

Russell/Nomura Japan Equity Indexes FY15 handbook

EQUITY QUANTITATIVE RESEARCH (INDEX)

Global Markets Research

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Research analysts

Japan index products

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This report constitutes the Russell/Nomura Japan Equity Indexes FY15 handbook.

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are share price indexes that are weighted by float-adjusted market capitalization and cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage
- In addition to stocks listed on the First Section of the Tokyo Stock Exchange (TSE-1), they include stocks listed on JASDAQ and other exchanges
- Because the indexes are float-adjusted, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market capitalization excluding stable shareholdings
- Stocks are selected quantitatively based on clearly defined criteria

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1. Introduction

Asset management has become increasingly important in recent years, and there are many different management styles to suit investors' various needs. Investors also want to be able to exercise more control over their own portfolios. Russell Investments and the Quantitative Research Center, Nomura Securities Co., Ltd. have developed and published Russell/Nomura Japan Equity Indexes that can be used by investors employing a variety of different investment styles.

Russell/Nomura Japan Equity Indexes should be useful in:

- Determining investment strategies
- Determining manager structures
- Devising asset management benchmarks
- Supporting portfolio management activities
- Evaluating the performance of various investment styles
- Managing risk

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They represent the entire Japanese equity market, in that component stocks are selected from among all listed stocks (including those on the JASDAQ market)
- They reflect the stocks that are actually available for investment, as market capitalization figures factor in stable shareholdings
- There are subindexes for different sizes of company based on market capitalization
- There are subindexes for value and growth stocks
- There is also a Prime Index structured for passive investment
- The subindexes for value and growth stocks are based on P/B ratios adjusted for unrealized gains/losses
- Indexes are calculated from share prices on major markets (Nomura composite share prices)
- Stocks are selected quantitatively based on clearly-defined criteria
- The composition of each index is reviewed once a year

Complete details of rules for the Russell/Nomura Total Market Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

About Russell Investments

Russell Investments is a global asset manager and one of only a few firms that offers actively managed multi-asset portfolios and services that include advice, investments and implementation. Russell Investments stands with institutional investors, financial advisors and individuals working with their advisors—using the firm's core capabilities that extend across capital market insights, manager research, asset allocation, portfolio implementation and factor exposures to help each achieve their desired investment outcomes.

Russell Investments has more than \$272 billion in assets under management (as of 12/31/2014) and works with over 2,500 institutional clients, independent distribution partners and individual investors globally. As a consultant to some of the largest pools of capital in the world, Russell Investments has \$2.4 trillion in assets under advisement (as of 12/31/2014). It has four decades of experience researching and selecting investment managers and meets annually with more than 2,200 managers around the world. Russell Investments traded more than \$1.7 trillion in 2014 through its implementation services business. Russell Investments also calculates approximately 700,000 benchmarks daily covering 98% of the investable market globally, including more than 80 countries and more than 10,000 securities.

