

# 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 dramatically increased, and the sources of a company's competitiveness have shifted from traditional machinery and equipment to intangible assets. Due to the expansion of the IT industry and the advancement of the fourth industrial revolution driven by AI and robotics, product cycles have shortened, making the importance of innovations and innovative business models that do not follow the conventional trajectory even greater.

The labor market is also undergoing major changes. In Japan, as the structural decline in the working-age population leads to a serious labor shortage, the average rate of wage increases in the 2025 spring labor negotiations saw the highest growth in 34 years. On the other hand, due to the diversification of individual lifestyles and values, as well as work style reforms, the transition from a once uniform and homogeneous way of working to a diverse and flexible approach has become a crucial theme related to talent acquisition and productivity. In such a rapidly changing and complex environment, for companies to achieve continuous growth it is essential to not only develop and secure management personnel capable of driving global growth and personnel that will drive innovation, but also to significantly revise personnel strategies in line with business strategies. This includes reassigning and retraining employees to respond to changes in business models and implementing flexible human resources systems. As the source of corporate value shifts towards intangible assets generated by human talent, it is essential to approach personnel not as costs (i.e., a target of cost management) but as human capital (i.e., a target of investment). By investing in human capital, companies can enhance their corporate value. This approach is expected to support business sustainability in the long term while contributing to the realization of business strategies in the short term, ultimately leading to an increase in corporate value (see Fig. 1).

In response to the growing interest of companies in human capital information, the

International Sustainability Standards Board (ISSB), which operates under the IFRS Foundation responsible for developing international accounting standards, has selected "human capital" as one of the themes for the next sustainability disclosure standards, following "climate change," which was announced in April 2024. Additionally, the International Organization for Standardization (ISO) is in the process of revising the guidelines for human capital disclosure, ISO 30414, which was published in 2018, in order to expand its content. The revised guidelines are expected to be released in the first half of 2025. In Japan, the disclosure of human capital information has been mandated starting from the securities reports for the fiscal year ending in March 2023, and many companies are now in their second year of disclosure. There has been an increase not only in the disclosure of actual data but also in target values. Moving forward, as guidelines for disclosure standards are solidified and the disclosure of human capital information further evolves, there is hope that the reliability, usefulness, and comparability of such disclosures will improve.

At Nomura Asset Management, we list "human capital with diverse values" as one of the most important issues in the "appropriate management practices" in our Basic Policy for Responsible Investment, and therefore we have positioned this as a priority area for our engagement with investee 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.

