

## **Nikko Asset Management Hong Kong Limited**

# **Form ADV Part 2A Advisory Services Disclosure Brochure**

**January 21, 2021**

This Brochure describes the qualifications and business practices of Nikko Asset Management Hong Kong Limited ("Nikko AM HK"). If you have any questions about its contents, please contact us at +852 3940 3900 or <http://en.nikkoam.com/contact-us>.

Information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or any state securities authority.

Nikko AM HK is registered with the SEC as an investment adviser. Registration does not imply any level of skill or training.

Additional information about Nikko AM HK can be found on the SEC's website at <http://www.adviserinfo.sec.gov> using the unique CRD search number 161467.

**Nikko Asset Management Hong Kong Limited**  
2401-2403 Man Yee Building, 60-68 Des Voeux Road  
Central  
Hong Kong  
Tel +852 3940 3900  
Fax +852 3940 3904  
<http://www.nikkoam.com.hk>

## **Item 2: Material Changes**

This Brochure was revised on January 21, 2021 as part of an other-than-annual amendment update. There have been no material changes incorporated herein since Nikko AM HK's last posting of this document on June 25, 2020 on the SEC's public disclosure website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)).

Pursuant to the SEC Rules, Nikko AM HK will ensure that clients receive a summary of any material changes to this and subsequent brochures within 120 days of the end of Nikko AM HK's fiscal year. We may also provide further information about material changes, or new brochures based on such changes, as necessary.

### **Item3: Table of Contents**

<b>Item 4</b>	<b>Advisory Business .....</b>	<b>4</b>
	Introduction.....	4
	Corporate History .....	4
	Ownership*.....	5
	Assets Under Management.....	5
	Advisory Services.....	5
<b>Item 5</b>	<b>Fees and Compensation .....</b>	<b>6</b>
<b>Item 6</b>	<b>Performance-Based Fees and Side-By-Side Management.....</b>	<b>6</b>
<b>Item 7</b>	<b>Types of Clients .....</b>	<b>6</b>
<b>Item 8</b>	<b>Methods of Analysis, Investment Strategies and Risk of Loss .....</b>	<b>7</b>
	Methods of Analysis .....	7
	Investment Strategies.....	8
	Risk of Loss.....	8
<b>Item 9</b>	<b>Disciplinary Information.....</b>	<b>8</b>
<b>Item 10</b>	<b>Other Financial Industry Activities and Affiliations .....</b>	<b>8</b>
	Broker-Dealers .....	8
	Investment Companies.....	9
	Other Investment Advisers .....	9
<b>Item 11</b>	<b>Code of Ethics, Participation in Client Transactions and Personal Trading .....</b>	<b>9</b>
<b>Item 12</b>	<b>Brokerage Practices .....</b>	<b>10</b>
	Broker-Dealer Selection and Best Execution .....	10
	Soft Dollars.....	10
	Trade Aggregation and Allocation .....	10
<b>Item 13</b>	<b>Review of Accounts.....</b>	<b>11</b>
	Monitoring.....	11
	Reconciliation .....	11
	Client Reporting.....	12
<b>Item 14</b>	<b>Client Referrals and Other Compensation.....</b>	<b>12</b>
<b>Item 15</b>	<b>Custody .....</b>	<b>12</b>
<b>Item 16</b>	<b>Investment Discretion .....</b>	<b>12</b>
<b>Item 17</b>	<b>Voting Client Securities.....</b>	<b>13</b>
<b>Item 18</b>	<b>Financial Information.....</b>	<b>14</b>

## **Item 4    Advisory Business**

### **Introduction**

Nikko AM HK is the Hong Kong based subsidiary of the Nikko Asset Management Group (“Nikko AM Group”), which is headquartered in Tokyo. Nikko AM HK’s principal place of business is Hong Kong, where it is authorized and regulated by the Hong Kong Securities and Futures Commission to provide Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) services. Further information about Nikko AM HK can be found at <http://www.sfc.hk/publicregWeb/corp/AFH646/details>.

### **Corporate History**

The history of the group parent, Nikko Asset Management Co., Ltd (“Nikko AM”) dates back to 1959 when its predecessor Nikko Securities Investment Trust Co., Ltd., was established. It subsequently merged with Nikko International Capital Management Co., Ltd. (established 1981) in 1999, to form Nikko AM.

