

## Initiatives on Human Rights

Nomura Group has prescribed the respect for human rights in the Nomura Group Code of Conduct, and is a signatory of the UN Global Compact based on its respect for the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO International Labour Standards, and the UN Guiding Principles on Business and Human Rights.

As legal and regulatory frameworks related to human rights become more robust in countries around the world, human rights issues have become an important factor in investment activity.

For companies, countries, and various types of projects, goods and services are delivered to users and end consumers after procurement, production and transport of materials.

As this value chain crosses national borders and intersects with differing regulations and practices, there is a risk of human rights issues that cannot be seen from the surface.

Once a human rights issue arises, it can adversely affect the community, the company's employees, and business partners, and leads to a loss of trust from its customers.

This is because reputation risk, such as the deterioration of a company's image in society, increases, and the company may have to pay a large cost (cost and time to restore its reputation) to resolve the human rights issue.

In addition, if the problem remains unresolved over a long period of time, the adverse impact on the company's corporate value itself will grow.

Our mission is to protect the assets our clients entrust with us from risks related to human rights issues by raising awareness of such human rights issues among our investee companies and having them proactively advance relevant initiatives.

We carefully assess human rights risks for our portfolio stocks and use human rights risk assessments in our engagement and in ESG integration to fulfill our role as a responsible investor engaging in broad investment activity globally.

## Nomura Asset Management's Human Rights Risk Monitoring Process

Nomura Asset Management broadly and continuously monitors the human rights risks of companies in our investment universe, as we seek to reduce the risk of human rights infringements at the investment portfolio level.

We research whether the companies in our investment universe have been involved in actual human rights-related misconduct and, if so, we examine the level of damage resulting from such conduct. We also check whether or not companies have formulated human rights policies that conform to international standards as well as research the status of a company's human rights due diligence and mechanisms for handling grievances.

In addition, we also regularly research companies that have been flagged for involvement in human rights issues based on the outcomes of investigations by human rights NGOs or by international organizations.

This research centers on sectors with complicated supply chains and sectors that produce products with historically large human rights risks in production or raw material procurement.

This group of sectors includes sectors related to food/agriculture products, automobiles, ICT, apparel, and resource related sectors.

Sector	Major industries/products
<b>Food/agriculture products</b>	Food, Daily goods ,Food retails
<b>Automobiles</b>	Finished cars, Automobile parts, Tires
<b>ICT</b>	Electric products, Electronic components, Semiconductor manufacturing equipments
<b>Apparel</b>	Textiles, Shoes, Clothing retail
<b>Resource related</b>	Mining/Petroleum, Steel, Trading companies



## Human Rights Risk Management at the Portfolio Level

ESG specialists examine human rights risks (the survey items mentioned in the section about the human rights monitoring process) at the portfolio level throughout the year, based on the human rights risk monitoring data for each stock researched annually.

We carry out engagement if we hold a company judged as having high human rights risk in our investment universe.

The corporate analyst responsible for that stock, ESG specialists, and ESG engagement managers hold discussions with the company about risk factors (such as an inadequate management system or insufficient disclosure of information), and formulate an action plan to make improvements.

For companies that are considered high risk in terms of human rights but are continuing to work on solving problems, we monitor the progress of their efforts through periodic engagement.

Also, after a certain period of engagement, those companies for which we can expect improvement will be

unflagged as human rights high-risk companies, and will be subject to normal monitoring.

In corporate transactions, where human rights risk assessment has become the norm in recent years, we believe that companies that have established strong processes for human rights risk management will see a reduction in human rights risk not only in business with existing customers, but also in business with new corporate customers. We also think this will result in more positive evaluations of the products and services the company offers as well as an increase in business opportunities.

We believe that by repeating this human rights risk management at the portfolio level, we can gain a deep understanding of social risk carried by companies in our investment universe and reflect this in our investment decisions on companies. We feel that this will also advance our ESG integration related to human rights risk.



## Human Rights Due Diligence and its results

Our ESG specialists and ESG investment managers determine potential human rights risk levels for companies in our investment universe based on corporate disclosures, NGO reports and media information.

