Utilizing Human Capital

The Importance of Human Capital Management and NAM's Initiatives

In recent years, the importance of non-financial capital in corporate value has increased dramatically, and the sources of a company's competitiveness have shifted from traditional machinery and equipment to intangible assets. Over the past few years in particular, product cycles have shortened due to the growth of the IT industry and the progress made in the 4th Industrial Revolution driven by AI, robots, and IoT. With this, innovation and innovative business models that are more than mere extensions of conventional ways of doing things have become increasingly important.

The labor market is also undergoing major changes. Recruit Works Institute predicts that the shortfall in Japan's working population will be 3.41 million people in 2030 and 11 million people in 2040, as the labor shortage is expected to become increasingly severe over time. Furthermore, as more women advance in society, companies need to shift from single, homogeneous working styles to diverse and flexible working styles. As people's values become more diverse, workers, especially young workers, are increasingly changing jobs, making it much more difficult to secure and retain human resources than before.

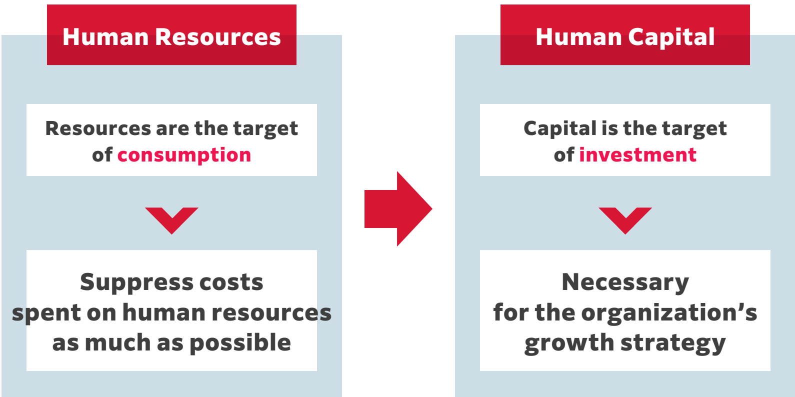
As the environment surrounding companies changes significantly and becomes ever more complex, the type of human resources that companies need is also changing. In order to continuously increase corporate value, it is essential for companies to secure and develop sufficient human resources to generate innovation in line with management strategies.

Under these circumstances, human capital management, in which human resources are treated as human capital (a target of investment) rather than as human resources (a target of cost control) and investment in human resources is made as a means to increase corporate value, is increasing in importance Figure 1.

At Nomura Asset Management, we consider “human capital possessing diverse values” to be one of the most important issues in the “desirable management style” in our Basic Policy for Responsible Investment, and therefore we have positioned this as a priority area of our engagement with portfolio companies.

When a company has a strategy of developing and maximizing the value of its human capital, improves the skills of its employees and places them in the right positions, it leads to improved productivity. In addition, developing human resources systems that enhance diversity, fairness, inclusion and a sense of belonging, and creating a corporate culture that promotes diversity and inclusion both enhance employee engagement, promote innovation, and bolster resilience through risk management based on diverse viewpoints. From this perspective, we believe that companies that engage in human capital management can improve their corporate value, and we engage with portfolio companies on this theme.

Figure 1 **Difference Between Human Resources and Human Capital**



Source: Prepared by Nomura Asset Management from various materials

Philosophy on Corporate Value and Human Capital Management

Here, we discuss a study performed by NAM’s Innovation Lab Department using stock prices to examine the extent to which corporate management with an emphasis on human capital leads to improvement in corporate value. The sources of stock investment returns can be divided into two main types: growth in fundamentals such as accounting profits; and changes in stock price valuation that occur when factoring in non-financial information such as human capital that does not appear in accounting. This analysis examined the relationship between human capital and stock price by quantitatively evaluating the ability of companies to utilize human resources.

Specifically, the researchers divided stock returns into a category that can be evaluated financially and a category that can be evaluated non-financially, and for the latter, the researchers focused their evaluation on information related to companies’ human capital. In order to evaluate human capital, the researchers selected metrics focusing on three aspects: incentives (employee motivation); resilience (organizational resilience); and diversity. They then added external evaluations to score companies, divided stocks into quartiles based on the final score, and calculated returns with equal weighting, thereby examining the relationship with stock prices Figure 2.