**Fig. 1** Difference Between Human Resources and Human Capital



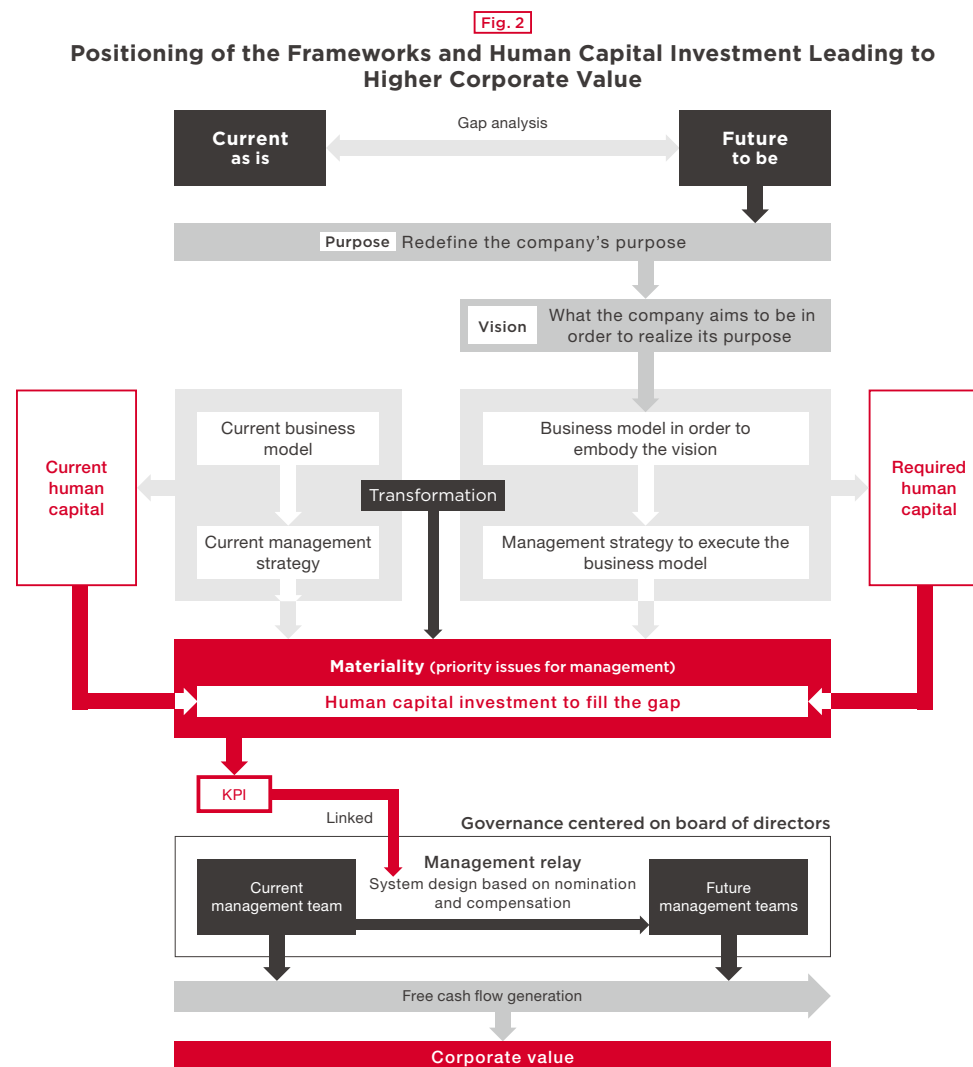
Source: Prepared by Nomura Asset Management from various materials

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## Nomura Asset Management's Views on 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 **Fig. 2**. 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 to 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 **Fig. 2**. 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. 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.



Source: Prepared by Nomura Asset Management

# Utilizing Human Capital

## 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. Similarly, the Japanese version of the sustainability disclosure standards, which was published by the Sustainability Standards Board of Japan (SSBJ) in March 2025, has a similar structure aimed at establishing domestic disclosure standards for sustainability-related information. 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 [Fig. 3](#) . 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) [Fig. 4](#) .

**Fig. 3 Human Capital Engagement Framework**



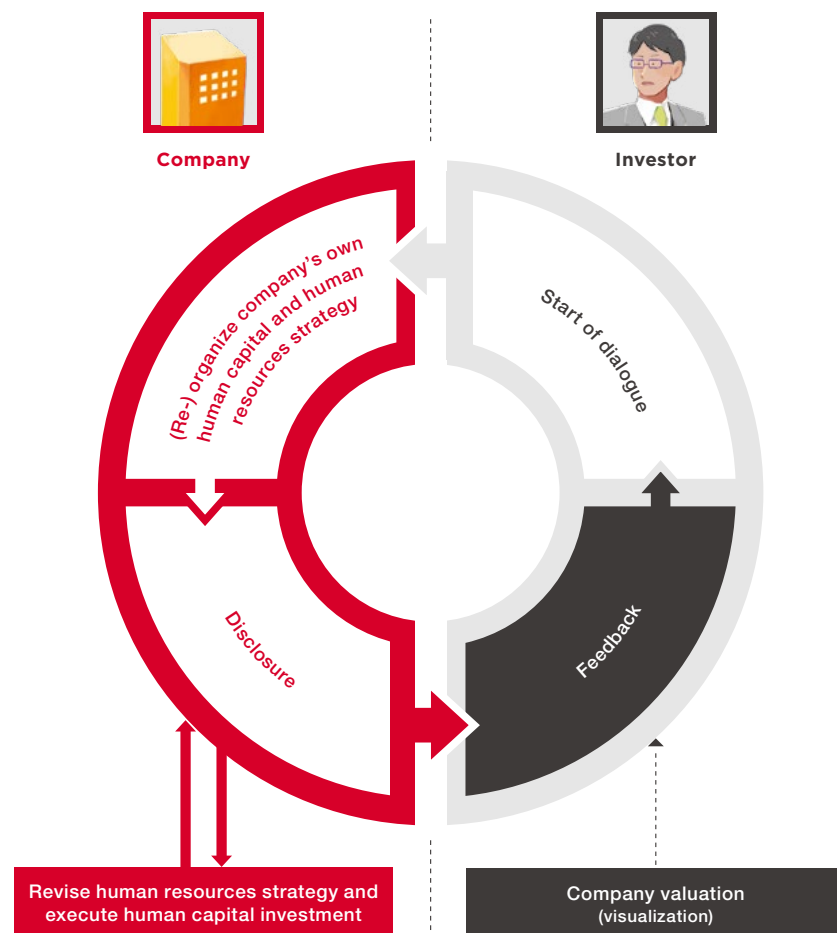
Source: Prepared by Nomura Asset Management