Our assessment focuses on the following six main issues:

1) Whether the company has a human rights policy that conforms to international standards; 2) Whether the company is performing human rights due diligence; 3) Whether the company is conducting surveys of suppliers; 4) Whether the company discloses the results of supplier surveys; 5) Whether on-site investigations of suppliers are performed; and 6) Whether there are corrective measures and a contact for whistleblowing in place.

If we cannot confirm in the disclosure that adequate human rights management is being implemented, or if a scandal is discovered, the company will be subject to engagement, and we will demand improvements through periodic engagement.

Human rights due diligence in 2022 also targeted large-cap stocks in sectors with a high level of human rights risk.

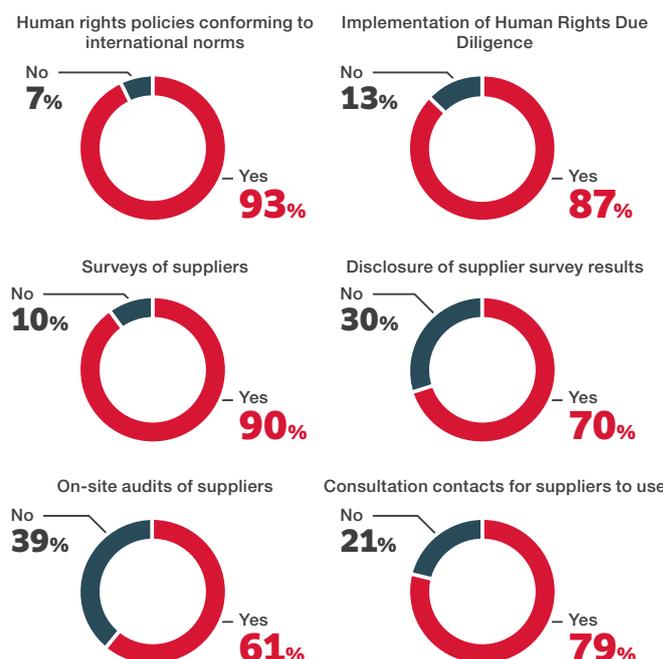
The majority of Japanese companies we assessed had already formulated human rights policies conforming to international norms, while approximately 87% of the companies are carrying out human rights due diligence. These mark an improvement in companies' efforts.

Although a large number of companies conduct human rights surveys of suppliers and disclose the results of those surveys, only around 60% of companies are carrying out on-site investigations of suppliers, so we expect further improvement.

As an asset manager aiming to eliminate human rights violations, we will actively carry out engagement in order to have investee companies establish human rights management systems in fields where efforts have been slow.

### Status of human rights initiatives and disclosure Stocks subject to disclosure checks Sectors with high risk of human rights issues

Food/agriculture products	Automobiles	ICT	Apparel	Resource related
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## Human Rights Engagement

Having direct dialogue with portfolio companies about human rights issues and urging them to make improvements for such problems is one of our responsibilities as an asset management firm.

The topic of human rights is an important engagement theme for both the Japanese and overseas companies we invest in.

Risks related to human rights issues can be managed to some extent by establishing a management system.

However, industries and companies with complex supply chains and operations in areas with political instability and unstable human rights policies can pose unforeseen risks to businesses.

In recent years, there have been cases both among Western and Japanese companies of being suspected of involvement

in production activities in areas where there are suspicions of child labor or forced labor in the development of a global business or supply chain development, as well as companies deciding to withdraw from a business due to influence from a heavy-handed government regime.

Even for human rights issues occurring in these various regions, we strive to engage from a neutral standpoint, obtain all relevant information, and reflect the findings in our investment decisions.

Especially in the case of human rights issues where it is difficult to grasp accurate information and make judgments due to different claims by all of the involved stakeholders, we encourage the company we are engaging with to improve relationships based on dialogue with stakeholders and to provide information to investors on a continual basis.