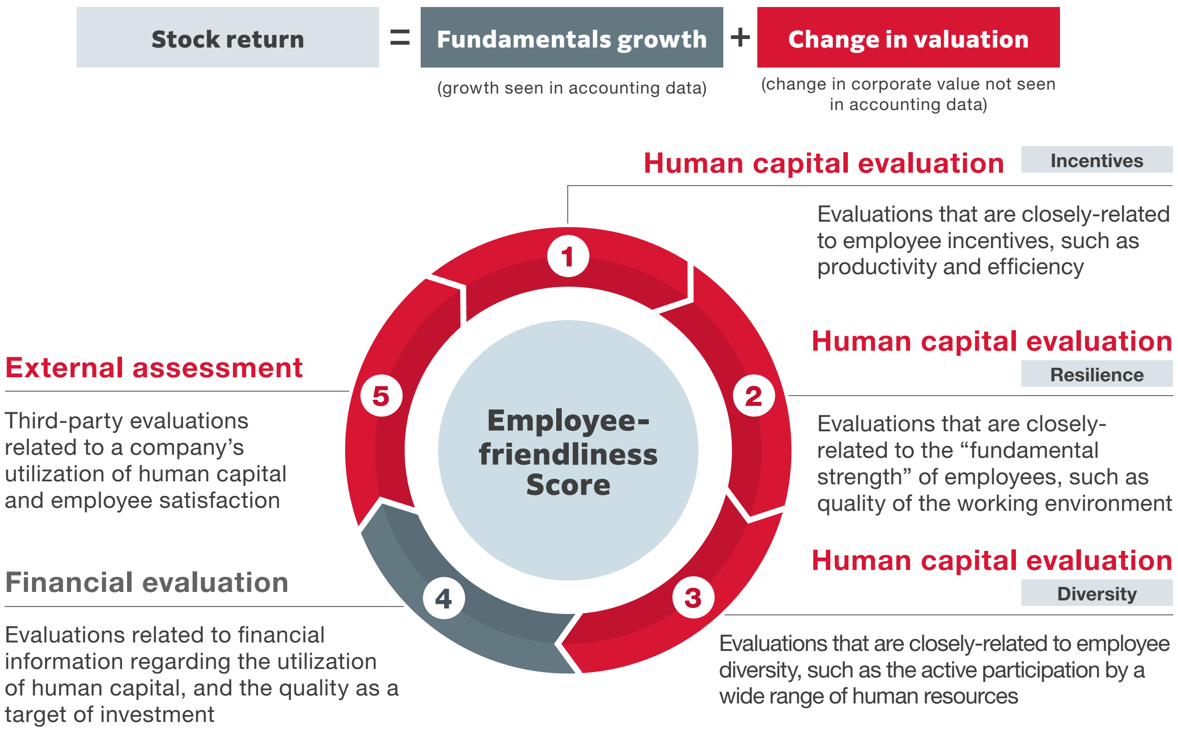
The analysis showed that for the period from January 2006 to March 2023, the annualized returns for the highest-scoring group was 5.9%, and the annualized returns for the lowest-scoring group was 1.5%, representing a large difference Figure 3.

In other words, the higher the ability of a company to utilize human resources, the higher the return on investment. This analysis was based on the 2017 Securities Analyst Journal Prize-winning paper “Employee Satisfaction and Firm Performance” (published in the November 2017 issue of Securities Analyst Journal). This paper focused on a company’s stance towards its employees and found a positive relationship there.

There are various hypotheses as to why a satisfying work environment leads to high performance. One such hypothesis, introduced at the beginning of the paper, is that the source of a company’s competitiveness has shifted from tangible assets to intangible assets. Although the competitiveness of a company generated by its intangible assets, including its investments in human resources, is difficult to see from the outside and is therefore underestimated by the market, it is believed that the competitiveness generated by such intangible assets will eventually lead to high future returns. This analysis has since been updated and improved, and is being utilized in actual investment fund management.

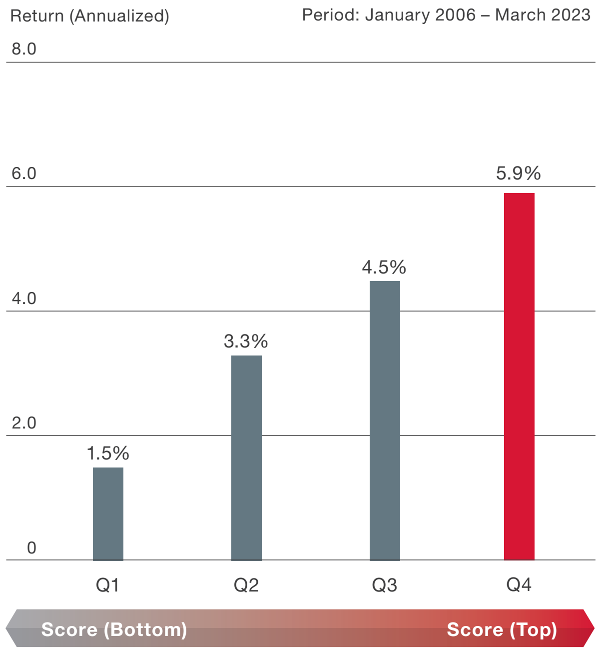
In recent years, in the wake of work style reform and the Ito Report on Human Capital Management, there has been rapid progress in reviewing the working environment and productivity in Japan, and companies have been increasingly disclosing their human capital information. The disclosure of human capital information in securities reports has become mandatory, and going forward it is believed that companies will be required to disclose an even higher level of human capital information. It is thought that initiatives on human capital and the disclosed details will make a difference in how investors value companies, and determining how companies are best able to convey value to investors will be the real work of information disclosure.