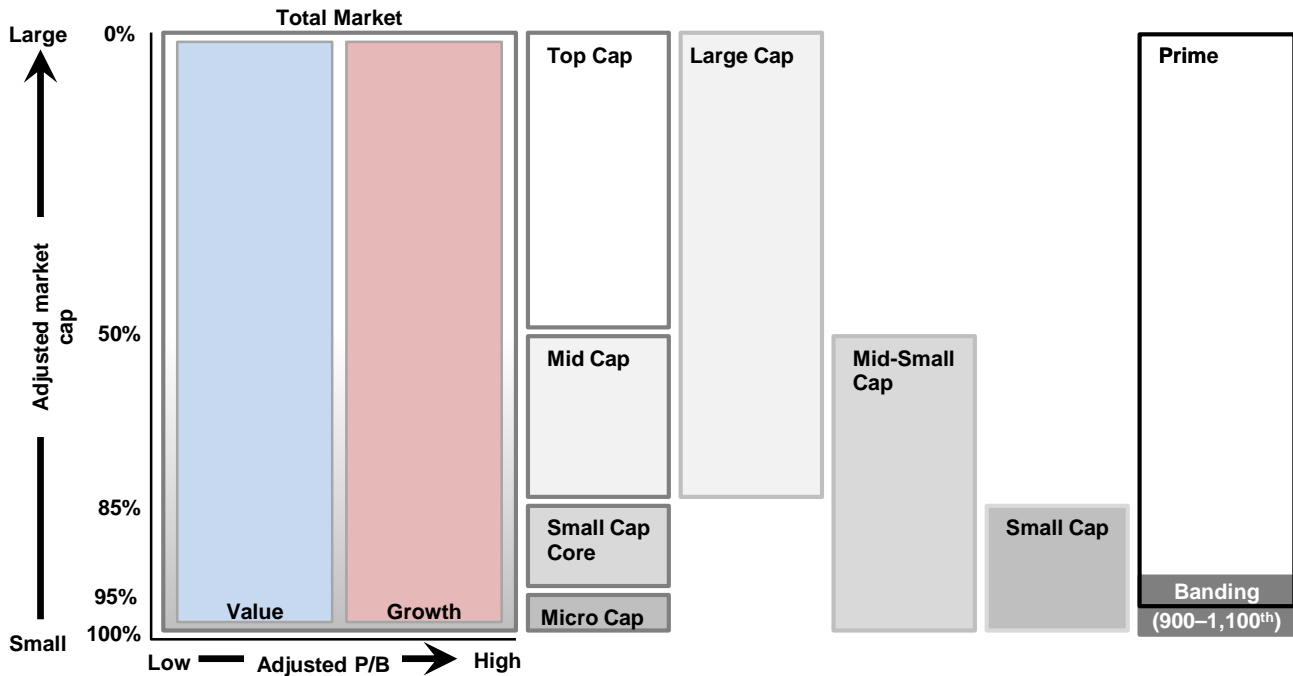
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2. Russell/Nomura Japan Equity Indexes

The Russell/Nomura Japan Equity Indexes cover the top 98% of stocks listed on all markets in terms of float-adjusted market value. Size-based and investment style indexes are published separately as subindexes. Stocks are divided between the size-based indexes on the basis of their float-adjusted market value, and between value and growth investment style indexes on the basis of their adjusted P/B ratios.

Fig. 1: Russell/Nomura Japan Equity Indexes



Source: Nomura

- The Russell/Nomura Total Market Index contains the top 98% of all stocks listed on Japan's stock exchanges in terms of float-adjusted market capitalization
- The Russell/Nomura Large Cap Index contains the top 85% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Small Cap Index contains the bottom 15% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Top Cap Index contains the top 50% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Mid Cap Index contains the middle 35% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Mid-Small Cap Index contains the bottom 50% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Small Cap Core Index comprises stocks in the Small Cap Index, excluding the Micro Cap Index, and represents the bottom 15% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization minus the bottom 5%
- The Russell/Nomura Micro Cap Index contains the bottom 5% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Prime Index contains the top 1,000 stocks in the Total Market Index in terms of float-adjusted market capitalization, taking into account "banding" and the "negative list"

3. Russell/Nomura Japan Equity Indexes: composition

3.1. Number of stocks and market capitalization

Figure 2 shows the number and market capitalization of the stocks in the Russell/Nomura Total Market Index and in the total market.

Fig. 2: Russell/Nomura Total Market Index and the total market

	Number of stocks		Market cap (¥trn)		
	Russell/Nomura	Total market	Russell/Nomura (adjusted for stable shareholdings)	Russell/Nomura (not adjusted for stable shareholdings)	Total market (not adjusted for stable shareholdings)
TSE-1	1,348	1,838	337	499	510
Other	152	1,724	4	10	20
Total	1,500	3,562	341	508	531

Note: Market cap data as of end-Nov 2014. The Russell/Nomura Total Market Index (Russell/Nomura) is as of the Dec 2014 regular reconfiguration. Market selection was the TSE, followed by the Nagoya Stock Exchange, the Fukuoka Stock Exchange, and the Sapporo Securities Exchange, in that order.