## COLUMN

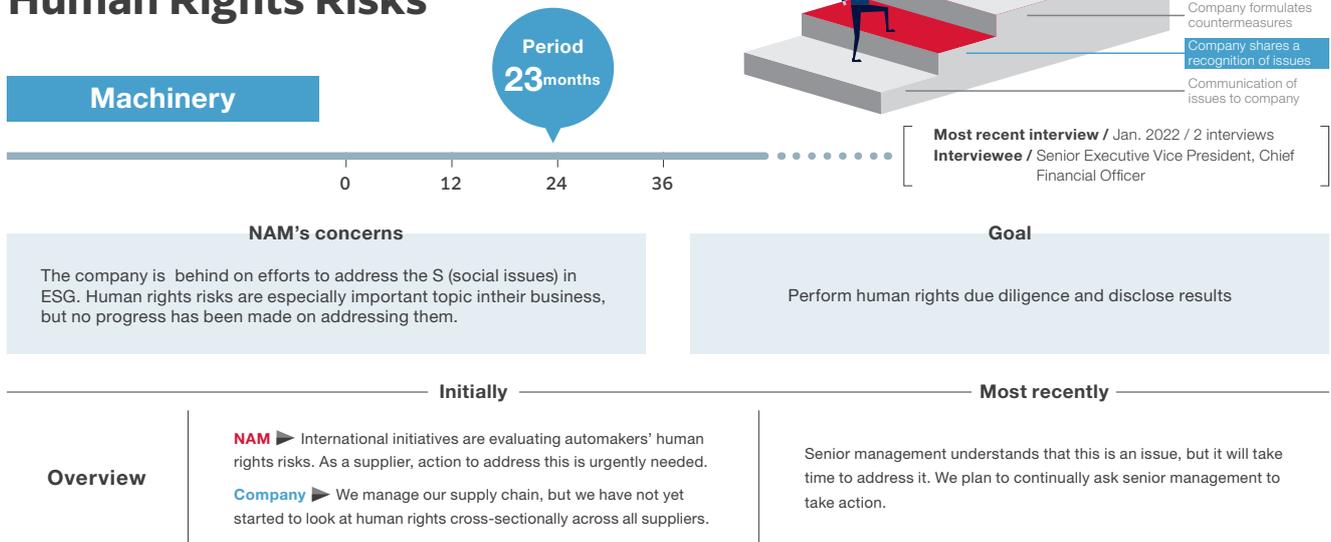
### Nomura Asset Management became a member of the Advisory Committee for “Advance”, the PRI’s collaborative initiative for human rights and social issues

In 2022, Nomura Asset Management became a member of the Advisory Committee for “Advance”, the PRI’s collaborative initiative for human rights and social issues, and we have taken a leading role in both building the collaborative engagement framework and in carrying out dialogue with companies.

The collaborative engagement under the Advance initiative targets 25 companies selected from the metals and mining sector and 15 companies picked from the renewable energy sector. In addition to the high level of human rights risks in both of these sectors, demand for minerals and renewable energy is expected to increase amid the transition to clean energy, so we believe that encouraging companies to address human rights risks is critical.

### Example of Japanese Equity Engagement (Milestone Management)

## Human Rights Risks



\* The period is the number of months from the start of interviews to December 2022.



Example of Engagement (Global Equity)

# Human Rights Risks

Need to work on protecting the community's culture, rebuilding the relationship and managing human rights risks

**21** months  
6 interviews

Milestone management status

Period of engagement



## Nomura Asset Management / Sustainalytics

Following the incident involving the destruction of cultural heritage of indigenous peoples, please tell us how you are improving your governance structure with respect to risk management for cultural heritage.

Please tell us the status of your amendments to your Communities and Social Performance Commitments Disclosure Report.

Please discuss the efforts you are making to improve relationships with indigenous peoples.

**In addition to agreeing on the terms of compensation for damages, we want you to prevent the recurrence of incidents in the future by improving communication with indigenous communities and having departments dedicated to working with communities participate in the business decision-making process.**

## Australian material company

The incident was the result of our excessive focus on the legal process, our lack of attentiveness to the feelings of people in the community, our insufficient systems for responsibility and reporting on cultural heritage, and the lack of communication during the COVID-19 pandemic. We have already improved our organizational and accountability systems, and are operating with an emphasis on cultural heritage. In addition to grasping accurate information on cultural heritage throughout the company, we are providing more useful and easy-to-understand data to mine development and planning departments and other teams throughout the company. We have integrated comprehensive risk assessment of cultural heritage into the strategy decision-making process.

We created a department dedicated to communities and social performance. In light of changes in expectations from stakeholders and other factors, we are in the process of formulating new standards while incorporating opinions received from outside consultants. The new standards avoid ambiguous language and define requirements more clearly. We are also bolstering cultural awareness training in order to deepen employees' understanding and their awareness of cultural heritage.