Figure 2 **Stock Return Model Using Human Capital Information**



Source: Prepared by Nomura Asset Management

Figure 3 **Human Resources Utilization Score and Performance**



* Every month, returns are calculated with stocks divided into quartiles based on quantitative scores calculated by Nomura Asset Management (approximately the top 1,000 Japanese stocks by market capitalization, equally weighted).

Source: Prepared by Nomura Asset Management

The Trend of Enhanced Disclosure of Human Capital Information

In recent years, in response to growing interest in corporate human capital information, countries and territories have been strengthening their rules for corporate human capital information disclosure. In Europe, since 2014 the Non-Financial Reporting Directive ("NFRD") has required companies with sales exceeding a certain level to disclose non-financial information, including about human capital. Subsequently, the Corporate Sustainability Reporting Directive ("CSRD"), which stipulates more detailed disclosure rules, was issued, and the scope of its use has gradually expanded. Additionally, in the Securities and Exchange Commission ("SEC") revised its rules regarding non-financial information in 2020, requiring listed companies to disclose information on human capital. In September 2023, the SEC's Investor Advisory Committee, comprising institutional investors and other members, asked the SEC to consider requiring companies to separately disclose labor costs required for current business activities and the human capital investments that will lead to value creation. As such, there have been developments like this to explore more in-depth disclosure of human capital.

In Japan, interest in human capital management has increased with the publication of the Ministry of Economy, Trade and Industry's "Ito Report on Human Capital Management (2020)" and "Ito Report on Human Capital Management 2.0 (2022)," and there is now more focus on human capital information as a valuable metric for corporate valuation. Under these circumstances, following the inclusion of human capital-related disclosure in the Corporate Governance Code revised in 2021, human capital disclosure has become mandatory starting with securities reports for the FY2022 Figure 4.

In addition, in response to growing interest in corporate social (S) initiatives, there is starting to be movement on formulating international standards for social (S) disclosure. The International Sustainability Standards Board ("ISSB"), which is under the IFRS Foundation and develops international accounting standards, is considering developing standards for the disclosure of sustainability information following climate change, and human capital has been brought up as one of the ISSB's high-priority projects. If the ISSB were to formulate standards related to human capital, it is expected that a Japanese version of the standards would be created domestically based on the ISSB's standards, and that companies would be required to provide disclosure (as of April 2024).

Figure 4 **Human Capital Information Disclosure Trends in Countries and Territories**

Japan	U.S.	Europe
2021	**2020**	**2018**
The revised Corporate Governance Code stipulates the disclosure of information related to human capital (Supplementary Principles 2-4 ①, Supplementary Principles 3-1 ③, Supplementary Principles 4-2 ②)	The U.S. Securities and Exchange Commission ("SEC") amended Regulation S-K under the U.S. Securities Act. It requires that listed companies provide descriptions of their human capital	The European Union enforced the Non-Financial Reporting Directive (NFRD), requiring companies above a certain size to disclose information on environmental and social initiatives
2023	**2021**	**2024**
"The Cabinet Office Ordinance on Disclosure of Corporate Content, etc." was revised. Disclosure of information regarding sustainability, diversity, and corporate governance was added to the items to be included in annual securities reports for FY2022	The Workforce Investment Disclosure Act passed the U.S. House of Representatives. It requires companies to disclose information about their human capital	The NFRD was revised into the Corporate Sustainability Reporting Directive ("CSRD"), and its application will be gradually expanded

Source: Prepared by Nomura Asset Management from various materials

Amid the trend of companies increasingly disclosing their human capital information, human capital management is moving from the "information gathering" stage to the "putting into practice" stage. Going forward, along with the enhancements in information disclosure, it will be important to create and communicate to stakeholders a "value creation" story about how a company will increase corporate value through means such as the linking of management strategy and human resources strategy, quantitative understanding of the gap between the vision and the current situation, and embedding it into corporate culture, which are key issues for human capital management laid out in the Ito Report on Human Capital Management.

