1.4. Key personnel
Nikko AM Australia’s Board members include:

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Gee</td>
<td>Chair, Independent Non-Executive Director</td>
<td>John Gee joined the Boards of Nikko AM Australia in March 2011. John is also Chair of the Disclosure Committee and a member of the Risk and Compliance Committee.</td>
</tr>
<tr>
<td>Sam Hallinan</td>
<td>Managing Director</td>
<td>Sam Hallinan joined Nikko AM Australia as Managing Director, Australia on April 1 2015. Sam is also a member of the Risk and Compliance Committee.</td>
</tr>
<tr>
<td>Kunihiro Asai</td>
<td>Director</td>
<td>Kunihiro Asai joined the Boards of Nikko AM Australia on 1 April 2019. Kunihiro Asai is the Global Head of Corporate Office for Nikko Asset Management Co., Ltd.</td>
</tr>
<tr>
<td>Naomi Edwards</td>
<td>Independent Non-Executive Director</td>
<td>Naomi Edwards joined the Boards of Nikko AM Australia on 1 October 2018. Naomi is also Chair of the Risk and Compliance Committee.</td>
</tr>
</tbody>
</table>

Investment personnel
Nikko AM Australia has dedicated investment teams based in its Sydney office spanning Australian equities, Australian fixed income and Portfolio Solutions.

Our 11-member Australian equities team has an average of 19 years’ industry experience and has been working together as a team for an average of 13 years. The team is led by Brad Potter, Head of Australian Equities. Brad joined the business in 2002 and has 30 years’ experience primarily in the funds management and stockbroking industry.

Our 4-member Australian fixed income team is part of our Global fixed income team based in London. Locally, the team has an average of 27 years’ industry experience and has been working together for an average of 8 years. Key members of the team include: Darren Langer, Senior Portfolio Manager who joined the business in 2008 and has 30 years investment experience; and John Sorrell, Head of Credit (Australia) who joined the business in 2008 and has 29 years investment experience.

Within Portfolio Solutions, Charli Marais, Senior Portfolio Manager, joined the business in 2008 and has 17 years of industry experience.

1.5. Managing client assets in accordance with their investment strategies
Nikko AM Australia believes in active management and high conviction investing, backed by a research driven culture. The strategies we offer are aligned with this fundamental investment philosophy across all our asset classes.

We believe that our clients choose us for our long-standing experience in active investment management and our ability to stay true to our stated investment strategies and processes. Our primary focus is on delivering real value for our clients and
in that sense we believe our interests are aligned with clients who are seeking sustainable outperformance.

Nikko AM Australia has established appropriate risk management and compliance frameworks to ensure that the interests of clients and beneficiaries are the top priority. In the course of managing client assets, we may face conflicts in respect of our duties in relation to our clients and our own interests. We will identify and resolve any such conflict fairly and reasonably, and in accordance with the law, ASIC policy and our own policies. To that end, we have a number of policies and procedures in place to assist us in meeting our fiduciary obligations. Please refer to Section 2 for further details.
2. Internal Governance

2.1. Ethical and professional conduct
Nikko Asset Management is committed to upholding the highest standards of business ethics and conduct. We are proud of this commitment and consider it fundamental to earning and maintaining the trust of our clients, prospective clients, the public, regulators, business partners, participants in the global capital markets and other key constituents. We have a Global Code of Ethics and Business Conduct (Code) that aims to emphasize this commitment, by setting forth basic principles of business ethics and standards of business conduct.

Within the Code, our commitment to our clients includes:

A. Fiduciary Duty
As a fiduciary, we owe our clients a duty of loyalty and care. When we act in a fiduciary capacity we must act for the benefit of our clients, placing the interests of our clients before the interests of the company, a third party or ourselves. We must also act with reasonable care and exercise prudent judgment.

B. Forthright Communication
We are committed to communicating forthrightly with our clients. When communicating with clients, prospective clients and the general public, we must communicate in a manner that is fair, accurate and not misleading.

C. Preserving Client Confidentiality
Unless disclosure is permitted by the client, required by law or competent authority or authorized by an appropriate legal officer of the company, we must preserve the confidentiality of confidential client information.

D. Personal Trading
The Nikko Asset Management Group Personal Trading Policy is guided by the principle that as a fiduciary entrusted with the management of client assets our foremost concern is and must always be to protect the interests of our clients. The Policy aims to effectuate this principle by establishing a framework for managing personal trading by directors, officers and employees that protects the interests of our clients, while permitting responsible investing by our directors, officers and employees.

All new hires must read and sign off to confirm acceptance and understanding of the Global Code of Ethics and Business Conduct and compliance related policies and also provide annual certification.