We are engaged in open communication with indigenous groups with the aim of improving relationships. We have started to jointly design projects with indigenous groups, so we have begun incorporating their input into our decision-making. We have received positive feedback from indigenous groups, including with respect to the process of rethinking the development of Aboriginal heritage areas.

**We will increase the number of employees and senior management members that belong to indigenous groups in order to increase their involvement in business decision-making as well as to foster a culture of inclusivity and mutual respect.**



## Initiatives and Partnerships to Protect Natural Capital and Biodiversity

At the United Nations Biodiversity Conference (COP15) held in Montreal in December 2022, the global community adopted the Kunming-Montreal Global Biodiversity Framework, a new set of global biodiversity goals to be achieved by 2030.

This Global Biodiversity Framework features 23 action targets to be completed by 2030 in order to achieve the shared vision of living in harmony with nature by 2050.

These targets include: effective conservation and management of at least 30% of the world's lands and oceans (30 by 30); reducing the risk posed by both excess nutrients lost to the environment as well as pesticides and chemicals; and ensuring the sustainable management of areas used for agriculture, aquaculture, fisheries and forestry. The COP15 agreement also includes financial support to be provided by developed countries to developing countries.

Healthy biodiversity is essential for the advancement of society, and there are high expectations on financial institutions to play a role in preventing biodiversity loss and in preserving and restoring natural capital.

Nomura Asset Management recognizes the importance of issues related to natural capital in its ESG Statement, participates in international initiatives as both an institutional investor and a company itself, and collaborates with other asset managers to promote initiatives aimed at protecting natural capital.

At COP15, together with PRI signatories, we endorsed an investor statement calling on governments to adopt the Global Biodiversity Framework and collaborate to address climate change and biodiversity protection and restoration.

In terms of other global initiatives, we leverage our collaboration with Farm Animal Investment Risk and Return (FAIRR) to engage with food-related companies, and we engage with palm oil companies and the companies in their supply chains through initiatives to end deforestation [P.73 >](#). We encourage companies to take action to protect and restore biodiversity, and we share insights and best practices regarding engagement targeting biodiversity protection.



In our collaborative engagement with Sustainalyticswe **P.72** carry out engagement on many individual topics related to biodiversity. We are encouraging food-related companies to transition to a sustainable global food system, including the management of natural capital such as land and water, and the reduction of food waste.

In addition, for clean technology companies related to electric vehicles and solar or wind power generation facilities, we continue to support the promotion of a circular economy through the procurement of sustainable raw materials (including by suppliers), increasing the rate of recycling, and keeping waste out of landfills.

Furthermore, we carry out engagement with respect to water management for multi-industry companies operating in Brazil's Tietê River Basin and in South Africa's Vaal River Basin. More specifically, we are encouraging the formulation of business strategies targeting the enforcement of appropriate strategies and countermeasures on water resources.



## Nomura Asset Management's Biodiversity Monitoring and Risk Management Process

The loss of biodiversity not only affects the environment, it also has a tremendous negative impact on the economy and people's health.

In order for companies to raise their level of sustainability, they must protect biodiversity and work on sustainable use, including understanding their level of dependence on nature for business continuity and the impact of their company's operations and its supply chain on nature.

If biodiversity-related issues become apparent not only in a portfolio company, but in that company's supply chain, there can be a significant impact on corporate value through, for example, higher raw material procurement costs, or reputational risks, such as deterioration of corporate image.

In this way, a company that can manage biodiversity risk and link the protection of the environment and natural capital to its business strategy will see an improvement in the public's opinion of its products and services, resulting in a higher likelihood of increased long-term term corporate value.

To help companies increase their long-term corporate value, we continuously monitor a wide range of biodiversity

risks for the stocks in our investment universe, and we aim to reduce biodiversity risk at the investment portfolio level.