Nomura Asset Management's Views on Human Capital Management

Given this trend, we want to encourage our portfolio companies to strengthen their initiatives related to human capital management. In order to ensure that Japanese companies' human capital management leads to improved corporate value, it is first necessary to sort out the mechanisms and ideas that are the prerequisites for utilizing human capital. At Nomura Asset Management, our view on this is as follows.

Corporate value is defined in finance theory as the present value of future cash flows. These future cash flows are generated by a "management relay" that includes not only the current management team but also future management teams. What makes this management relay possible is a future-oriented system design centered on nomination and compensation, which are essential elements of board of directors-centered governance. By properly linking KPI based on materiality to the system design, the two wheels of the management vehicle, execution and supervision, can function.

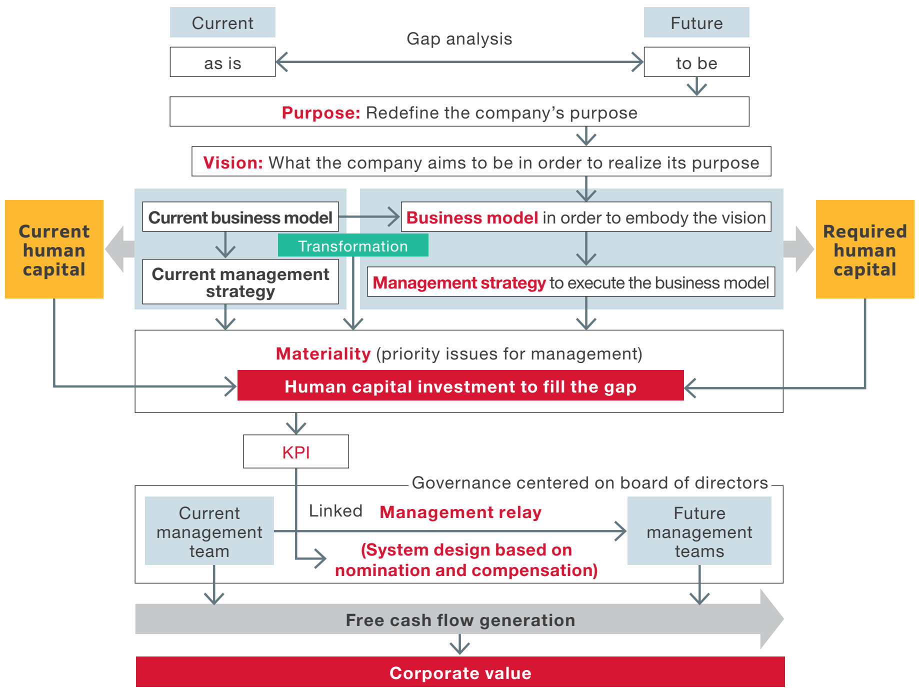
The materiality of each company is determined by that company's management strategy and its underlying business model. However, the environment surrounding companies is currently undergoing major changes and uncertainty is increasing. With this, the management strategies and business models that will generate future cash flows are also being forced to change in light of the future business environment and other factors. For this reason, companies need update their current management strategies and business models to those that will generate future cash flows. This requires transformation.

A company is only able to execute its management strategy and business model if it has human resources capable of putting them into action. No matter how grand a business strategy is, it is merely a fantasy if it cannot be put into practice. A company needs to verify that it has sufficient human capital to execute the management strategy and business model to generate future cash flow. If it does not, it must add human capital. Human capital management holds the key to this transformation.

Just as the current business model and management strategy differ from future business models and management strategies, the human capital supporting each will also be different. Only by recognizing this gap can the necessary human capital investment and management be realized. In other words, human capital management by a company is not possible without building the framework shown in Figure 5. Ultimately, through an analysis of the gap between the present and the future based on an "As-Is/To-Be" analysis, a company must redefine its purpose, which is its reason for existing as a company, and its vision, which is what it aspires to be in order to realize its purpose. This is also critical for improving the employee engagement index, which is considered an important KPI for companies these days.

A company's ESG initiatives and human capital management cannot be effective without this series of frameworks for creating corporate value. We always approach our engagement with companies from this perspective, and strive to understand the actual situation in the company by confirming the links between each item in this framework.

