Nomura Sustainability Day 2023 Q&A

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Q1: We have seen a number of companies from other industries withdrawing from initiatives such as NZBA and NZAM. Does continuing to be a member of these initiatives pose any problems for Nomura's business? What does it mean for you to be a part of these initiatives?

A1: Being on the inside of these initiatives is important in order to understand global trends and rules when crafting policies for our own initiatives. We are aware that other types of companies from the financial industry are leaving these initiatives, but this is due mainly to differences in business types and the environment surrounding those industries. We may need to consider overall trends and circumstances, but for now we intend to continue our activities within these initiatives.

Q2: You mentioned that ¥400 trillion, or half of 40% of Japan's ¥2000 trillion in individual financial assets, could potentially be invested. Given current structural tailwinds such as the new NISA, to what extent do you think the shift from savings to investment will progress over the next 3 to 5 years?

A2: We expect the shift from savings to investment to happen over a long time horizon, and it is not possible for one company alone to broadly expand financial and economic education. Nomura is committed to providing high-quality financial education to a wide range of people, from elementary school students to working professionals to enable each individual to make independent choices, rather than simply managing and investing their wealth. In the future we hope to be able to provide more detailed estimates on investment amounts.

Q3: When a retail client receives an inheritance, what do you do to prevent an outflow of these funds to other financial institutions? Are current measures sufficient? How much in inheritance assets has remained in Nomura?

A3: We have adopted a family approach that includes not only elderly clients but also their families. While there is an outflow of assets at the time of inheritance, we are working to establish a network with family members even before the inheritance is passed on.

Nomura Trust and Banking also provides inheritance-related services. In addition to testamentary trust, we offer a wrap trust service where funds are managed through fund wraps or SMAs. In the event something occurs, the managed funds can be passed on to pre-designated heirs without the need to cash them out. We do not disclose retention ratio.

Q4: Regarding Asset Management, is there any plan to expand the investment management capabilities of foreign stocks using M&A? Is there room for collaboration with ACI or do you think organic expansion is more effective?

A4: We do not exclude inorganic growth options when expanding our global investment management expertise. There have been cases where a very high performing investment management team has joined Nomura and had a good track record. As such, we would like to expand in this way if the opportunity arises.

Another key focus is to build on our competitive strengths organically. We have changed a part of our investment management framework. For example, in the past, global stocks and global bonds were managed by different teams, but from this spring we integrated the two groups into the Global Active Management Group, which enables us to strengthen our multi-asset management, solution capabilities and individual assets by engaging in discussions that go beyond asset classes and management techniques.

In terms of talent development, we integrated the corporate, economics, and credit research teams to form a Global Research team. We have built a framework that allows us to nurture young talent in particular over the medium term by cultivating core strengths and assigning them to an investment management team. In addition, we will thoroughly implement Pay for Performance and reward good results with competitive compensation to strengthen our talent and investment management capabilities.

Q5: Regarding New Forests, can you give us a sense of the scale of financial returns and the potential for expansion in Japan?

A5: We want to build up assets under management by accurately capturing our clients' needs and providing suitable products. New Forests’ performance will be included in our P/L as an affiliate company. We will disclose any financially material amounts in the financial results announcement.

Q6: How do you view the medium- to long-term risks to Retail business sustainability? Outflow of funds due to inheritance is one risk. Are there any others?

A6: Most of our clients are relatively older and have huge financial assets. We provide advice on asset management to these clients. Wealth transfer is sure to happen at some point in the future. We have been taking necessary steps, such as involving family members in the asset management process, to minimize the outflow of funds. While a certain level of outflows is inevitable, there are also inflows from clients in their 50s and 60s, which more than offset the outflows from older clients.

Recently, the number of accounts opened through online brokers has been expanding. The question is whether reaching clients only through the Internet or through actual contact with people will increase client satisfaction. We are ahead of peers in terms of business offered through actual contact with people.

While the risk of outflows is there, we believe that if we respond appropriately it will lead to business opportunities.

Q7: Last year, you mentioned that guidelines would be released at a later date regarding the possibility of including underwriting exposures in GHG emission calculations. Do you have any updates and has the estimated impact on your business changed?

A7: Discussions regarding the methodology of calculating GHG emissions associated with bond and equity underwriting (facilitated emissions) are still ongoing. On top of that, we also need to discuss how the industry will deal with facilitated emissions. We are closely monitoring movement of standard setting bodies such as PCAF and NZBA. At the same time, Nomura also co-chairs the facilitated emissions subcommittee of PCAF Japan.

Although there is no immediate impact on the business, we are not looking to immediately reduce underwriting even if facilitated emissions are incorporated in the future. Nomura's GHG emissions may increase temporarily in the process of supporting companies with transition and transition financing.

Q8: More than 50% of IPF's commitments are related to renewable energy or energy security. What is the approximate breakdown of the other half of the portfolio? US bank leaders continue to make statements that could be interpreted as retreating from their stance on ESG and decarbonization. Can you explain your stance on fossil fuel power projects?

A8: The remaining half includes data centers, infrastructure, gas power generation, etc. Although the ratio of renewable energy and others may change due to factors such as geopolitical risks, we believe the overall direction toward decarbonization remains unchanged. There is the view that there is some backlash from overstretching. However, on the ground in Japan, we see overseas companies buying Japanese portfolios and Japanese investors investing widely. Therefore, business activities and investments around renewable energy have been coming from overseas to Japan. There is a risk that trends may change internationally, but so far we do not believe that our business in Japan has been particularly affected.

At the same time, companies are responding to changes in the macro environment. As a result of COVID-19 and the Ukraine crisis, digitalization and renewable energy have come into focus. These changes in the macro environment affect our business.

Q9: How will you leverage IPF know-how cultivated overseas in the Japanese market?

A9: The IPF business based in the US and Nomura Capital Investment in Japan have provided Japanese investors and corporates with opportunities to invest in new renewable energy assets and M&A, while leveraging our overseas franchise. As the FIT (feed-in tariff) system gradually comes to an end in Japan, there is a growing need among Japanese investors and corporates to finance new asset classes, such as the FIP (feed-in premium) system and data centers. Over the past several years, Nomura has accumulated know-how in these new asset classes in Japan by working with IPF and GII. We will continue to deliver optimal, one-stop services such as solutions and distributions to clients in Japan, while taking advantage of our strengths overseas.

Q10: Last year, you said that sustainability-related businesses contributed about 40 billion yen in revenues. Can you provide the updated numbers for the fiscal year ending March 2023, and future targets, if any?

A10: There is no precise comparison with last year. This is because, in addition to the need to organize a management accounting system in line with the integration of Greentech into GII, we have also set internal standards to conservatively review projects that are labeled as sustainable revenues. Due to the market slowdown last year, revenue contribution was on a downward trend, leading to a decline in Greentech's M&A related activities and assets under management in ESG investment trusts. Since the definition of "sustainable" may change, we have not set revenue targets, but we see business opportunities in this field, and we recognize the importance of seizing these opportunities to generate sustainable profits for the firm.