2.2. Personal Trading
Nikko AM Australia staff are subject to the Nikko AM Global Personal Trading Policy that requires all staff (including their related persons) to seek pre-approval for trading in covered securities.

All employees are required to certify on an annual basis that they have complied with the personal trading policy and provide to the Legal, Risk and Compliance team copies of their personal trading account statements.

Nikko AM Australia has an Insider Trading and Restricted Securities Policy that is designed to ensure that employees do not commit insider trading or communicate inside information to others. It sets out when securities will be placed on a restricted security or black list to manage the risk of insider trading or conflicts of interest.

2.3. Managing conflicts of interest to ensure client interests take priority
Nikko AM Australia has a Conflicts of Interest Policy which is designed to ensure that Nikko AM Australia upholds its fiduciary duties to clients and meets its regulatory obligations. The policy is managed and administered by the Legal, Risk and Compliance department of Nikko AM Australia however it is the responsibility of all employees to identify potential or actual conflicts of interest (whether personal or business) and disclose these in accordance with the policy.

Whilst Nikko AM Australia's policy is to avoid both actual and perceived personal and business conflicts of interest, there are instances where conflicts may arise. In some cases, conflicts can be managed through disclosure to clients or investors or by controlling the conflict. However, at times, disclosure or other means are not sufficient. In these cases the circumstances giving rise to the conflict will be avoided.

Nikko AM Australia staff are subject to the Nikko AM Global Gift and Entertainment Policy. This policy sets out the framework covering the giving and receipt of gifts and entertainment to ensure that executive directors and officers and employees avoid real or perceived conflicts of interest.

The Policy prohibits certain gifts and entertainment and requires compliance approval for gifts over a certain dollar value. Under this Policy, more stringent reporting requirements are in place for investment personnel, requiring all gifts and entertainment received to be recorded and reported to the Legal, Risk and Compliance team.

2.4. Risk management and compliance
Nikko AM Australia is committed to the highest standards of integrity and ethics when providing its services to clients. A positive risk and compliance culture is nurtured within Nikko AM Australia at all times. The Boards set the ‘tone from the top’ with regards to the risk and compliance culture and conduct and are committed to ensuring that this positive risk and compliance culture continues as the business grows. The Boards are also responsible for setting the Risk Appetite of the business and oversight of the operation of the risk and compliance framework. Compliance with the law is taken seriously and every effort is made to abide by legislative requirements at all times.
The elements that contribute towards our positive risk and compliance culture include:

- Ongoing communication by our global parent company on their expectations of staff to adhere to the Global Code of Ethics and Business Conduct;
- Management leading by example;
- Induction programs incorporating the importance of understanding risk and being compliance-focused; and
- Ongoing risk and compliance training.

The Risk and Compliance Framework aims to improve the certainty that each business unit can achieve their corporate goals, aid the encouragement of sound business practices across the firm and protect Nikko AM Australia’s corporate values by promoting effective risk and compliance management. This Framework is supported by the Nikko AM Australia policy framework.

Nikko AM Australia operates a ‘three lines of defence model’ to assign risk and compliance management responsibilities. This model is based on the principle that, to be effective, the risk and compliance management capability is the responsibility of all employees and must be embedded in all front line teams, with independent oversight and assurance by the Legal, Risk and Compliance team and Internal Audit.

2.6. Brokerage and commissions
Nikko AM Australia’s policy is not to enter into any soft dollar arrangements. We have policies and procedures in place to ensure that we provide services to our clients and investors efficiently, honestly and fairly and to meet our fiduciary duties.

2.7. Equitable asset valuation and pricing
Nikko AM Australia has a Valuation Policy and a Unit Pricing Discretion Policy in place for its managed investment schemes. Both of these policies are in line with relevant industry standards and guidance issued by the Financial Services Council and ASIC.

Whilst the functional elements of both valuation and unit pricing have been outsourced to an external investment administrator, Nikko AM Australia retains ultimate responsibility for these.

Nikko AM Australia has a Unit Pricing Discretion Policy for its managed investment schemes which sets out the various discretions exercised by us as Responsible Entity and how errors are rectified and compensated by the Responsible Entity.

2.8. Best execution and trade allocation
Nikko AM Australia operates in accordance with the Nikko AM Global Best Execution Policy and for the Equities team, the Nikko AM Australia Equities Best Execution Policy.

When placing orders for client accounts, Nikko AM Australia has a fiduciary duty to prioritise the interests of clients over its own interests, those of its employees and any third party. In addition, Nikko AM Australia aims to achieve the “best possible result” for its clients, consistent with any relevant constraints, such as client-imposed restrictions and applicable laws and regulations.