Figure 5 **Positioning of the Frameworks and Human Capital Investment Leading to Higher Corporate Value**



Source: Prepared by Nomura Asset Management

Dialogue on Human Capital

Through dialogue, we aim to improve the value of portfolio companies and raise the level of the Japanese market as a whole, and based on this we are focusing on engagement activities related to human capital with portfolio companies. Although information disclosure on human capital has just begun, the two standards issued by ISSB in June 2023, the General Requirements for Disclosure of Sustainability-related Financial Information (S1) and Climate-related Disclosures (S2), both require disclosure under the same framework as the TCFD and TNFD, which includes governance, strategy, risk management, and metrics and targets. In the future, this framework is expected to be recognized as the standard for the disclosure of human capital information, and companies will be required to develop internal systems that acknowledge these four elements.

Based on the above, we have summarized the responses and information disclosures we expect of our portfolio companies as an investor with respect to governance, strategy, risk management, and indicators and targets for human capital in Figure 6. For example, in terms of governance, we are expecting boards of directors to bolster their commitment related to human capital by the board of directors' supervision of and involvement in human capital strategy, the clarification of management's role regarding human capital and linkage to executive compensation, and the confirmation of the impact that the board's consideration of human capital has on strategic decision-making.

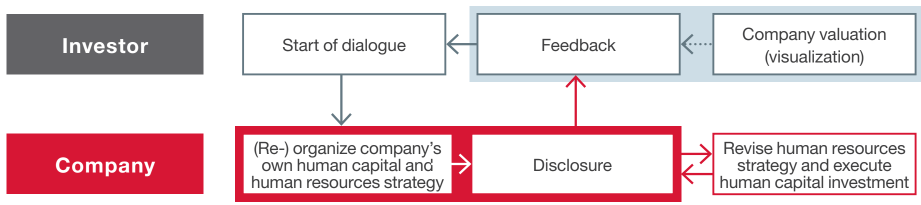
However, the majority of Japanese companies are considered to be at the stage where they will seriously work on human capital management from this point on, and it will likely be difficult for them to satisfy all the requirements at once. For this reason, we plan to encourage portfolio companies to improve their human capital management through a feedback loop in which we start a dialogue on human capital ⇒ the portfolio company sorts out and discloses its own human capital and human resources strategy ⇒ we provide feedback during dialogue ⇒ the portfolio company revises its human capital strategy and implements its human capital investments ⇒ we incorporate the company's actions in our assessment of the company's corporate value (visualization) Figure 7.

Figure 6 Human Capital Engagement Framework

	Investors' expectations	Response and information disclosure demanded of company
Governance and management	● Strengthening of commitment by board of directors (Consideration, evaluation and monitoring of human capital)	● Disclosure of board oversight of and involvement in human capital ● Clarification of the role of senior managers with respect to human capital and linkage with executive compensation ● Description of the impact that the board's consideration of human capital has on strategic decision-making
Business model and strategy	● Clarify the relationship between human capital and the business model ● Human resources as strategic capital and implementation of necessary human capital investment ● Maximize value of human capital	● Identification and clarification of the scope of a company's human capital ● Description about methodology and implementation of strategic human capital investments ● Description of the value creation process with human capital ● Description of human capital in business model and corporate strategy ● Description of the impacts of risks and opportunities related to human capital on corporate management
Risk management	● Clarification of risks and opportunities arising from human capital and the company's response to these	● Description of processes for identifying, assessing and managing human capital-related risks and opportunities ● Explanation of risks and opportunities related to human capital that have the greatest impact
Metrics and targets	● Management of human capital information that impacts corporate value and management of targets	Management and disclosure of the following types of metrics and targets ● Metrics and targets for establishing a desirable corporate culture ● Employee engagement metrics and targets ● Metrics and targets related to incentive design, training/skill development, and promotions ● Other metrics and targets necessary to improve corporate value, such as diversity

Source: Prepared by Nomura Asset Management

Figure 7 Human Capital Dialogue Feedback Loop



Source: Prepared by Nomura Asset Management

Initiatives on 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. The European Union (EU) is expected to adopt the Corporate Sustainability Due Diligence Directive (CSDDD) in 2024, which will require large companies to conduct environmental and human rights due diligence (as of March 2024). In Japan, in 2022 the Ministry of Economy, Trade and Industry formulated guidelines for companies to respect human rights, and in 2023 the government announced a policy to give preferential treatment in public tenders to companies that take human rights into consideration. As such, there is a growing trend in efforts by companies to respect human rights, and this trend is expected to become even stronger.