As one of Japan’s largest asset management companies, Nikko AM has significantly expanded its operations both in Asia and internationally, in pursuit of its primary business objective: to become the world’s leading pan-Asian asset management group.

It is the Nikko AM Group’s core belief that there are great opportunities for specialist investment managers in the fast growing Asian markets and what clients and distributors really want is a strong, dedicated Asian based investment firm, like Nikko AM, which can grasp the often nuanced and local characteristics of markets and global investor requirements.

By utilizing its deep knowledge of the local markets in Asia and leveraging the group’s global presence and resources, Nikko AM aims to maximize the value it delivers to its clients regardless of their geographic location.

The acquisitions of DBSAM and Tyndall Investment Management Limited during 2011, and Treasury Asia Asset Management Limited in 2013 have enabled the Nikko AM Group to significantly strengthen its presence across Asia. Nikko AM also extended its capabilities in Europe with the addition of an Edinburgh-based investment team, which previously managed the high-alpha equity strategy at Scottish Widows Investment Partnership in August 2014. The team now managed Nikko AM’s Global Equity strategy.

As a result, the group is able to offer global investment and distribution capabilities in Tokyo, Singapore, Hong Kong, Kuala Lumpur, Sydney, Auckland, Edinburgh, London and New York. Nikko AM also owns 40% of Rongtong Fund Management in China, as well as 27% of Affin Hwang Asset Management Berhad (previously known as Hwang Investment Management Berhad) in Malaysia.

These acquisitions have significantly contributed to the diversity of group’s assets under management and client base, as well as investment professionals offering on the ground support, that complements client services and marketing/sales activities.

### Ownership\*

As at April 10, 2020, Nikko AM HK was wholly owned by Nikko Asset Management International Limited and Nikko AM International Limited was in turn, wholly owned by Nikko AM. As at 15 January 2021, Nikko AM has become a wholly owned subsidiary of Sumitomo Mitsui Trust Holdings, Inc.

### Assets Under Management

As at 30 September 2020, preliminary consolidated assets under management and advice of the Nikko AM Group were approximately USD 249.1 billion..

### Advisory Services

In responding to the diverse needs of investors, the Nikko AM Group offers both active and passive investment capabilities across equity, fixed income and alternative asset classes, with key strengths in multiple pan-Asian asset strategies. The Nikko AM Group's hybrid culture, experience and Asia-focused perspective offers crucial insights into understanding the nuances of opportunities and challenges within Asian markets. This informs investment decisions in a way that is extremely hard for non-local firms to emulate. Moreover, as a group, we have shown a deep commitment to the region, establishing a strong bench of investment expertise within these specialized markets. Our experience of investing and advising clients on Asian securities, broken down by region, is as follows:

Japanese Equities – since 1959  
Asia Pacific ex Japan – since 1982  
Emerging Asia – since 1994  
China – since 2005  
Multi Assets – since 2014  
Global Equities – since 2014

Nikko AM believes the best way of managing regional portfolios is to rely on the expertise of local professionals, based in the appropriate investment region. Portfolio managers and research analysts are highly experienced professionals, with in-depth knowledge of their own markets, as well as cultural and political aspects impacting them. The skills and expertise of each team is combined and brought together to offer specialist regional asset management services. As a result, mandates may be sub-delegated to specialist investment teams at Nikko AM Group affiliates in Tokyo, Singapore, Hong Kong, Sydney, Auckland, Edinburgh, London and New York.

Additionally, the group also provides sub-advisory services via Nikko AM's World Series Fund Platform®. This is offered primarily to Asian investors, as a means of accessing products managed by leading asset managers, world-wide.

Services are primarily provided to individual and institutional investors (clients), through investment companies or other pooled investment vehicles, including mutual funds, closed end investment companies, Japanese investment trusts, unit investment trusts, private companies, hedge funds or offshore funds ("pooled investment vehicles") and separate (segregated) accounts.

Nikko AM HK manages portfolios in accordance with the specified guidelines and objectives of each individual client. In this regard, clients may impose restrictions on investing in certain securities or types of securities. Services may also be limited by legal and regulatory requirements. Such restrictions will be clearly specified in investment management agreements, following consultations with clients and will consider the impact of the proposed restriction of the investment strategy, relevant laws and regulatory requirements.