# Utilizing Human Capital

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## Dialogue on Human Capital

**Fig. 4 Human Capital Dialogue Feedback Loop**



Source: Prepared by Nomura Asset Management

## Example of Engagement Japanese Equity

Target Company

### Financial Institution



### Engagement overview

Because the company is a regional financial institution, the development of the region is essential for its growth. However, it was determined that the future vision for the region, the challenges it faces, and the talent strategy necessary to address these issues have not been adequately articulated. We therefore carried out engagement.

### Company's response

Although a general sense of direction and the challenges were understood, initially this did not lead to detailed disclosure.

### The results of the engagement and future plans

Through ongoing dialogue, the company clarified its priority issues aimed at achieving its long-term vision and presented a new medium-term management plan that includes a talent strategy. Moving forward, the company plans to continue monitoring progress toward the achievement of this medium-term management plan.



# 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) implemented the Corporate Sustainability Due Diligence Directive (CSDDD) in July 2024, which requires large companies to conduct environmental and human rights due diligence. As a result, companies with high human rights risks may be excluded from supply chains. In addition, the European AI Regulation Law, which restricts the use of AI with risks of human rights violations, came into effect in August 2024, requiring companies to address new areas related to human rights. 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. Additionally, in June 2024, an amendment to the Immigration Control Act was passed to establish a new training and employment system to replace the technical intern system, which has faced criticism for human rights issues concerning foreign workers. Furthermore, starting in April 2025, a customer harassment prevention ordinance is set to be enforced in Tokyo, requiring companies to take measures to prevent nuisance behavior by customers. This indicates that the pressure on companies to respect human rights will continue to intensify.

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 human rights issues arise, they can lead to various risks for companies, including operational risks such as the loss of trust from the surrounding community, employees, business partners, and customers, which may result in strikes or employee turnover. Additionally, there are reputational risks, including a decline in corporate image in society, social media backlash, and boycotts. Furthermore, companies may face stock price decline risks and legal risks arising from lawsuits and administrative penalties. If, on the other hand, a company is unable to resolve the issue

over a long period of time, it will be forced to incur significant costs (such as expenses and time for restoring its reputation) to address human rights issues, which will also have a considerable impact on corporate value. At Nomura Asset Management, we believe that by raising awareness of human rights issues among our investee companies and encouraging them to take proactive measures, we can protect the assets we manage from risks related to human rights concerns.

The Nomura Group, including Nomura Asset Management, has established respect for human rights in the Nomura Group Code of Conduct. Additionally, we signed the United Nations Global Compact in 2015, committing to the respect for human rights as a business entity. In May 2023, we established the Nomura Group Human Rights Policy, which respects the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, ILO International Labor Standards, and the UN Guiding Principles on Business and Human Rights.

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 investee companies. In 2024, we participated in a working group to create educational materials for institutional investors organized by the Ministry of Economy, Trade and Industry and the International Labour Organization (ILO) for the Project for Skills Development and Responsible Business Conduct for Transition. We contributed to the creation of a booklet\* that outlines what constitutes an investment environment that encourages responsible corporate conduct from the perspective of business and human rights.

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.