A company's business activities involve procuring, producing, and transporting supplies and products, and providing them to users and end consumers. Various human rights risks lurk within the value chain, but especially when crossing national borders, differences in the economic strength, legal systems, and customs of each country affect people working on the frontlines, and there is a risk of human rights issues arising that are difficult to see from the surface. Once a human rights issue arises, it adversely affects the community, the company's employees, and business partners, and leads to a loss of trust from its customers. 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 portfolio companies and having them proactively advance relevant initiatives.

Nomura Group, including Nomura Asset Management, stipulates respect for human rights in the Nomura Group Code of Conduct and established the Nomura Group Human Rights Policy in May 2023. We respect the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO International Labour Standards and the U.N. Guiding Principles on Business and Human Rights ("Ruggie Principles"). Additionally, in 2015, we signed the U.N. Global Compact, and remain committed to respecting human rights as a company. Nomura Asset Management positions human rights issues as important issues in our ESG Statement and, as an institutional investor, we promote initiatives to ensure respect for human rights by our portfolio companies. We carefully assess human rights risks for our portfolio companies 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 on a global basis.

Nomura Asset Management's
Human Rights Risk Monitoring Process

Negative Screening

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. Figure 1 First, we screen companies in our investment universe for violations of international norms such as the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO International Labour Standards, and the Ruggie Principles, referencing data from ESG research organizations. Based on that screening, we engage with companies found to be in violation, and if there is no outlook for improvement, these companies become the subject of escalation, such as reflecting such violations in our proxy voting or even divestment from the company.

Figure 1 Human rights risk monitoring of companies

Human rights risk monitoring of companies
(based on individual companies)

- Human rights-related policies (child labor, forced labor, wages, safety, etc.)
- Check the status of compliance with international norms
- Human rights risk management systems (monitoring, grievance mechanisms, self-assessment, etc.)
- Investigations of misconduct related to human rights violations

Engagement
(stocks with high human rights risk)

- Formulation of human rights policies
- Implementation and disclosure of human rights due diligence
- Creation of grievance mechanisms
- Action towards improvement

Integration into investment
(investment decision-making)

- Buy
- Sell
- Continuous hold

Human Rights Due Diligence and its results for companies in our investment universe

In order to ascertain the potential human rights risk level for companies in our investment universe, our ESG specialists perform human rights due diligence based on data including corporate disclosures, NGO reports and media information.

The detailed method is as follows. Sectors with complex supply chains and sectors that produce products in production areas and raw material procurement points with historically high human rights risks are designated as human rights high risk sectors Figure 2 , and we conduct focused investigations of the human rights management systems of companies belonging to these sectors. The evaluation items comprise the following seven points: (1) Whether the company has a human rights policy that conforms to international norms; (2) Whether the company commits to respecting workers' rights; (3) Whether the company is performing human rights due diligence; (4) Whether the company makes evaluations after identifying human rights risks and their impacts; (5) Whether the company takes corrective actions based on the evaluation results; (6) Whether there are grievance mechanisms for workers; (7) Whether there are grievance mechanisms for external individuals/ communities.

