

CONFLICTS OF INTEREST POLICY

27 March 2019

Purpose

Nomura Securities Co., Ltd. (NSC) is a wholly owned subsidiary of Nomura Holdings, Inc. (NHI) and is a core entity of Nomura Group (Nomura), a financial services group and global investment bank.

NSC provides a wide range of financial services to retail and institutional clients, including equities and fixed income trading, brokerage operations, underwriting, offerings, secondary offerings, private placement of securities, and research.

Nomura aims to enrich society with due regard to the integrity of the securities business. To this end, Nomura believes that all directors, officers, auditors, and employees (Nomura people) must, with the highest degree of ethics and integrity, act in the best interests of its clients.

As a part of its financial services, NSC provides various financial indices, 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 co-developed with and jointly owned by Frank Russell Company (currently, FTSE Russell). With regards to the NSC's indices, NSC acts as a licensor and administrator and the Index Operations Dept. (IOD), a constituent of NSC's Research Division, is responsible for practical activities relating to index administration.

Since it is engaged in a range of financial services as outlined above, NSC, as an index provider, believes that it is crucial to identify, disclose, avoid or mitigate, and manage material conflicts of interest (CoI). NSC has established a number of policies and procedures with this in mind. Additionally, such CoI, actual or potential, that could reasonably be expected to impair the independence and objectivity of NSC's index determinations or interfere with responsibilities to clients are identified and recorded in the CoI register (with the "Conflicts of Interest Policy" that describes relevant control frameworks). The CoI register is regularly reviewed and amended where necessary.

Transparent and Objective Rule-based Methodology

NSC's indices are meticulous by their very nature in that all the indices NSC provides 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 CoI in day-to-day operations.

Control Framework

The following control framework has been established to assist NSC in appropriately and effectively managing CoI.

Specifically, NSC:

- works under a "Conflicts of Interest Policy", which is designed to help prevent actual or potential CoI from inappropriately influencing index determinations.
- complies with Nomura's Code of Ethics, which requires Nomura people to comply with a code of conduct to maintain the integrity of index administration.
- has established internal rules concerning personal investment by NSC's employees to help prevent CoI.
- has a robust index administration governance structure, with effective supervisory and authorization processes for the front end of index administration work, including methodology changes and index cessations (see "Index Governance Framework").
- uses a firewall within the firm to exercise effective control of information flow between departments engaged in index-related activities (e.g., the IOD) and other departments (e.g., the Investment Banking Division and the Global Markets Division), while also stipulating in internal rules on information security that information should not be provided to those who are not permitted to receive it.
- uses public information or information provided by third party vendors to calculate NSC's indices, in principle. In cases where it uses in-house-produced information (such as bond prices used predominantly by the front office trading desk for brokerage or trading operations and which are not designed solely for index calculation purposes), NSC establishes internal rules on information security control, with the IOD required to receive such information through a vendor system external to NSC without any amendments (i.e., it is not allowed to obtain such information directly from NSC).
- works under compensation structure and performance evaluation rules when determining

salaries and compensation. Compensation for NSC employees in departments engaged in index administration is not linked, either directly or indirectly, to the performance of NSC's indices.

- has established a compliance hotline for the reporting of violations of the Code of Conduct, as a whistle-blowing system. Following investigations by the hotline office, matters reported via the hotline are escalated directly to the Head of Group Compliance, Representative Executive Officer and Senior Corporate Managing Director of NSC.

Independence

With the aim of ensuring the effectiveness of the abovementioned control framework in the face of potential CoI, NSC's index administration operations are conducted solely by the IOD, which is fully independent from both the Global Markets Division and the Investment Banking Division of NSC. The IOD is an exclusive constituent of NSC's Research Division and is physically located in a restricted-access area. With regards to the index administration process, particularly the validity of index determinations and the methodologies used to make index determinations, the IOD comes under the continuous oversight of the Index Governance Board (see "Index Governance Framework").

NSC recognizes that CoI could arise in index methodologies and data inputs for index determinations.

With regard to fixed income markets, it is important for index administrators to base index determinations on appropriately sourced bond prices. NSC's fixed income indices (e.g., NOMURA-BPI) had previously been based on prices sourced from NSC's Fixed Income Division due to such prices being considered an appropriate general representation of the Japanese fixed income market by market participants. However, the IOD now uses "JS Price" for the calculation of NSC's fixed income indices, with this aimed at mitigating potential CoI around the data inputs. The background to this decision is as follows: (1) while JS Price represents Japanese bond fair values determined based on prices sourced from NSC's Fixed Income Division, it is also important to note that JS Price is jointly managed by external parties (namely, Nikkei Inc., Financial Technology Research Institute Inc., and Nomura Research Institute, Ltd.) in addition to NSC; and (2) JS Price data have been consistently available to the public since 22 February 2002. Accordingly, participation by external parties and price transparency are the main reasons why the IOD has chosen to adopt JS Price. JS Price is determined and disseminated based on the following procedures:

1. NSC dealers on the front office trading desk in the Global Markets Division post end-of-day bond prices (the “Nomura Price”) every business day. NSC dealers belong to a business unit separated from the IOD.
2. The Nomura Price is checked internally by NSC’s GM Operations Dept. and is reconfirmed by NSC dealers. The GM Operations Dept. is a discrete business unit from the IOD.
3. In parallel with the second procedure point given above, the Nomura Price is double-checked based on the price reported to the Japan Securities Dealers Association (JSDA) for checking and validation in accordance with “System for Dissemination of Reference Statistical Prices (Yields) for OTC Bond Transactions” established by the JSDA.
4. JS Price is determined based on the Nomura Price and disseminated externally.
5. JS Price is double-checked under a supervisory process established by the four institutions—Nikkei Inc., Financial Technology Research Institute Inc., Nomura Research Institute, Ltd., and NSC.

That external parties are involved in the checking process supports the transparency and objectivity of JS Price. Further information on this subject is available in the “Index Calculation Policy” and rulebooks.

All of NSC’s equity indices (including the Russell/Nomura Japan Equity Index family) are calculated based on contract prices from regulated exchange markets.

NSC works under the assumption that CoI arising in index calculation methodologies and data inputs are preventable.