**\*A guide to Business and Human Rights for Institutional Investors, What, Why How to Address Human Rights through Investment Practices**  
<https://www.ilo.org/publications/guide-business-and-human-rights-institutional-investors>



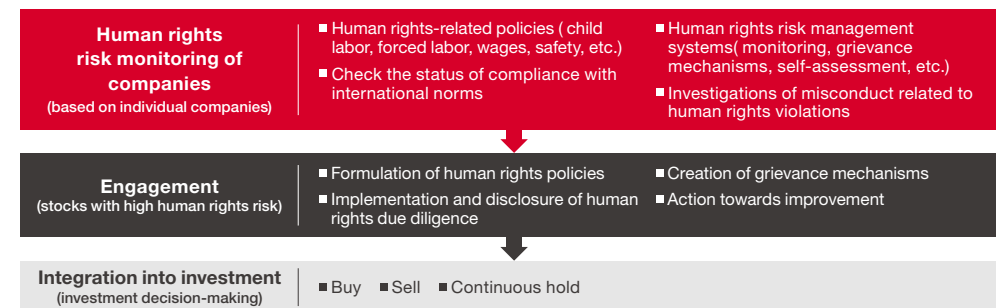
# Initiatives on Human Rights

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

### Screening for Monitoring (Japanese companies)

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 [Fig.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 UN Guiding Principles on Business and Human Rights, 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.

[Fig. 1](#) Human rights risk monitoring of companies



### Human Rights Due Diligence and its results for companies in our investment universe(Japanese companies)

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 [Fig. 2](#), and we conduct focused investigations of the human rights management systems of companies belonging to these sectors. The evaluation items consist of three main areas with a total of seven points:**(1)Human Rights Policy:** ① Is there a human rights policy that complies with international norms? ② Does the human rights policy cover the supply chain? **(2)Human Rights Due Diligence:** ③ Are human rights risks and their impacts identified and assessed? ④ Are corrective actions taken based on the evaluation results? ⑤ Is there disclosure of the content/results of human rights due diligence? **(3) Remedy Mechanism:** ⑥ Is there a grievance mechanism for workers? ⑦ Is there a grievance mechanism for external individuals and communities?

In 2024, in response to the growing global emphasis on the effectiveness of corporate human rights risk management systems, we focused especially on the “content” of human rights due diligence. Additionally, as customer harassment has gained attention as a social issue in Japan, we have added large retailers to our survey targets. As a result [Fig. 3](#), it was confirmed that the majority of the Japanese companies surveyed have established human rights policies that comply with international norms and that these policies include the supply chain in their scope. Additionally, it was found that grievance mechanisms for workers are in place. Furthermore, approximately 70% of the companies disclose the content/results of their human rights due diligence, and more than 50% of the companies are taking actions based on their human rights risk assessments and evaluation results, an increase from just under 50% in the previous year. On the other hand, only about 50% of the companies have established grievance mechanisms for external individuals and communities, and further improvement is anticipated in this area.