With regard to trade allocation, Nikko AM Australia also has a fiduciary duty to treat all clients equitably and fairly and operates in accordance with the abovementioned policies in this regard.

2.9. Remuneration
For all employees of Nikko AM, performance is both quantitatively and qualitatively driven. It is not just the “what you do” but also the “how you do it” that is taken into consideration. Goals are set as part of the performance management process and are reviewed mid-year and then at year-end. Portfolio benchmarks and targets are incorporated into the goals both on an individual and team level for investment staff. Level of achievement regarding goals is what drives the quantitative measurement of performance.

nikkoam.com.au
The Nikko AM Australia’s remuneration principles are to pay market related remuneration plus attractive short-term incentives (STI).

Nikko AM also has various programs in place to attract and retain high quality investment professionals which can include, but is not limited to, a long term incentive (LTI) scheme.

2.10. Whistle-blower protection
Nikko AM Australia has a Whistleblowing Policy designed to support ethical behaviour by providing a framework and an independent process for all Nikko AM Australia employees to report issues where ‘reportable conduct’ is observed.

Nikko AM Australia facilitates a safe and confidential environment, free from reprisals, where the employee believes the normal reporting processes are not appropriate to elevate an issue of ‘reportable conduct’. Reporting can be via the line management structure or direct to the Managing Director or General Counsel and Company Secretary.

2.11. Training and development
A benchmark level of training required for each role has been defined by Nikko AM Australia. This is driven by regulatory and licensing requirements.

Training activities may be either formal (eg. conferences, seminars, training courses, studies) or informal (eg. on-the-job training, attendance at internal briefings, self-education, and professional association meetings). Continued training can also include internal e-learning courses rolled out by Legal, Risk and Compliance.

Training requirements and needs are identified and managed according to whether they are role dependent, part of continuing professional development or required to demonstrate overall competency or capacity. The composition and frequency of training will be dependent on an individual’s respective roles and responsibilities.

Training registers are maintained.

2.12. Complaints and dispute resolution
Nikko AM Australia is a member of the Australian Financial Complaints Authority (AFCA). All complaints are investigated thoroughly, fairly and in an unbiased manner by Nikko AM Australia, in accordance with our Dispute Resolution Procedures. If a complaint has not been resolved to an investor’s satisfaction within 45 days, this can be lodged with AFCA.
3. Asset Stewardship

3.1. Monitoring of company performance

Detailed company and securities research is an essential part of Nikko AM Australia’s active management and high conviction investing. Monitoring company performance on both financial and non-financial matters is critical to the investment process.

Company contact is also an important element of our equities research including visits to interstate and international operations.

Company visits are undertaken to validate inputs into the company models, assess the quality of assets, determine the strategic value of assets and assess management’s ability to:
- a) improve returns on equity and funds employed
- b) generate growth, and
- c) manage operational risks.

These visits provide a better understanding of the operations and the industry in which the company operates. This ultimately leads to sounder investment analysis and valuations.

Nikko AM Australia’s Equity team will on average have approximately 1,400 contacts with companies over the course of a year.

Nikko AM Australia’s Fixed income team meet with management of most companies whose bonds are candidates for our portfolios. On average the team will have approximately 100 meetings over the course of a year.

3.2. Engagement with company management and escalation of issues

Our experience has shown that interacting and communicating with company boards is highly important as this is a two-way form of communication. Often boards appreciate the insight into investors’ thinking that meetings enable. Expressing concerns and raising issues in meetings can be more effective in promoting positive changes than just proxy voting for example. Our investment personnel are encouraged to communicate with boards in which we have a material investment and where such interaction can have a positive influence.

When issues are not resolved to our satisfaction, we will continue to raise the issue with the management and the board and vote against management recommended resolutions where we see fit and/or reduce our holding.

3.3. Environmental, Social and Governance factors

Investing in a responsible manner, where material issues including Environmental, Social and Governance (ESG) issues are considered, is a part of our duty to clients. Engagement with companies held in the portfolios is an important component of the investment process, with the aim to improve the outcome for investors as well as increasing the value of companies by addressing ESG issues.

ESG factors often have long term impacts which are often overlooked by the market. Environmental risks can affect the long-term profitability of a company. Risks such as water supply shortages and climate change are real risks, and companies need to respond to these risks and any related government regulation. Community views about the environment and consequent consumer, corporate and government reactions also need to be considered. Social issues such as human rights and health and safety can lead to changes to the market via government regulation and changes in consumer and public opinion. Corporate governance issues are common and contribute to poor reinvestment of capital. Factors that contribute to poor governance include differential treatment of shareholders, lack of board independence and the lack of skill and experience on the board.

