Utilizing Human Capital

The Importance of Human Capital Management and Our Initiatives

In recent years, the importance of non-financial capital to corporate value has increased dramatically, and the sources of corporate competitiveness have shifted from traditional tangible assets such as machinery and equipment to intangible assets. With the advancement of the fourth industrial revolution driven by AI and robotics—and the resulting shortening of product cycles and wider variety of services—the innovations and transformative business models that are not mere extensions of the past have become even more important than before.

The labor market is also changing significantly. Amid a deepening labor shortage, the rate of wage increases in the 2026 spring labor negotiations are expected to exceed 5% for the third consecutive year. 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. For companies to grow sustainably in this environment, they must not only secure, develop and retain management personnel who can drive global growth and talent capable of leading innovation, but also review human capital strategies aligned with corporate strategy—by reallocating and retraining employees to match changing business models and by establishing flexible HR systems, for example. As the sources of corporate value shift toward intangible assets created by people, human capital management—viewing people not as human resources (objects of cost management) but as human capital (targets of investment) and investing in them—can, in the long term, ensure business sustainability and, in the short term, support the realization of business strategies and the enhancement of corporate value (see Figure 1).

Figure 1 Difference Between Human Resources and Human Capital

Source: Prepared by Nomura Asset Management from various materials

In response to rising interest in human capital information, the International Sustainability Standards Board (ISSB), which operates under the IFRS Foundation that sets international accounting standards, selected "human capital" in April 2024 as one of the next themes for sustainability disclosure standards following climate-related disclosure. In December 2025, the ISSB published research toward establishing a disclosure system for human capital, and standard-setting is expected to progress.

Additionally, in August 2025, the International Organization for Standardization (ISO) revised the ISO30414 guideline for human capital disclosures, the first such revision in seven years. The revision expanded relevant metrics and made 14 indicators mandatory for external disclosure, thereby requiring human capital disclosures that emphasize comparability and effectiveness.

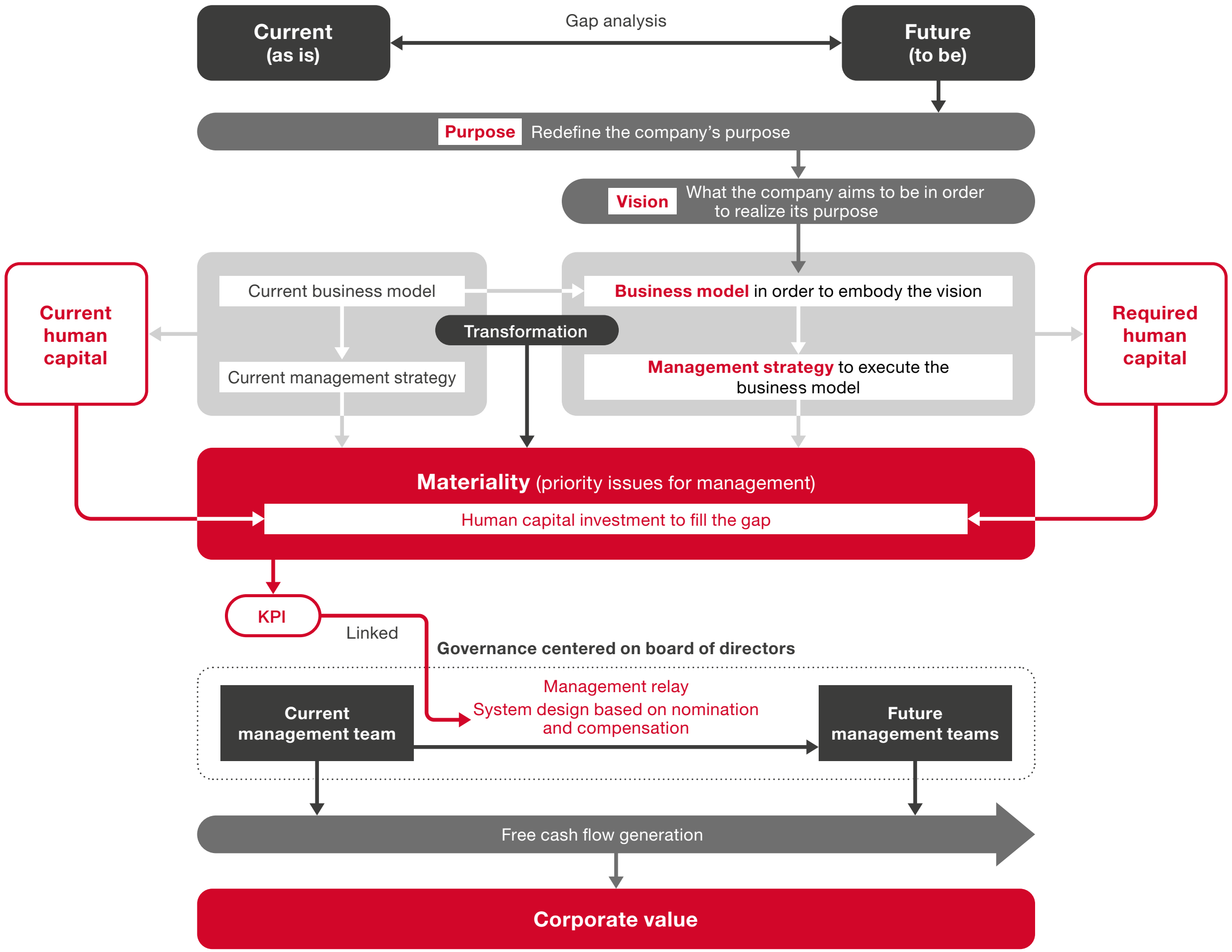
In Japan, since the disclosure of human capital information was made mandatory starting in FY2022 annual securities reports, the number of companies disclosing not only actual data but also targets has increased. Furthermore, draft amendments to Cabinet Office Ordinances on corporate disclosures published by the Financial Services Agency in November 2025 include further expansion of human capital disclosure, such as concrete policies linked to human capital strategies and policies on determining employee salaries. As disclosure standards are enhanced and progress is made on human capital information disclosure—improving the credibility, usefulness, and comparability of information—we expect such information to be more readily incorporated into investment decisions.