Source: Nomura

Figure 3 shows the number of stocks, percentage of total market capitalization, and market capitalization of the largest and smallest stocks, for each index at the time of its regular reconfiguration.

Fig. 3: Number of stocks in each index and % of total market capitalization

Index	Number of stocks	% of total market cap	Market cap of largest and smallest stocks (¥bn)	
			Largest	Smallest
Total Market	1,500	100.0%	14,289.6	6.5
Value	1,103	49.1%	8,216.9	0.7
Growth	806	50.9%	7,144.8	0.5
Large	350	86.7%	14,289.6	125.1
Large Value	225	40.7%	8,216.9	13.2
Large Growth	233	46.0%	7,144.8	13.3
Top	60	50.5%	14,289.6	1,148.4
Top Value	37	23.0%	8,216.9	169.1
Top Growth	40	27.5%	7,144.8	368.8
Mid	290	36.2%	1,351.2	125.1
Mid Value	188	17.7%	1,351.2	13.2
Mid Growth	193	18.5%	1,224.3	13.3
Mid-Small	1,440	49.5%	1,351.2	6.5
Mid-Small Value	1,066	26.1%	1,351.2	0.7
Mid-Small Growth	766	23.4%	1,224.3	0.5
Small	1,150	13.3%	170.0	6.5
Small Value	878	8.4%	155.6	0.7
Small Growth	573	4.9%	151.5	0.5
Small Core	350	8.3%	170.0	34.6
Small Core Value	269	5.1%	155.6	2.5
Small Core Growth	189	3.2%	151.5	2.4
Micro	800	5.0%	64.1	6.5
Micro Value	609	3.3%	58.3	0.7
Micro Growth	384	1.7%	47.5	0.5
Prime	1,000	97.8%	14,289.6	17.5
Prime Value	740	47.7%	8,216.9	2.1
Prime Growth	563	50.1%	7,144.8	1.2

Note: Based on constituent stocks at time of regular configurations in Dec 2014. Market cap data as of end-Nov 2014.

Source: Nomura

3.2. Number of stocks at time of regular reconfiguration

Figure 4 shows the number of stocks in each index at the time of past regular reconfigurations.