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

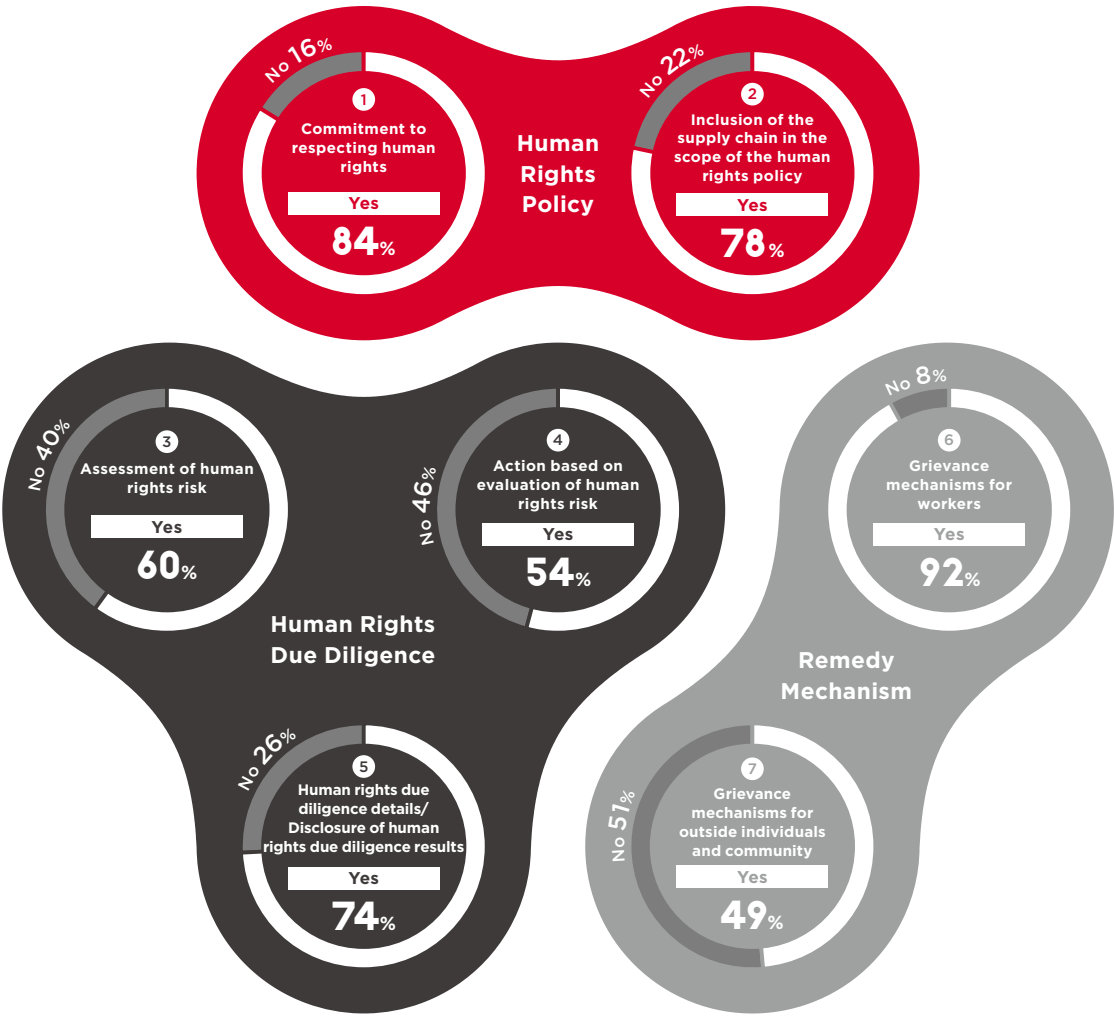
Initiatives on Human Rights

Nomura Asset Management's Human Rights Risk Monitoring Process

Fig. 2 Sectors with high risk of human rights issues



Fig. 3 Human Rights Due Diligence and its results for Japanese companies in our investment universe





# Initiatives on Human Rights

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

### 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 risk, 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.

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 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.

In 2021, 10 years after the adoption of the UN Guiding Principles on Business and Human Rights, 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.

The Corporate Human Rights Benchmark (CHRB), which assesses the human rights performance of global companies, published a report titled "The State of Play on

Business and Human Rights" in November 2024, summarizing the evaluation results for the five years from 2018. In reflecting on the past five years, the report notes that while there has been an acceleration in the movement to integrate respect for human rights into business operations, there is still a lack of concrete actions. It also points out that there has been insufficient progress in enhancing the effectiveness of grievance mechanisms and in promoting responsible purchasing practices.