As long term, fundamental investors, Nikko AM Australia considers ESG factors in the same way as more traditional factors such as market structure, innovation and industry growth. Any material ESG issues are incorporated into the valuation using the same methods that more traditional factors are handled. This way, the impact is neither under nor over-stated.

It is important to note that we do not exclude particular asset types, industry sectors or securities wholly on moral or ethical grounds, unless this is expressly built into the product’s investment strategy or client agreement.

3.4. Proxy voting

The overriding influence on Nikko AM Australia’s Proxy Voting Policy is its fiduciary duty to act in the best interests of its clients. We take our responsibilities seriously and acknowledge the importance of our right to vote as a shareholder of Australian companies and believe we are obliged by our duty to our clients to vote on all proxy issues.

As a long-term investor, Nikko AM Australia is focused on the fundamental performance of the corporates in which we invest. By positively influencing corporate governance we can actively improve returns to investors while promoting long-term decision making by boards and management. Voting is an important tool in promoting long-term corporate decision making.

Nikko AM Australia considers every issue to be discussed at a meeting of shareholders. This takes place well in advance of the date of meeting. Contentious issues are noted and then reviewed in detail according to our guidelines. Discussions involve our analysts and senior executive personnel. In some cases, Nikko AM Australia will establish contact with the company in question to discuss a proposal, which may involve making a request to modify or withdraw the proposal.

In the event that Nikko AM Australia votes against recommendations of the board, we communicate this decision in writing to the company to explain our position and make ourselves available for discussion with company management and the board to further discuss our concern regarding the
corporate governance issues that have led us to vote against a resolution.

Nikko AM Australia’s guidelines are substantially in accordance with the recommendations contained in Principles of Good Corporate Governance and Best Practice Recommendations by the ASX Corporate Governance Council. In many areas, our guidelines have enhanced the recommendations contained therein.

We maintain a record of all proxy voting on behalf of clients. Proxy voting results for the relevant Nikko AM unit trusts are published quarterly on our website: www.nikkoam.com.au. A copy of our Proxy Voting Policy for Australian Equities is also available on our website.

3.5. Engagement with other investors including industry groups and associations

When we believe it is in the interests of Nikko AM Australia’s investors and clients we may collaborate with other investors or industry groups to improve outcomes. This is conducted on a case by case basis. Since we already engage with the management and board of the companies we invest in, we will engage directly rather than collaboratively in most cases.

3.6. Policy advocacy including participation with industry groups and associations

Where we believe it is appropriate Nikko AM Australia will engage in policy advocacy.

Nikko AM’s current memberships of industry groups and associations include:
- Principles of Responsible Investment – Nikko AM Australian Equities (since January 2009) and Nikko Asset Management Co. Ltd (since October 2007)
- ESG Research Australia – Nikko AM Australian Equities
- Responsible Investment Association Australasia – Nikko AM Australia

3.7. Client engagement, education and communication regarding asset stewardship

Nikko AM Australia has a long history in communicating with clients both directly and via insights published on our website. We endeavor to respond to all client inquiries regarding issues related to specific portfolios, as well as more generally how ESG issues are integrated into the investment process and practices.

More generally, we communicate our investment views and our stance on the importance of ESG issues through ad hoc articles and thought leadership available via our website, social media channels, client meetings and client communications.

We are in the process of developing a dedicated ESG microsite to educate and inform clients, consultants, investors and researchers on our approach and commitment to ESG. This site will detail our local and global policies (where relevant) relating to our ESG Principles, Global Code of Ethics and Business Conduct, and our six Principles for Responsible Investment, amongst others.

We also publicly disclose our Proxy Voting results for Australian equities on a quarterly basis via our local website.

Contact Us

Nikko AM Limited
Level 26, One International Towers Sydney, 100 Barangaroo Avenue
Barangaroo NSW 2000, Australia
Phone: 1800 251 589
Fax: +61 2 8072 6304
Email: sales.au@nikkoam.com

Important Information

This material was prepared and is issued by Nikko AM Limited ABN 99 003 376 252 AFSL No: 237563 and Nikko Asset Management Australia Limited ABN 34 002 542 038, AFSL 229664, collectively ‘Nikko AM Australia’. Nikko AM Australia is part of the Nikko AM Group. The information contained in this material is of a general nature only and does not constitute personal advice, nor does it constitute an offer of any financial product. It does not take into account the objectives, financial situation or needs of any individual. The information in this material has been prepared from what is considered to be reliable information, but the accuracy and integrity of the information is not guaranteed.