

# **CONFLICTS OF INTEREST POLICY**

**July 26, 2023**

**Nomura Fiduciary Research & Consulting Co., Ltd.**

**Index Services Department**

## Purpose

Nomura Fiduciary Research & Consulting Co., Ltd. (NFRC) is a wholly owned subsidiary of Nomura Holdings, Inc. (NHI) and one of an entity of Nomura Group. NFRC offers fund analyses and assessments, investment advisory services, and asset management consulting services for individuals and for pension funds and other institutional investors and has started Index Business by taking over Nomura Securities Co., Ltd. (NSC)'s Index Operations Dept. on February 1, 2023. NFRC is committed to fulfilling its fiduciary duty as a player in the investment chain by providing services described above based on the basic philosophy that "We always place our clients at the heart of everything we do." To this end, NFRC believes that all directors, auditors, and employees must, with the highest degree of ethics and integrity, act in the best interests of its clients.

NFRC provides various financial benchmarks, including the NOMURA-BPI family, bond performance indices representative of the Japanese fixed income market, and the Russell/Nomura Japan Equity Index series, an equity index family which is co-developed and jointly owned with the Frank Russell Company (currently, FTSE Russell). With regards to the NFRC's indices, NFRC acts as a licensor and administrator and the Index Services Department (ISD) is responsible for practical activities relating to the index administration.

Since it is engaged in a range of investment solution services as outlined above, NFRC, as an index provider, believes that it is crucial to identify, disclose, avoid or mitigate, and manage material conflicts of interest (CoI). NFRC identifies and discloses existing or potential CoI that could impair the independence and objectivity of ISD's index determination or interfere with responsibilities to clients in the Conflicts of Interest Management Policy. It is available on NFRC's web site and regularly reviewed by the compliance department and updated where necessary. Furthermore, NFRC has policies and procedures to avoid arbitrariness and/or sole discretion in the index determination process and day-to-day operations. NFRC ensures that CoI does not influence the indices determination by establishing the control framework over the CoI management.

### Transparent and Objective Rule-based Methodology

The NFRC's indices are determined and calculated based on transparent, logical, objective, measurable, and quantitative rules which are available to clients and in that appropriate oversight and approval processes are in place with regard to index constituent selections (reconstitutions and rebalancing) and index maintenance (reflections of corporate action, free-float weighting adjustments, etc.). These processes help to avoid arbitrariness and/or sole discretion in the index determination process at the earliest stage and hence mitigate risks related to Col in day-to-day operations.

### Control Framework

NFRC ensures that Col does not influence the indices determination by establishing the following control framework over the Col management.

Specifically, NFRC:

- works under a "Conflicts of Interest Policy", which is designed to help prevent existing or potential Col from inappropriately influencing index determinations.
- complies with Nomura Group's "Code of Conduct", which all NFRC employees are required to comply with. To enhance the awareness of compliance including "Code of Conduct", all NFRC employees are required to take compliance training.
- uses a compliance hotline managed by Nomura Group for the reporting of violations of the "Code of Conduct" or suspicious conducts that may be violating laws and regulations, as a whistle-blowing system. Matters reported via the hotline are reported to the Internal Controls Committee of Nomura Group.
- sets forth the internal rules concerning personal investment by ISD's employees to prevent inappropriate conduct.
- stipulates in the compensation policies that compensations for employees engaged in the index administration are not linked to the values of NFRC's Indices.
- has a robust index administration governance structure, with effective supervisory and authorization processes over index determination processes

including methodology changes and index cessations (Refer to the “Index Governance Framework”).

- stipulates in the internal rules on information security that information should not be provided to those who are not permitted and has established a firewall over information flow between ISD and other entities within Nomura Group as well as other departments in NFRC in accordance with the internal rules on information security.
- physically segregates the area for the team that takes care of the index administration from other departments and restricts access to the area.
- restricts the staff who are engaged in the index development accessing the information related to the index determination.
- uses public information or information provided by third party vendors to calculate the NFRC’s indices.

### Independence

With the aim of ensuring the effectiveness of the above mentioned control framework in the face of potential CoI, the index administration is conducted solely by ISD, which is fully independent from other departments in NFRC and other entities within Nomura Group. With regards to the index administration, particularly the validity of index determinations and the methodologies used to make index determinations, ISD acts in accordance with the governance structure in NFRC (Refer to “Index Governance Framework”).

### Provision of services to other entities within Nomura Group

In terms of the provision of services, a license agreement is required for the use of index. As a policy, the standard agreement is used for all clients. This policy applies to all the legal entities including the entities within Nomura Group. They shall be subject to the same terms and conditions with Non-Nomura Group users.

### Price for the index determination

NFRC's equity indices (including the Russell/Nomura Japan Equity Index family) are calculated based on contract price in highly liquid exchange markets.

NFRC's fixed income indices are calculated based on JS Price. JS Price generally covers the index constituents of NFRC's fixed income indices, however, when it is not available, Nomura Price is an alternative source.

JS Price represents Japanese bond fair values determined based on the price from NSC, and is established and managed by NSC and three third parties, Nikkei Inc., Nikkei Financial Technology Research Institute, Inc., and NRI. JS Price is validated under the methodology and process established by the four parties, provided to public users, and widely used as fair value of bonds. Nomura Price is provided by NSC as an end-of-day bond price.

### Separation and Independence of the function

In order to avoid Col, the development and administration of NFRC's indices are functionally separated and mutually independent. To ensure these nature, the role and power of ISD staff are defined and restricted within their function. Staff who are engaged in the development may not be involved in the index determination process and may not submit the application for the approval of index rules. Furthermore, the information and data on the index determination process are managed only by the staff who are authorized by Head of ISD.

Revision history

<b>Revision date</b>	<b>Details</b>
March 27, 2019	First edition
March 31, 2020	Partial revision of “Control Framework”
	Partial revision of “Independence” and addition of “Price for the index determination”
	Added “Provision of services to other entities within Nomura Group” and “Separation and Independence of the function”
	Changed the company name from “Financial Technology Research Institute Inc.,” to “Nikkei Financial Technology Research Institute, Inc.,”
March 17, 2022	Partial revision of “Control Framework”.
February 1, 2023	Revisions to overall text due to the business succession.
July 26, 2023	Partial revision of “Purpose”.