## **Item 5 Fees and Compensation**

This Brochure is intended for use by U.S. retirement plan sponsors, endowments, foundations, and other institutional investors. Accounts are generally subject to a minimum account size, which may be waived by Nikko AM.

Generally, Nikko AM's fee arrangements are based on a percentage of the market value of assets under management or advisement, although Nikko AM may also charge performance-based fees, flat fees, or apply other alternative fee structures. The specific fee arrangements with respect to any given account are negotiable on a client-by-client basis. When determining appropriate fees, Nikko AM may take into account, among other things, the account's investment strategy, whether the account is a discretionary account, the level of servicing required by the account and the scope of Nikko AM's relationship with the client and its affiliates across all accounts and strategies. Nikko AM generally bills clients quarterly in arrears.

Separate account clients are responsible for third party expenses associated with managing the account including but not limited to, for example, brokerage commissions, ticket charges and other fees. Nikko AM's brokerage practices are discussed in Item 12 of this Brochure. The allocation of these expenses will be made in accordance with the agreement in place between Nikko AM and the separate account client. Nikko AM does not select account custodians on behalf of separate account clients or serve as the custodian of separate account client account assets. Clients will be responsible for charges imposed by custodians, such as custodial fees.

Generally, Nikko AM's investment advisory agreements provide that either party may terminate the agreement upon a mutually agreed time upon prior written notice. Upon termination, clients pay the pro-rata portion of fees through the effective date of termination.

## **Item 6 Performance-Based Fees and Side-By-Side Management**

Where Nikko AM HK enters into performance based fee arrangements with qualified clients, fees will be negotiated on an individual basis and structured in accordance with Section 205(a)(1) of the Investment Advisers Act of 1940 (the "Advisers Act") (in accordance with available exemptions thereunder, including the exemption set forth in Rule 205 - 3).

Performance based fee arrangements may create an incentive for Nikko AM HK to recommend certain investments, which may be riskier or more speculative than those which would have been recommended under a different fee arrangement. Such arrangements also create an incentive to favor higher fee paying accounts over other accounts, in the allocation of investment opportunities.

Nikko AM HK's procedures are designed and implemented to ensure that all clients are treated fairly and equally, to prevent this conflict from influencing the allocation of investment opportunities between clients. Policies are also implemented to ensure that all accounts are managed in line with client objectives and guidelines, which further mitigates such risk.

## **Item 7 Types of Clients**

Nikko AM HK currently only manages units trusts registered and authorised in Hong Kong. Nikko AM HK does not have any institutional clients. The description below is Nikko AM HK's procedures in the event that there is an institutional client.

Minimum investment amounts vary depending on the product type, strategy, and distributors (where appropriate). The minimum amount required to open an investment advisory account is determined by Nikko AM HK on a case by case basis, relying on a number of factors including (but not limited to) the types of investments to be made for the account.

## Item 8 **Methods of Analysis, Investment Strategies and Risk of Loss**

Investment advice is based on the objectives and terms set out in individual client investment management agreements, relevant fund prospectuses or offering memoranda.

### **Methods of Analysis**

The Nikko AM Group's commitment and dedication to investing on behalf of its clients is reflected throughout the organization. It is evidenced not only by the organization structure, but also by the intensity of our research efforts and the disciplined nature of our investment and risk control processes.

Specialist teams throughout the Nikko AM Group's global network are dedicated to providing analysis on macro-economic factors, specific asset classes, strategies and styles, as follows:

**Macro-Economic Analysis:** The Investment Committee provides macro-economic insight on factors influencing markets, working in conjunction with investment professionals throughout the group's global network. The Committee comprised of senior investment professionals based in Tokyo, London, New York, Singapore and Sydney, who meet at least on a quarterly basis to share market insight and determine global asset allocation.