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, companies that proactively practice human-capital management can increase corporate value, and our firm engages with investee companies accordingly.

Nomura Asset Management’s View 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. Our view is as follows. In finance theory, “corporate value” is defined as the present value of future cash flows. Those future cash flows are produced through a “relay” of management that includes not only the current management team but also future management. 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 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.

Figure 2 **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. For non-financial disclosure, the ISSB's standards on sustainability-related financial disclosure (S1) and climate-related disclosure (S2), and Japan's Sustainability Disclosure Standards by the Sustainability Standards Board of Japan (SSBJ), require disclosure within the "governance," "strategy," "risk management," and "metrics and targets" framework; human-capital information is also expected to follow this framework as the standard. Companies therefore need to build internal systems with this in mind.

Based on these four elements, the responses and information disclosures we expect from investee companies are shown in Figure 3. For example, under "governance," we expect strengthened board-level commitment to human capital by explaining how the board oversees human-capital strategy, clarifying management roles on human capital, and linking executive compensation to human-capital outcomes. Because it is difficult for companies to meet all expectations at once, we promote phased improvements through a "feedback loop." The process involves: initiating dialogue on human capital ▶ investee company organizing and disclosing its human-capital strategy ▶ our firm providing feedback through dialogue ▶ the company revising strategy and executing human-capital investments ▶ our firm reflecting these efforts in corporate valuation and providing further feedback. By repeating this cycle, we aim to advance investee companies' human-capital management and enhance corporate value (see Figure 4).