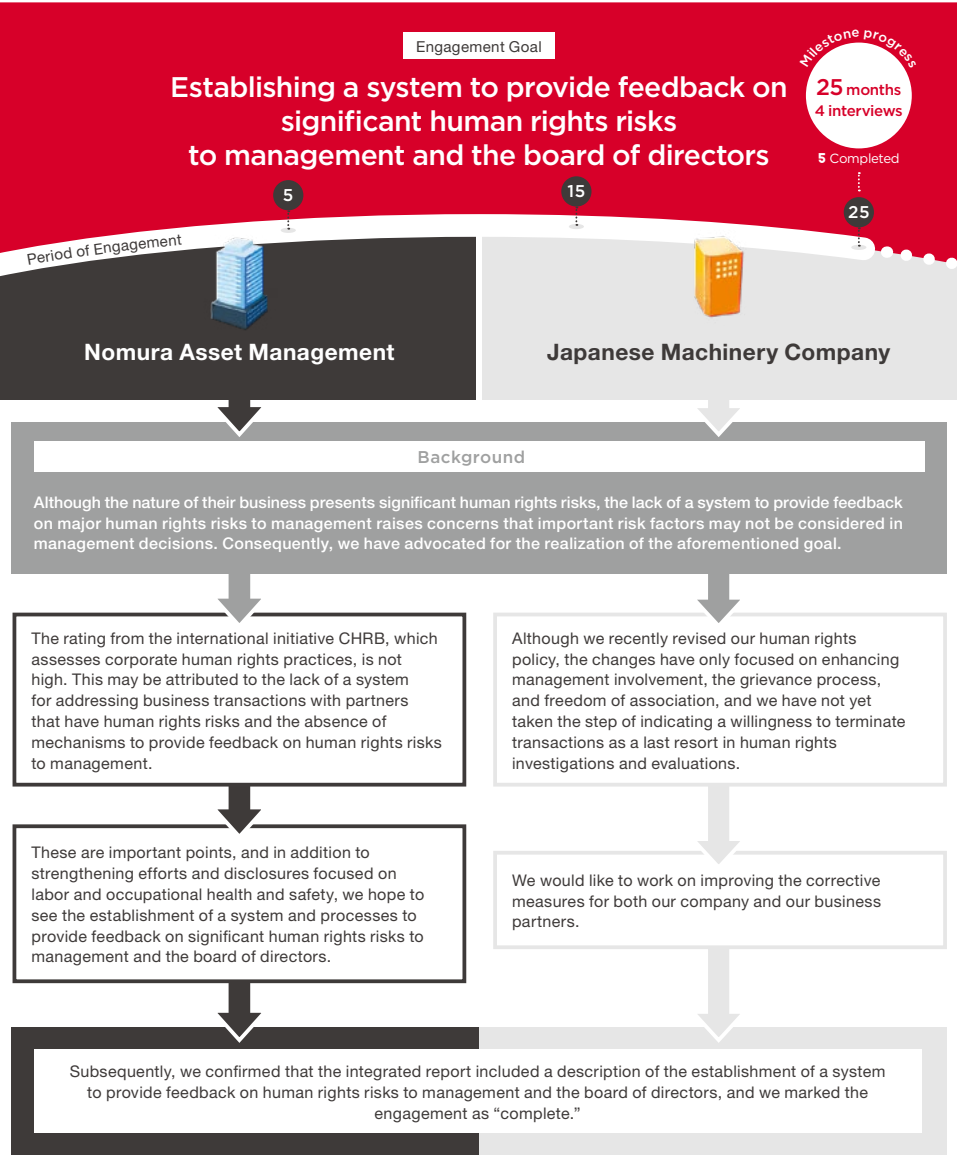
Human rights issues can be managed to some extent by establishing a management system, but due to their nature, risks cannot be completely eliminated. Industries and companies with complex supply chains, and operations in regions with unstable political situations and human rights policies, can pose 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.