Fig. 4: Number of constituent stocks

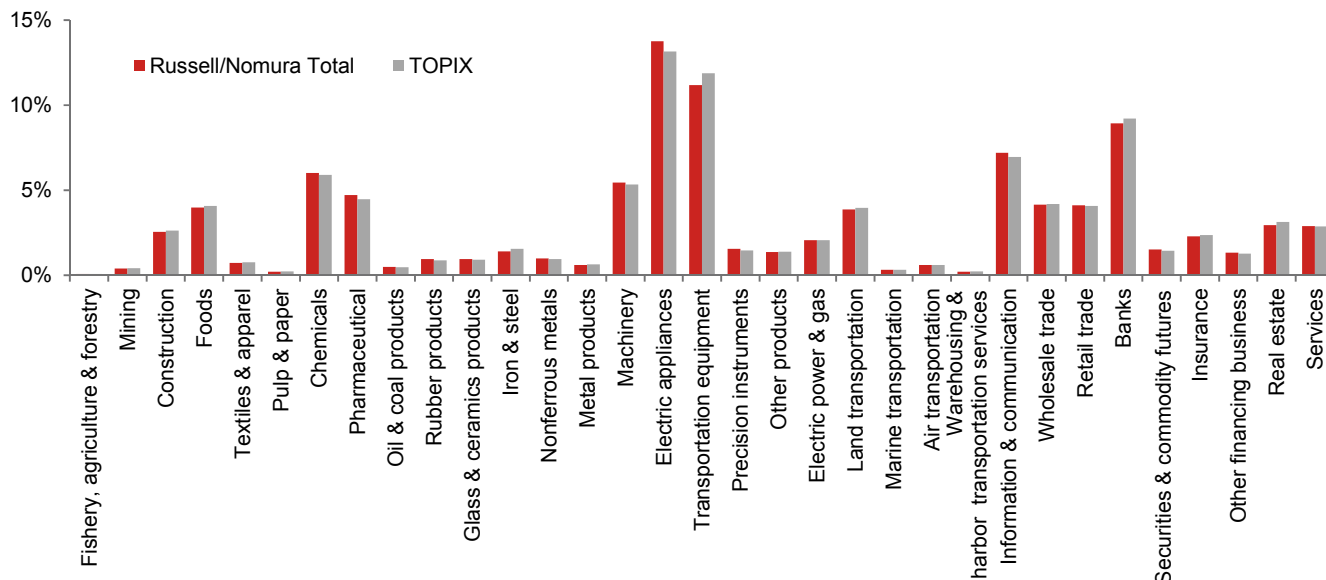
(yyyy-mm)	Total			Large	Small	Prime
		Value	Growth			
198101	1,091	656	713	400	691	-
198201	1,091	708	642	400	691	-
198301	1,091	766	592	400	691	-
198401	1,091	738	630	400	691	-
198501	1,104	706	672	400	704	-
198601	1,142	733	762	400	742	-
198701	1,142	833	672	400	742	-
198801	1,199	860	765	400	799	-
198901	1,267	877	778	400	867	-
199001	1,381	827	972	500	881	-
199101	1,561	920	1,118	500	1,061	-
199201	1,585	1,017	1,070	500	1,085	-
199301	1,586	1,092	954	500	1,086	-
199401	1,586	1,118	940	500	1,086	-
199501	1,749	1,111	1,090	500	1,249	-
199601	1,754	1,191	1,006	500	1,254	-
199701	1,854	1,251	1,082	500	1,354	-
199801	1,854	1,575	701	500	1,354	1,000
199901	1,854	1,584	616	500	1,354	1,000
200001	1,854	1,551	656	500	1,354	1,000
200101	1,854	1,544	642	500	1,354	1,000
200202	1,853	1,573	578	300	1,553	1,000
200212	1,500	1,225	527	300	1,200	1,000
200312	1,600	1,233	677	350	1,250	1,000
200412	1,700	1,231	796	400	1,300	1,000
200512	1,799	1,218	915	400	1,399	1,000
200612	1,700	1,241	766	350	1,350	1,000
200712	1,500	1,164	668	300	1,200	1,000
200812	1,400	1,111	519	300	1,100	1,000
200912	1,500	1,139	669	350	1,150	1,000
201012	1,400	1,081	589	300	1,100	1,000
201112	1,400	1,044	719	350	1,050	1,000
201212	1,500	1,159	712	350	1,150	1,000
201312	1,400	1,043	686	300	1,100	1,000
201412	1,500	1,103	806	350	1,150	1,000