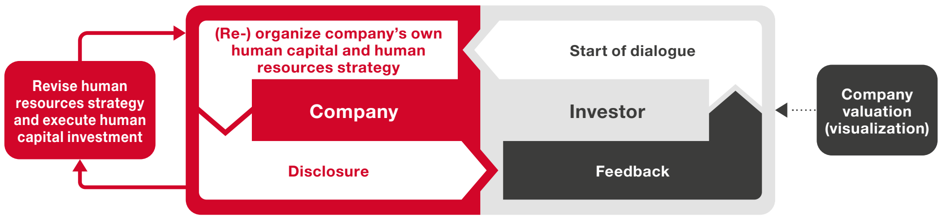
Utilizing Human Capital

Figure 3 **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 4 **Human Capital Dialogue Feedback Loop**



Source: Prepared by Nomura Asset Management

Period of Engagement

37 Months
3 meetings

Example of Engagement **Japanese Equity**

Engagement Goal

Demonstrating the ideal vision for the company and its talent strategy in consideration of regional challenges and development

Nomura Asset Management | **Regional financial institution in Japan**

Background

Because the company is a regional financial institution, regional development is essential to its own growth. We felt that the company had not sufficiently articulated its vision for the region's future, the challenges facing the region, and the human resources strategy needed to address those challenges, and therefore engaged in dialogue with the company.

Nomura Asset Management:
● Your company is a regional financial institution, and regional development is important for your own growth. Please outline your vision for the region's future, identify the challenges, and present a human resources strategy to expand the personnel needed to address those challenges.

Regional financial institution in Japan:
● We understand the broad direction and the issues involved.

Initially, the company did not disclose detailed information. However, through continued dialogue, the company clarified the priority issues for achieving its long-term vision and, in March 2024, disclosed a new medium-term management plan that included its human resources strategy.

Nomura Asset Management:
● The gap between the desired and current human capital portfolio is particularly large in IT/DX talent. What are the specific issues behind this gap?

Regional financial institution in Japan:
● We would like to further enhance the content of our disclosures going forward.

Subsequently, the integrated report published in July 2025 disclosed the ideal state of the personnel portfolio in greater detail.

Nomura Asset Management:
● Which business within the regional value co-creation initiative will serve as a driver for improving ROE through monetization?

Regional financial institution in Japan:
● We are considering dividing IT/DX talent into personnel who work on systems development and those who handle planning, as well as monetizing DX while leveraging our subsidiaries.

Going forward, we plan to monitor progress toward achieving the medium-term management plan.

Initiatives on Human Rights

As legal and regulatory frameworks related to human rights become more stringent around the world, human rights issues have become an essential element of investment activities. The European Union (EU) enacted the Corporate Sustainability Due Diligence Directive (“CSDDD”) in July 2024, requiring large companies to perform environmental and human rights due diligence, and companies with high levels of human rights risks may be excluded from supply chains. With the spread of AI, new human rights challenges such as privacy violations and employment discrimination have emerged, and shareholder proposals in the United States requesting disclosure on AI governance are increasing.

In Japan, the Act on Promotion of Research and Development, and Utilization of AI-related Technology (“AI Act”) went into effect in June 2025. This act makes it possible to publicly disclose business operators in cases where serious human rights violations caused by AI have been confirmed, placing companies under pressure to address new human rights-related issues.

In Japan, the National Action Plan (NAP) on Business and Human Rights was revised in December 2025 for the first time in five years, once again indicating the expectations for companies to introduce and strengthen human rights due diligence. The TISFD (Task Force on Inequality and Social-related Financial Disclosure), established in September 2024, is developing a framework to assess corporate financial risks arising from social issues including human rights, and a beta version of the disclosure framework is expected to be released in spring 2026. As corporate efforts in the social domain become more visible, the ways that companies address human rights are increasingly likely to directly impact investment decisions and financing.

Corporate value chains carry diverse human rights risks at the procurement, production, transport, and delivery stages, and cross-border activities are particularly prone to affecting local workers and communities due to differences in legal systems and customs. When human rights issues surface, trust from local communities, employees, business partners, and customers can be eroded, leading to various losses such as operational risks (strikes, employee outflows), reputational risks (social media backlash), stock price declines, and legal risks (lawsuits and administrative penalties). If issues become prolonged, the time and cost required to restore a company’s reputation can significantly impact corporate value.