**Equity Research:** Equity analysts are assigned responsibilities based on geographic regions, sectors or investment styles. The Nikko AM Group's general approach focuses on fundamental bottom up analysis, although it will vary depending on specific requirements of the investment strategy pursued and is tailored accordingly. Investment teams and research analysts have an integral relationship that adds value to uncovering and responding to investment opportunities quickly. Communication efforts are designed to ensure that analysts fully understand the investment philosophy and research requirements of investment teams as well as the current view of individual portfolio managers. Analysts and portfolio managers are grouped together both organizationally and physically, which builds teamwork and solid understanding. Through constant two-way communication and discussions regarding company views and portfolio holdings, analysts seek to maximize their contribution to the investment process.

**Fixed Income & Currency Analysis:** Dedicated credit and currency analysts use various models and tools, some of which have been developed in-house, to carry out detailed analysis. The Nikko AM Group provides broad coverage of global fixed income markets and currencies, with consideration to the following factors:

**Macro Fundamentals:** Underlying economic outlook on a country by country basis, including medium term growth prospects, fiscal policy, government debt levels, progress on reforms, current account/trade position and the political environment.

**Interest Rates:** Combining positive fundamental analysis with attractive interest rates to provide a strong total return, taking into consideration short and long term market rates and future monetary policy direction versus market expectation.

**Market Liquidity:** Market accessibility and the ease of obtaining/building a position.

**Investor Positioning/Relative Performance:** How investors are currently positioned: Has there been an increase in the amount of foreign buying? How sustainable is it? Is it speculative or foreign direct investment related? How has the currency performed relative to other currencies?

**Quantitative Analysis:** A dedicated team develop and maintain quantitative tools and models, based on the latest academic theories, to support Nikko AM's quantitative investment approaches. Providing sophisticated risk and market analysis, high level quantitative technology is connected directly to investment processes and is reflected in many of Nikko AM's products.



**Performance Analysis:** Performance is analyzed both quantitatively and qualitatively, using a combination of proprietary and third party tools and models, to ensure assets are being appropriately managed in-line with specific investment strategies, guidelines and risk levels.

### Investment Strategies

To respond to the diverse needs of investors, the Nikko AM Group offers both active and passive global investment capabilities across equity, fixed income and alternative asset classes with key strengths in Asian products. This includes (but is not limited to) passive strategies (ETFs), Active Strategies in Asian equities and fixed income, and multi-assets.

### Risk of Loss

Investing in securities involves a risk of loss that clients should be prepared to bear. The value of investments and the income from them may go down as well as up and investors may not get back the original amount invested; past performance is not a guide to future results. Even when the value of the securities sold is greater than the price paid, there is a risk that the appreciation will be less than inflation.

For the majority of accounts managed, Nikko AM HK aims to hold diversified positions to minimize risk levels. However, it may concentrate holdings in industries, geographic regions or companies which, in light of investment considerations, market risks and other factors, it believes will provide the best opportunity for attractive risk adjusted returns. The concentration of assets may subject clients to a greater degree of risk.

Securities denominated in foreign currencies are also exposed to foreign exchange risk and where the market size or trading volume is small, portfolios may be subject to unexpected losses from being unable to sell portfolio holdings at expected prices.

## **Item 9      Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Nikko AM HK or the integrity of its management. Nikko AM HK and its management have no such events to report. However, a list of disciplinary events may be found in Item 11 "Disclosure Information" of Nikko AM's Form ADV Part 1A.

## **Item 10    Other Financial Industry Activities and Affiliations**

Nikko AM HK is a wholly owned subsidiary of Nikko AM International Limited, which is wholly owned by Nikko AM. Nikko AM is majority owned by SMTB, a leading Japanese trust bank whose parent is Sumitomo Mitsui Trust Holdings, Inc., a holding company with various subsidiaries, including other financial services companies. Nikko AM HK may have relationships with or enter into transactions with these companies, which could create actual and perceived conflicts of interest.

In order to address any actual or perceived conflicts of interest, Nikko AM HK has established a range of policies and procedures, including its "Conflict of Interest Control Regulations." Key components of these regulations include: (i) identification of types of potential conflict of interest transactions; (ii) method of conflict of interest control; and (iii) internal control systems.