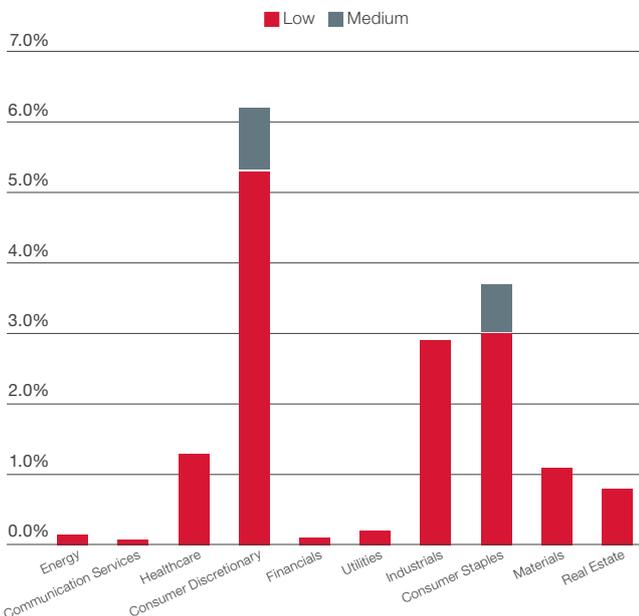
The bar graph below shows the results of measuring forestry risk in our domestic equity portfolios using CDP forests rating data. The analysis shows that 16.5% (on a market capitalization basis) of our portfolio stocks are subject to a rating, with a high level of exposure to forestry risk in the consumer discretionary sector and the consumer staples sector (Figure 1).

We also analyze which commodities these sectors' forestry risks are actually caused by, and utilize this information (Table 1).

For monitoring the risk of individual stocks, ESG specialists and company analysts work in collaboration to utilize information disclosed by companies, media reports, external databases, and other sources of information to regularly research natural capital-related information and waste-related information on stocks in our investment universe (Table 2).

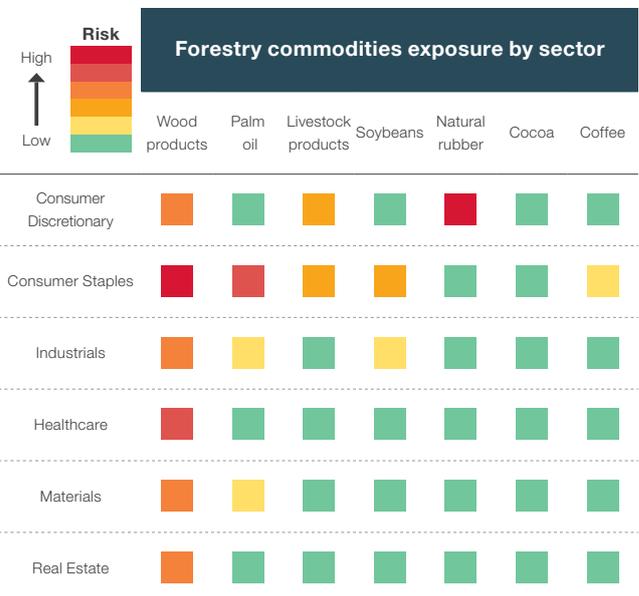
Issues covered by this research include water resources, waste volume, disclosures related to the protection of forest

**Figure 1** Examples of Biodiversity Risk Monitoring



\* For our domestic equity portfolios, data has been compiled for each GICS sector based on CDP data. Prepared by Nomura Asset Management

**Table 1** Examples of Biodiversity Risk Monitoring



\* Aggregation of companies in MSCI Japan with high sales exposure for each commodity. Risk in each GICS sector shown. Source: Prepared by Nomura Asset Management based on CDP data and other ESG data



and soil resources, disclosures related to the protection of river and marine resources, and relation to high-biodiversity-risk commodities.

We check whether or not companies are undertaking initiatives towards sustainable production and procurement, especially companies where sales are highly dependent on commodities which have a large impact on biodiversity, such as companies in the consumer staples, consumer discretionary, and materials sectors. For example, we look at the status of procurement of commodities that have been certified by third parties, including the Roundtable on Sustainable Palm Oil (RSPO) and the Forest Stewardship Council (FSC).

Based on such monitoring data, portfolio managers, ESG specialists, company analysts, and ESG investment managers work together to engage with portfolio companies with the objective of managing biodiversity risk.

Through periodic dialogue, we encourage companies to recognize biodiversity risks, take proactive measures, and disclose information, and we then monitor progress on these efforts.

**Table 2** Natural capital risk monitoring for stocks (on an individual stock basis)