The Nomura Group upholds respect for human rights in the Nomura Group Code of Conduct, and respects international standards, having signed the UN Global Compact in 2015 and established the Nomura Group Human Rights Policy in 2023. Nomura Asset Management believes that promoting awareness and proactive measures on human rights at investee companies helps protect entrusted assets. 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. In 2025, we jointly submitted comments with other institutional investors on the aforementioned revision of the NAP on Business and Human Rights, and spoke at webinars hosted by organizations such as the World Benchmark Alliance to present an institutional investor’s perspective on promoting human rights due diligence.

We identify human rights as a key issue in our ESG statement, and we evaluate investee companies’ human rights risk management systems and utilize those evaluations in engagement and ESG integration. By doing so, we fulfill our role as a responsible investor that engages in investment activities on a global basis.

Nomura Asset Management's Human Rights Risk Monitoring Process

Negative Screening

We broadly and continuously monitor 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 (Table A).

First, we screen companies in our investment universe for potential breaches of international norms—such as 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—referencing data from ESG research organizations. We share the resulting list within the division and monitor companies according to the fund policy. For some funds, companies listed on the screening list may be excluded from investment.

Human rights risk monitoring of companies (Japanese equities) Table A

Identification of stocks subject to human rights risk monitoring	• Confirmation of compliance with international norms • Investigation of scandals related to human rights violations • Identification of high-risk sectors
Human rights due diligence	• Formulation of human rights policies • Implementation and disclosure of human rights due diligence • Creation of grievance mechanisms • Action towards improvement
Integration into investment	• Buy • Sell • Continuous hold

Human Rights Due Diligence and Outcomes for 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.

We designate sectors with long and complex supply chains or sectors that historically produce products at production or raw material sourcing locations with high human rights risk as human rights high-risk sectors (Table B), and focus our investigations on the human rights management systems of companies in these sectors.

Sectors with high risk of human rights issues Table B

Sector	Major sectors/products
Food/agriculture products	Food, daily goods, food retail
Automobiles	Finished cars, automobile parts, tires
ICT	Electric products, electronic components, semiconductor manufacturing equipment
Apparel	Textiles, shoes, clothing retail
Resources related	Mining/petroleum, steel, trading companies

The evaluation items comprise eight points across three categories: 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?, 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? 6 Do they conduct supply chain audits?, and remedy mechanisms: 7 Is there a grievance mechanism for workers? 8 Is there a grievance mechanism for external individuals and communities?

In 2025, recognizing that many human rights violations occur in corporate supply chains and that there is a growing global focus on the effectiveness of corporate human rights risk management systems, we added an evaluation item regarding supply chain audits 6 to our human rights due diligence.

We also update the sectors subject to review to reflect current issues. For example, in 2024 we added large retailers to the review as customer harassment gained attention as a social issue, and in 2025 we added the media sector following a series of serious harassment problems.

As a result (Table C), 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 companies disclosed the content/results of their human rights due diligence, and slightly more than half implemented human rights risk assessments and actions based on assessment results, as well as had grievance mechanisms for external individuals and communities in place.

Nomura Asset Management's Human Rights Risk Monitoring Process

Meanwhile, only 40% of companies are conducting supply chain audits, indicating there is room for progress going forward.

Human rights risk management is important even for companies that do not belong to human rights high-risk sectors, and we engage with companies that score low on the human rights component of their ESG scores.

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.