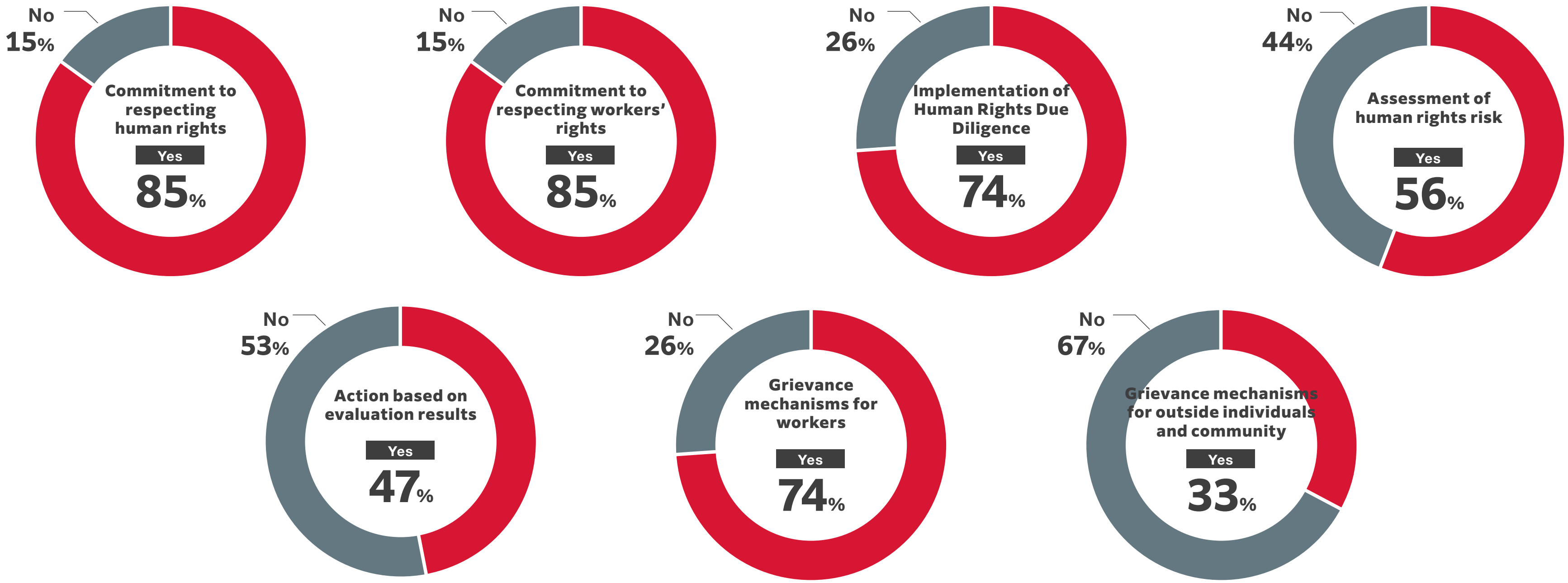
In 2023, we expanded our research from large-cap stocks to mid-cap stocks. As a result, we found the following Figure 3 .The majority of Japanese companies we evaluated had already formulated human rights policies conforming to international norms and also had committed to respecting the rights of workers. Also, approximately 70% of companies have grievance mechanisms in place for workers in the company and conduct human rights due diligence. On the other hand, only about half of companies evaluate human rights risks and are taking action based on the evaluation results, and only about 30% of companies have established grievance mechanisms for external individuals and communities. We expect companies to make further improvements in these areas.

For those companies lagging behind in their efforts, Nomura Asset Management will continue to actively engage with them with respect to building human rights risk management systems.

Figure 2 **Sectors with high risk of human rights issues**

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

Figure 3 **Human Rights Due Diligence and its results for companies in our investment universe**



Human Rights Engagement and Integration

If, after performing human rights due diligence on the companies in our investment universe, we find that we hold the stock of a company that has been determined to have high human rights risks, we will proceed with engagement. 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 discuss 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 recent years, human rights risk assessment has generally become demanded as a part of corporate activities. Companies that have put in place human rights risk management processes are able to reduce human rights risk not only in transactions with existing customers but also in transactions with new customer companies. In addition, these companies are expected to see an increase in business opportunities based on the fact that the products and services they provide will be evaluated higher. We believe that by repeating this human rights 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. We feel that this will also advance our ESG integration related to human rights risk.

Required Elements of a Human Rights Management System

Human rights issues are an important theme for engagement, regardless of the company's country of origin, and one of our responsibilities as an asset management company is to engage in dialogue about human rights issues with portfolio companies and encourage them to make improvements for any issues that exist.

In 2021, 10 years after the adoption of the Ruggie Principles, which are the basis of various international rules and policies regarding human rights, the U.N. published "UNGPs 10+: A Roadmap for the Next Decade of Business and Human Rights." While this report recognized the significant increase in the number of companies that are committed to respecting human rights and that carry out human rights due diligence, it also noted that only a portion of such companies are able to carry out effective human rights due diligence. It also pointed out issues such as the fact that responsibility for respecting human rights has not been elevated to the board level.

Human rights issues can be managed to some extent by establishing a management system, but due to their nature, risks cannot be completely eliminated. Industries and companies with complex supply chains, and operations in regions with unstable political situations and human rights policies, can pose unexpected risks to companies. The first thing that a portfolio company needs to do is establish an effective human rights management system. It is important to perform a risk assessment, understand which risks are of high importance, prioritize them, and take action. Because it takes time to build an effective management system, it is necessary to repeat the PDCA cycle, make improvements every year, and evolve step by step.

By widening disparities and causing social divisions, human rights violations are serious and significant risks that threaten the foundations of sustainable economic activity and affect long-term investment returns. We seek to reduce human rights risks by understanding the structures that cause human rights violations and working with portfolio companies to develop solutions to rectify them.

Human Rights Risk Issues

Example of Engagement (Japanese Equity)

Human Rights Due Diligence Implementation and Outcome Disclosure

Milestone progress:2
Company shares a recognition of the issues

21 months
3 interviews

12 24 36 …

Period of Engagement

Nomura Asset Management

Japanese Electrical Equipment Company

Background

Transactions with the automobile industry, where human rights risks tend to attract attention, are increasing, and although the company explained that the reason for holding large amounts of financial assets is to prepare for risks, we determined that the company is insufficiently addressing human rights risks. We urged the company to achieve the goals listed on the left.