### Broker-Dealers

When Nikko AM HK places orders on behalf of its clients with affiliated broker-dealers, an actual or apparent conflict could arise. To manage such potential conflicts, Nikko AM HK will obtain prior client consent and/or disclose these transactions to clients. Furthermore, Nikko AM HK has established broker-dealer selection guidelines and a best execution policy to ensure that it places the interests of clients above its own, when selecting broker-dealers and that it pursues best execution when making trading decisions



### Investment Companies

Nikko AM HK provides investment management services to investment companies, including group affiliates. Nikko AM HK discloses that it is a related person of the investment companies for which it provides investment management services. The provision of investment management services to multiple investment companies could result in a conflict of interest when multiple investment companies are interested in the same investment opportunity or in transacting in the same security. Nikko AM HK has adopted trade aggregation and allocation policies and procedures to manage such potential conflicts.

### Other Investment Advisers

Nikko AM HK has relationships or arrangements with the following affiliated investment advisers under the Advisers Act: Nikko Asset Management Co., Ltd., Nikko Asset Management Americas, Inc, Nikko Asset Management Europe Ltd, Nikko Asset Management Asia Limited, Nikko AM Limited. From time to time Nikko AM HK may, with prior client consent, and to the extent permitted by applicable law, delegate some or all of our responsibilities, duties and authority under an investment management agreement to one or more of our Affiliates. Affiliates may also provide investment management services as an adviser or a sub-adviser to clients of other affiliated and unaffiliated advisers.

#### Banking or Thrift Institutions

Sumitomo Mitsui Trust Bank, Limited (SMTB), which is a subsidiary of Sumitomo Mitsui Trust Holdings, Inc., serves as distributor for several of Nikko AM's pooled investment vehicles. SMTB may provide administrative, custodial and other services to Nikko AM's products and clients. Nikko AM may have an incentive to appoint affiliated banking institutions as trustees for its Japanese investment trusts. For US clients, the selection of custodians is the responsibility of the client, not Nikko AM. Whenever Nikko AM appoints a custodian, such as for a Japanese investment trust, it conducts due diligence on that institution, negotiates arms-length arrangements and fully discloses the affiliation to the client.

## **Item 11 Code of Ethics, Participation in Client Transactions and Personal Trading**

Nikko AM HK 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 and prospective clients.

Nikko AM HK operates under a Code of Ethics and Business Conduct (the "Code") that complies with Rule 204A-1 of the Advisers Act. The Code serves to emphasize our commitment to upholding the highest standards by setting forth basic principles of business ethics and conduct that apply to all directors, officers and employees. Chief among the commitments set forth in the Code is our commitment to fulfill our fiduciary duty to our clients.

The Code also incorporates the Nikko AM Group's personal trading policy (the "Policy"). The 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.

Key components of our personal trading policy include: (i) prohibitions and restrictions on certain types of transactions; (ii) preclearance requirements that allow the appropriateness of the proposed transaction to be assessed, prior to permitting a transaction; and (iii) reporting requirements that allow Nikko AM HK to monitor trading activity and review transaction histories in order to assess compliance with the Policy.

Nikko AM HK will provide a copy of the Code to any client or prospective client upon request at no charge.

Please see the section of this Brochure entitled “Other Financial Industry Activities and Affiliations” for a discussion of Nikko AM HK’s affiliations with other Nikko AM Group entities and how those affiliations may affect clients of Nikko AM HK.

## **Item 12 Brokerage Practices**

### **Broker-Dealer Selection and Best Execution**

As Nikko AM HK has delegated the dealing function to Nikko AM Asia, the following describes Nikko AM Asia’s brokerage practices.

Nikko AM Asia has a fiduciary duty to place the interests of clients above its own or any third party when selecting broker-dealers and placing trades for client portfolios. Accordingly, Nikko AM Asia selects and reviews its panel of broker-dealers on a periodic basis and has adopted a Best Execution Policy. On a group level, Nikko AM has adopted a Counterparty Risk Management Policy, Global Best Execution Policy and Global Trading Policy in accordance with which, the Risk Management Division assesses and monitors counterparty risk and determines whether to commence or continue trading with the broker-dealer and reviews risk limits where necessary.

When assessing a broker-dealer, Nikko AM Asia considers credit, operational, and reputational risk, in addition to compliance with external regulatory requirements.

Nikko AM Asia's Best Execution Policy establishes principles and standards to be followed when trading as a fiduciary on behalf of clients or pooled investment vehicles in order to achieve "best execution." This is defined as the most favorable overall result for the client under the circumstances, taking into account to the following execution factors: price, cost, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.