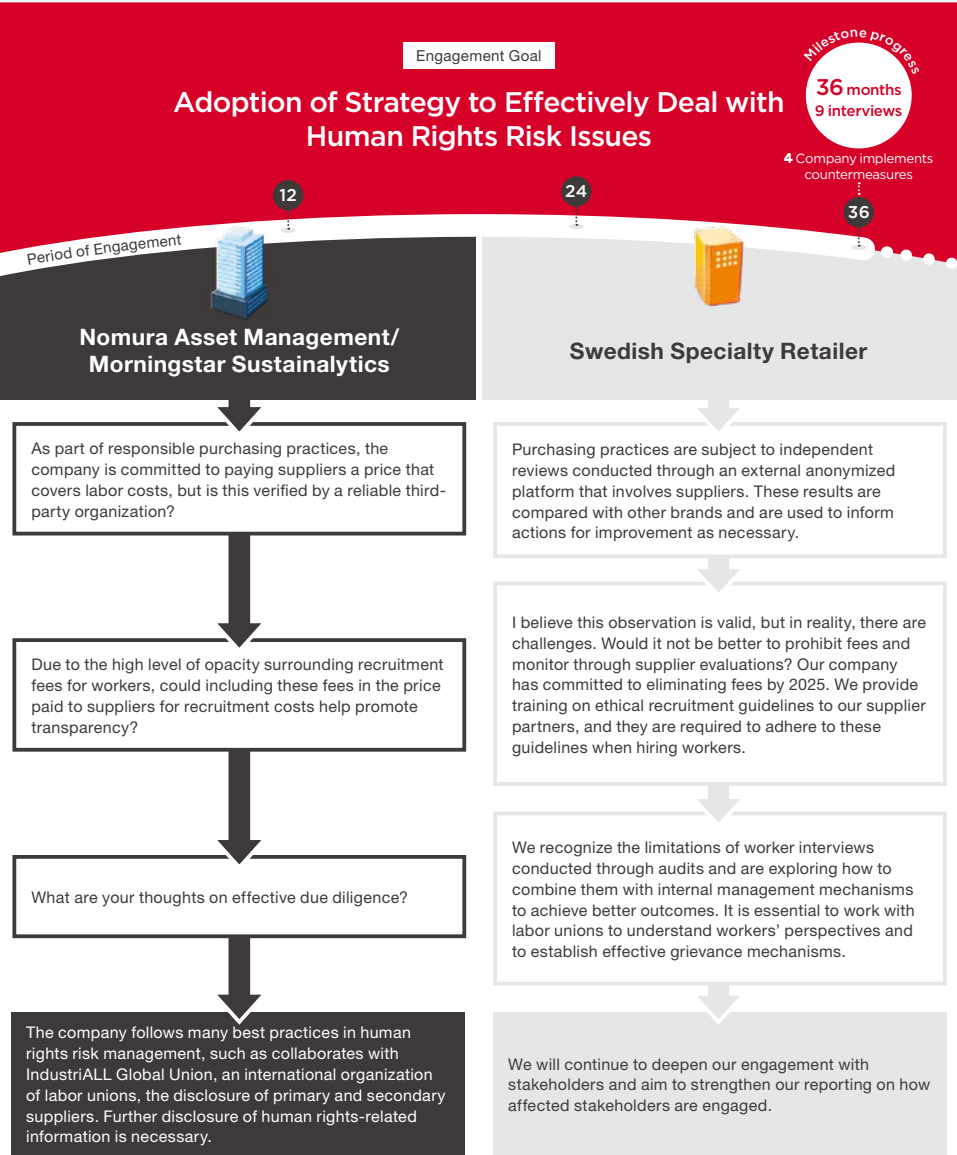


Initiatives on Human Rights

Example of Engagement Japanese Equity



Example of Engagement Global Equity



# Initiatives on Human Rights

## COLUMN

### Activities with PRI Advance (Advance: a collaborative initiative on human rights and social issues)

Two years have passed since the launch of Advance, the PRI's collaborative initiative on human rights and social issues, in December 2022. We are collaborating as members of the Advisory Committee to build the initiative's framework and are acting as a co-lead investor in collaborative engagement with a Japanese steel company. In 2024, we had dialogues with the company in April and December, discussing the identification of human rights risks, including those in the supply chain, and enhancing information disclosure to improve their human rights risk management. The company established and publicly announced its human rights policy in April 2024 and disclosed the establishment and implementation of human rights due diligence mechanisms in its integrated report published in October of the same year, confirming progress in its commitment to respect human rights.

We actively participated in the Signatory Advisory Committee meetings organized by the PRI's Advance Team, group calls for the metals and mining sector, and various study sessions to acquire specific knowledge on human rights issues and key points for assessing the actions of investee companies.

During a group call for the metals and mining sector held in November 2024, we made a presentation about our experiences in engaging with the Japanese steel company, in which we have taken a leading role as co-lead investors, sharing insights on engagement with other investors participating in the collaborative initiative.

In March 2025, the first progress report on the outcomes of this initiative is scheduled to be released.