Although the domain of human rights is attracting increasing attention in the automobile industry, human rights initiatives seem to be lagging behind.

Although we have not provided disclosure about this, we are considering obtaining external certification at each site and are considering initiatives in the supply chain as well.

Human rights risks are poorly described overall.

We are engaged in discussions about human rights. We will disclose the results of our human rights due diligence after the start of the new year.

We confirmed that the company is engaged in human rights due diligence, and we decided to wait on the company to disclose the results.

Subsequently, we concluded the engagement after the company disclosed the results of its human rights risk assessment online.

Example of Engagement (Japanese Equity)

Understanding Human Rights Risk based on Leadership from Top Management

Milestone progress:5
Conclusion

37 months
4 interviews

12 24 36 …

Period of Engagement

Nomura Asset Management

Japanese Machinery Company

Background

This company was lagging behind in responding to human rights risks. While the company has some strengths in terms of voluntary efforts of each site, we determined that there was a lot of room to strengthen cross-divisional efforts under the leadership of the senior management team, so we urged the company to achieve the goals listed on the left.

There is little information given about risks, and in particular it is difficult to understand the involvement by top management. In other industries that are expanding globally, even Japanese companies are beginning start having evaluations of addressing human rights.

The trends among other companies are very helpful. We will take your opinions home and study them.

Does top management have an understanding of the risks across the entire company?

We disclose the results of human rights due diligence in our integrated report. Starting with Southeast Asia, we looked into whether there are any risks we should pay attention to.

We determined that the goal had been achieved, and concluded the engagement.

Example of Engagement
(Global Equity)

Adoption of Strategy to Effectively Deal with Human Rights Risk Issues

Milestone progress:4
Company implements countermeasures

33 months
7 interviews

12 24 36

Period of Engagement

Human Rights Risk Issues

Nomura Asset Management/ Sustainalytics

It is important to manage human rights risks because the company has manufacturing facilities globally, both in-house facilities and facilities through subcontractors, and has a large number of workers. You have disclosed that 34% of your primary suppliers have collective labor agreements, but we would like you to disclose the differences between the wages stipulated in the collective labor agreements and living wages. Regarding suppliers' collective labor agreements, transparency needs to be enhanced, such as by providing disclosure on a factory-by-factory basis.

A report was released which stated that in Bangladesh there was unfair pricing pressure on suppliers by global apparel brands during the COVID-19 pandemic period. We want you to explain how you are responding to such allegations. Even if prices are negotiated separate from labor costs, isn't there a risk that workers will not be paid fair wages if the supplier's profit margin is too small?

What is the average number of complaints received by each factory?

Efforts must be made to have responsible purchasing practices and pay workers a living wage. It is also necessary to introduce effective audit programs and legitimate labor standards, including in the supply chain, and to operate grievance handling mechanisms in accordance with the U.N. Guiding Principles.

Swedish Specialty Retailer

Internally, we conduct comparative analyses of wages stipulated in collective labor agreements and living wages, and we have confirmed that there is a gap between the two. We will discuss internally whether we can provide disclosure about collective labor agreements and thereby enhance transparency.

We feel that the analysis method used in that report is not accurate. We are a member of the ACT (Action, Collaboration, Transformation) initiative, and are committed to fair procurement. Prices were agreed to before the COVID-19 pandemic, and we have not used the pandemic as an excuse to change agreed upon prices.

Because the numbers vary by factory and country, we do not publish averages. We are currently employing a consultant to examine whether our suppliers' grievance handling mechanisms are in compliance with the U.N. Guiding Principles on Business and Human Rights.

We will examine whether our suppliers' grievance handling systems comply with the U.N. Guiding Principles on Business and Human Rights, and we plan to disclose information related to that.

Column

Activities with PRI Advance

(Advance: a collaborative initiative on human rights and social issues)

We are a member of the Advisory Committee of Advance, PRI's human rights and social issues collaborative initiative, which started in 2022, and we are playing a leading role in building a framework for collaborative engagement and in dialogue with target companies. Companies targeted for collaborative engagement are selected globally from the metals and mining sector, and renewable energy sector. We are a co-lead investor in collaborative engagement with Japanese company and continually engage with the company. Over this time, we have seen progress at the target company, including the establishment of human rights policies.

Senior ESG specialist
Takashi Miyao

Senior ESG specialist
Madoka Minagoshi

Senior ESG specialist
Fuyumi Takeuchi

Senior ESG specialist
Wakaba Kawai