Key components of Nikko AM Asia’s Best Execution Policy include: (i) procedures for broker-dealer selection and order placement; and (ii) the prohibition of transactions involving inherent conflicts.

### **Soft Dollars**

In the ordinary course of business Nikko AM receives research reports from broker-dealers and considers factors such as the usefulness and amount of the research as part of its broker-dealer evaluation process. Except for the acceptance of research mentioned above, Nikko AM will not receive or enter into any soft dollar arrangements.

### **Trade Aggregation and Allocation**

Nikko AM Asia may group orders to obtain economies of scale that may be available on larger transactions, where:

-It has been determined that an investment decision is appropriate for each participating portfolio; and

-It is consistent with the terms of individual investment management agreements, applicable laws and industry association rules.

Moreover, transactions are not aggregated unless they are consistent with the duty to seek best execution. This policy applies to all types of investments and no client is favored over any other, when orders are aggregated. Where orders are partially filled, allocation will typically be made on a pro rata basis.

## **Item 13    Review of Accounts**

### **Monitoring**

Nikko AM HK currently only manages units trusts registered and authorised in Hong Kong. Nikko AM HK does not have any institutional clients. The description below is Nikko AM HK's procedures in the event that there is an institutional client.

Nikko AM HK conducts regular daily, weekly, monthly and quarterly reviews as part of its general monitoring processes, in addition to ad-hoc reviews, as necessary. As Nikko AM HK has delegated the dealing function to Nikko AM Asia, some references may be made to Nikko AM and Nikko AM Asia, where applicable.

### **Daily Reviews**

Portfolios are reviewed by portfolio managers, the Investment Risk Management Department and the Investment Compliance Department. Portfolio managers review the holdings and monitor performance for the products for which they are responsible. Investment Risk Management monitors portfolios across a number of risk factors. Investment Compliance also reviews portfolios to assess whether they are being managed in accordance with applicable investment guidelines and restrictions.

### **Weekly Reviews**

The Investment Risk Management Department creates risk and performance attribution reports on a weekly basis.

### **Monthly Reviews**

Monthly reviews of individual strategies are undertaken by investment teams and heads of investment departments to evaluate investment performance, discuss the details related to portfolio management during the reporting period and confirm the strategy going forward..

### **Quarterly Reviews**

Quarterly review meetings are held by Investment Risk Management and attended by portfolio managers, heads of investment department and the CIO. During the meeting, market risk, portfolio risk and counterparty risk are reviewed with each investment management team. Special issues may also be reported to Nikko AM's Risk Oversight Committee, which is chaired by the Group Head of Risk Management and convened on a quarterly basis.

### **Ad Hoc Reviews**

Ad hoc reviews may also be undertaken when necessary. For example, when the size of a portfolio has rapidly expanded or portfolio performance significantly deteriorates, which may require the appropriateness of a product to be re-assessed. Furthermore, portfolio managers also frequently assess portfolio risk levels using internal risk reports prepared with inputs from both Barra and proprietary risk models.

### **Reconciliation**

Reconciliation will be carried out on an ongoing basis for accounts managed by Nikko AM HK. Statements will be received from custodians and then reconciled to Nikko AM HK's records. Reconciliation of cash and securities positions will be reconciled daily where possible. During the reconciliation process, if any discrepancies are found, they will be fully investigated, addressed and resolved, with full documentation

## Client Reporting

Nikko AM HK will produce periodic statements and investment review reports in writing, (typically on a monthly and/or quarterly basis), for each client in accordance with the requirements set out in individual investment management agreements.

### Statements

Periodic statements may include details of purchases and sales during the period, securities and cash holdings, performance, realized/unrealized gains/losses, dividend and corporate actions.

### Investment Review Reports

In line with specific client requirements, investment review reports may include (but not be limited to):

- Performance overview for the relevant period and since inception
- Financial market review
- Summary of investment activity
- Details of largest transactions undertaken during the reporting period
- Summary of portfolio characteristics at the end of the reporting period
- Commentary on the top positive/negative contributors to performance
- Performance attribution
- Market outlook
- Investment policies

## **Item 14 Client Referrals and Other Compensation**

From time to time, Nikko AM HK and its affiliates may pay solicitation or referral fees to persons who introduce clients to Nikko AM HK or to Pooled Investment Vehicles managed by Nikko AM HK. These fees are disclosed to the client and governed by written agreements, as permitted by Rule 206(4)-3 under the Advisers Act.