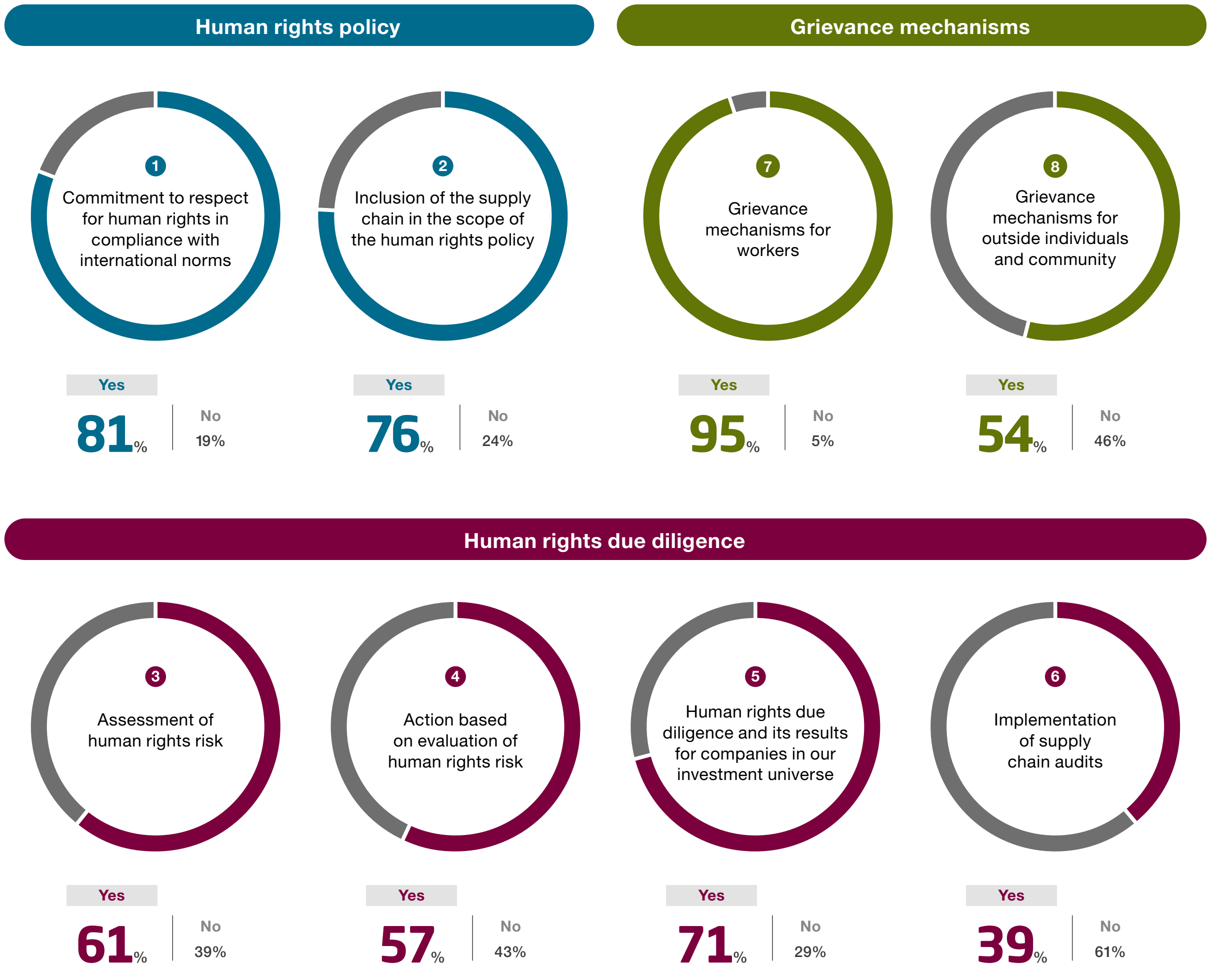
Human Rights Engagement and Integration

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, and ESG specialists 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 continuing efforts to strengthen their human rights risk management systems, we monitor progress through regular engagement.

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.

Human rights due diligence on Japanese companies and results

Table C



Requirements for a Human Rights Management System

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 from 2018 to 2023. 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.

In recent years, companies have been increasingly required to conduct human rights risk assessments as part of their activities. We believe that companies with established human rights risk management processes can reduce human rights risks not only in maintaining relationships with existing customers but also when doing business with new client companies, and that more positive evaluations of their products and services can lead to more business opportunities.

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.

In this context, we expect investee companies to establish effective human rights management systems. We believe that when companies establish human rights management systems, carry out risk assessments to identify high-priority risks, prioritize risks and take action, and reflect significant risks in management decisions, they can reduce the risk to corporate value from human rights issues coming to light. 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.

Example of Engagement — Japanese Equity

Progress: **5** Completed

Period of Engagement: **53** months, 4 interviews

Goal: Establishment of a human rights management system that includes the supply chain

Nomura Asset Management | **Japanese Machinery Company**

Background: Amid increasing attention on how the automotive industry addresses human rights risks, we started engagement due to notable delays in efforts and disclosures related to social issues.