Source: Nomura

3.3. Sector allocation

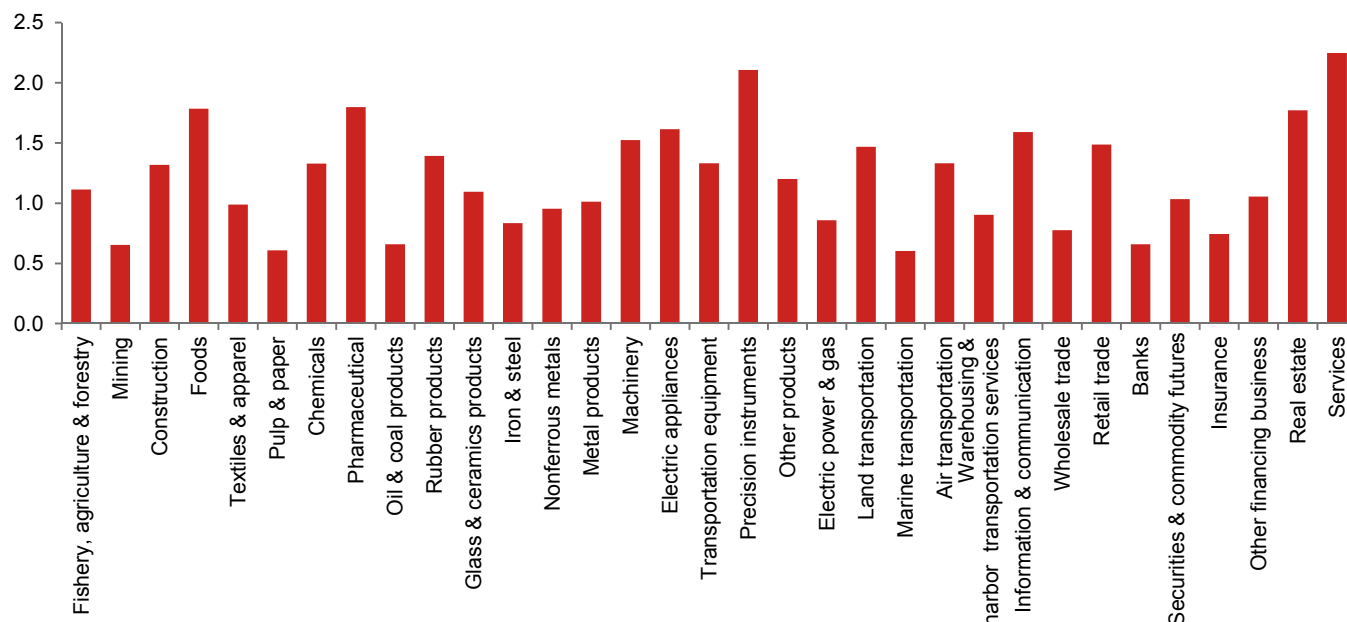
Figure 5 shows the percentage of Russell/Nomura Total Market Index market capitalization in each of 33 sectors. Compared with the TOPIX, the Russell/Nomura Total Market Index is more heavily weighted toward the electric appliances sector and less heavily weighted toward the transportation equipment and banks sectors.

Fig. 5: Sector allocation of Russell/Nomura Total Market Index and TOPIX



Note: Figures for Russell/Nomura Total Market Index are based on constituent stocks at the time of the regular reconfiguration in Dec 2014. Market cap data as of end-Nov 2014. Source: Nomura

Fig. 6: Average adjusted P/B ratio by sector for the Russell/Nomura Total Market Index



Note: Figures for Russell/Nomura Total Market Index are based on constituent stocks at the time of the regular reconfiguration in Dec 2014. Market cap data as of 15 Oct 2014, the date of determination for the regular reconfiguration. Average adjusted P/B = [sum of share prices of stocks included] / (sum of BPS adjusted for unrealized gains/losses of stocks included)]. Source: Nomura

3.4. Top 10 stocks by market capitalization

Figure 7 shows the top 10 stocks by weighting in each index.