## **Item 15 Custody**

Clients should receive at least quarterly statements from broker-dealers, banks or other qualified custodians that hold and maintain client investment assets. Where applicable, Nikko AM HK urges its clients to carefully review such statements and compare official custodial records to account statements provided by Nikko AM HK. Variations may occur based on accounting procedures, reporting dates, pricing sources, time periods or valuation methodologies of certain securities.

Clients are required to appoint custodians who are responsible for the safe custody of investments and money, settling transactions and registering investments.

## **Item 16 Investment Discretion**

Nikko AM HK currently only manages units trusts registered and authorised in Hong Kong. Nikko AM HK does not have any institutional clients. The description below is Nikko AM HK's procedures in the event that there is an institutional client.

Nikko AM HK may receive discretionary authority from a client at the commencement of an advisory relationship, to select securities and the amount to be bought or sold. In all cases however, such discretion is exercised in a manner consistent with the stated investment guidelines for a particular portfolio.

When selecting securities and determining amounts, Nikko AM HK observes the investment policies, limitations and restrictions of the client for which it is acting. For registered investment

companies, Nikko AM HK's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Nikko AM HK in writing.

## **Item 17 Voting Client Securities**

Nikko AM Group views the exercise of voting rights as part of its fiduciary responsibility and an important part of the value of an investment, which should be constructively used in a clients' best interest. Furthermore, the firm also believes from a long term perspective, such action can contribute to the growth of investor assets. Voting rights are exercised solely for the benefit of the client or beneficiaries of Pooled Investment Vehicles from an independent standpoint and Nikko AM Group does not vote for the benefit of third parties or itself.

As a result, Nikko AM Group has established corporate governance principals by which an invested company should abide. By exercising voting rights in accordance with these principles, Nikko AM Group aims to encourage companies to operate in a manner which gives utmost consideration to shareholder interests over the long term.

Nikko AM Group's Stewardship and Proxy Voting Committee is responsible for examining resolutions in accordance with the firm's "Guidelines on Exercising Voting Rights" ("Guidelines"). Voting activity is conducted in accordance with the guidelines and where a resolution is regarded as being against the interests of a client, Nikko AM Group will either oppose the resolution or abstain from voting, based on the degree of its opposition. Where appropriate, advice may also be sought from experts, internally and/or externally.

Screening criteria for examining resolutions has also been determined as an aid to assessing the reliability of management and necessity of conducting further appraisals. Criteria includes (but is not limited to):

- Actual condition and past trends of return of equity (ROE) and return on assets (ROA)
- Actual condition and past trends of shareholder returns
- Occurrences of misconduct
- Existence of an exceptional opinion by an accounting auditors
- Existence of non-public purchases

When clients present Nikko AM Asia with their own policies on voting instructions, Nikko AM Asia will provide its guidelines for discussion and may make subjective adjustments, as required. When conducting analysis, appropriate engagement or exercising voting rights, for example, if Nikko AM Asia invests in an affiliated company, an investee company or a client (including companies with connections to a client), the possibility of conflicts of interest cannot be ruled out.

Nikko AM Group has established appropriate risk management and compliance frameworks to ensure that the interests of clients and beneficiaries are the top priority and that such conflicts of interest are appropriately managed if they arise. Portfolio managers, research analysts and governance specialists aim to avoid the occurrence of any conflicts of interest in compliance with Nikko AM's internal regulations. With regard to Nikko AM Group's exercising of voting rights, if there exists the possibility of a conflict of interest arising pursuant to Item 4 of Article 3 of the Company's Guidelines on Exercising Voting Rights, steps are taken to ensure that Nikko AM Group's decision making is objective and based on the advice of an independent third party.

Proxy voting reports are provided to clients on a periodic basis. Nikko AM Group's Guidelines are available upon request.

**Item 18 Financial Information**

Nikko AM HK is required to provide certain information or disclosures about the firm's financial condition. In this respect, Nikko AM HK has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.