Nomura Asset Management	Japanese Machinery Company
You have established a human rights policy, but where do you see the risks, including those within your group companies and suppliers? It also appears that the schedule, including the scope of entities you conduct due diligence on, is lagging behind.	We established a policy in October 2022, and also included it in our CSR handbook for suppliers. In particular, because European regulations are stringent and require a robust response, we have engaged external experts to identify where the risks lie and organize our response measures. We are targeting a global rollout starting from 2024.
Investors are unable to ascertain the status of human rights risks, so we would like you to consider disclosing this information.	We have finished identifying significant human rights risks and are considering providing disclosure. As for suppliers, in addition to the research that can be done from our offices, we are working with external audit firms in China to conduct audits, starting with those companies with which we do the most business in terms of transaction value.
The disclosure about the system for addressing human rights is clear, including the route for reporting to senior management. Meanwhile, we would also like you to provide more specific disclosure on the status of the management of human rights risks besides occupational health and safety, as well as supply chain risks, so that it is easier to ascertain the effectiveness of your human rights risk management.	We have conducted questionnaires and audits up to Tier 1 suppliers. Beyond that point, issues from a due diligence perspective remain.

Subsequently, we confirmed that the 2025 integrated report disclosed the results of the supplier questionnaire and how those results were being used, and we designated the engagement as "Completed."

Example of Engagement — Global Equity

Progress: **4** Company implements countermeasures

Period of Engagement: **16** months, 4 interviews

Goal: Improve the human-rights risk management framework and strengthen vertical integration.

Nomura Asset Management	French Textiles, Apparel & Luxury Goods Company
The company's Italian subsidiary has been working with specific suppliers (tier 2 and tier 3), alleged to have mistreated workers, and is facing intense scrutiny from consumers and investors. The supply chain is a key element of brand positioning, and supply-chain risk management, including audits, is needed.	Explained that the situation in Italy is complex due to the widespread use of subcontracting and a recent wave of migration from China. Italy is the country the company audits most frequently; it has increased unannounced audits and conducted over 5,000 audits across the group. Suppliers are classified by risk, with different audit requirements depending on region and product type. Tier 3 subcontracting practices were previously difficult to trace, however, the company has implemented a new supplier approval process and revised its Code of Conduct to require written approval for the use of third parties.
Please explain the different vertical integration strategies across brands. There are no universal targets set yet, but trend is clearly upward.	Vertical integration levels vary by brand because they are influenced by product complexity and the extent of subcontracting.
There are similar supply-chain issues with another brand as well, notably involving the same country and tier-3 subcontractors.	The company has increased the number of audits and raised the level of audit management, while also establishing cooperation with industry peers. The company is also considering acquiring suppliers.
We urged them to strengthen their audit programme, improve consistency across business units in addressing sustainability risks, and enhance transparency in their supply chain disclosures.	**The company will raise the level of audit management, expand in-house production, and increase the share of vertical integration to a higher level.**

Activities within PRI Advance

Three years have passed since PRI's collaborative initiative Advance on human rights and social issues was launched. As an Advisory Committee member, we provide guidance on the initiative's development and support PRI's decision-making, and serve as a co-lead investor in a collaborative engagement with a Japanese steel company.

In December 2025, during our fifth dialogue with the company, we exchanged views on the fact that the company's latest integrated report has expanded its initiatives and disclosures related to human rights due diligence, including in its supply chain. In particular, we view positively the company's identification and disclosure of its negative impacts on human rights, which the investor group had been urging the company to address in previous dialogues. The investor group emphasized the importance of global-level human rights responses and risk management, the need for monitoring systems in high-risk areas, and transparency around processes for identifying human rights risks. We also shared good-practice examples from other companies on disclosures related to safety and health across the supply chain. In addition, we shared updates to the methodology of the World Benchmarking Alliance's corporate sustainability benchmarks and discussed which actions are likely to improve benchmark performance.

The company acknowledged the importance of global risk management and monitoring systems and explained that it will continue efforts to promote human rights due diligence in its supply chain and to further enhance safety disclosures. We were able to confirm their intention to strengthen these efforts going forward.