Fig. 7: Top 10 stocks by weighting in each index

Rank	TOP		Value		Growth	
1	7203	Toyota Motor	8306	Mitsubishi UFJ FG	7203	Toyota Motor
2	8306	Mitsubishi UFJ FG	7203	Toyota Motor	9984	Softbank
3	9984	Softbank	7267	Honda Motor	2914	Japan Tobacco
4	7267	Honda Motor	8316	Sumitomo Mitsui FG	9433	KDDI
5	8316	Sumitomo Mitsui FG	9432	Nippon Telegraph and Telephone	6954	Fanuc
6	9432	Nippon Telegraph and Telephone	8411	Mizuho FG	4503	Astellas Pharma
7	8411	Mizuho FG	8058	Mitsubishi Corp	7751	Canon
8	2914	Japan Tobacco	8031	Mitsui & Co	3382	Seven & i HD
9	9433	KDDI	7201	Nissan Motor	8801	Mitsui Fudosan
10	6954	Fanuc	8604	Nomura HD	8802	Mitsubishi Estate
Rank	Mid		Mid Value		Mid Growth	
1	9531	Tokyo Gas	8053	Sumitomo Corp	2502	Asahi Group HD
2	8053	Sumitomo Corp	8725	MS&AD Insurance Group HD	4523	Eisai
3	8725	MS&AD Insurance Group HD	5020	JX HD	4661	Oriental Land
4	2502	Asahi Group HD	5802	Sumitomo Electric Industries	2802	Ajinomoto
5	2503	Kirin HD	8002	Marubeni	7309	Shimano
6	5020	JX HD	8630	Sompo Japan Nipponkoa HD	1878	Daito Trust Construction
7	4523	Eisai	5411	JFE HD	4755	Rakuten
8	5802	Sumitomo Electric Industries	4568	Daiichi Sankyo	6645	Omron
9	4661	Oriental Land	2503	Kirin HD	6988	Nitto Denko
10	8002	Marubeni	8795	T&D HD	8113	Unicharm
Rank	Small Core		Small Core Value		Small Core Growth	
1	4205	Zeon	1944	Kinden	3349	Cosmos Pharmaceutical
2	3349	Cosmos Pharmaceutical	6141	DMG Mori Seiki	7164	Zenkoku Hosho
3	7164	Zenkoku Hosho	8219	Aoyama Trading	9684	Square Enix HD
4	9684	Square Enix HD	3626	IT HD	9719	SCSK
5	9719	SCSK	5232	Sumitomo Osaka Cement	4516	Nippon Shinyaku
6	4516	Nippon Shinyaku	3101	Toyobo	4527	Rohto Pharmaceutical
7	1944	Kinden	8012	Nagase & Co	6395	Tadano
8	7988	Nifco	5801	Furukawa Electric	3092	Start Today
9	8282	K's HD	5444	Yamato Kogyo	4922	Kose
10	8616	Tokai Tokyo Financial HD	5631	Japan Steel Works	2181	Temp HD
Rank	Micro		Micro Value		Micro Growth	
1	6651	Nitto Kogyo	7014	Namura Shipbuilding	9010	Fuji Kyuko
2	7014	Namura Shipbuilding	7862	Toppa Forms	3673	BroadLeaf
3	7862	Toppa Forms	5186	Nitta	3395	Saint Marc HD
4	5186	Nitta	6728	Ulvac	5726	Osaka Titanium Technologies
5	6118	Aida Engineering	9869	Kato Sangyo	6440	Juki
6	6463	TPR	5451	Yodogawa Steel Works	7777	3-D Matrix
7	6407	CKD	2590	DyDo Drinco	6796	Clarion
8	6432	Takeuchi Mfg	6997	Nippon Chemi-Con	6432	Takeuchi Mfg
9	6960	Fukuda Denshi	8393	Miyazaki Bank	7447	Nagaiben
10	9010	Fuji Kyuko	6222	Shima Seiki Mfg	8703	Kabu.com Securities
Rank	Prime		Prime Value		Prime Growth	
1	7203	Toyota Motor	8306	Mitsubishi UFJ FG	7203	Toyota Motor
2	8306	Mitsubishi UFJ FG	7203	Toyota Motor	9984	Softbank
3	9984	Softbank	7267	Honda Motor	2914	Japan Tobacco
4	7267	Honda Motor	8316	Sumitomo Mitsui FG	9433	KDDI
5	8316	Sumitomo Mitsui FG	9432	Nippon Telegraph and Telephone	6954	Fanuc
6	9432	Nippon Telegraph and Telephone	8411	Mizuho FG	4503	Astellas Pharma
7	8411	Mizuho FG	8058	Mitsubishi Corp	7751	Canon
8	2914	Japan Tobacco	8031	Mitsui & Co	3382	Seven & i HD
9	9433	KDDI	7201	Nissan Motor	8801	Mitsui Fudosan
10	6954	Fanuc	8604	Nomura HD	8802	Mitsubishi Estate

Note: As of 15 Oct 2014, the date of determination for the regular reconfiguration. FG = Financial Group, HD = Holdings.

Source: Nomura

4. Performance analysis

4.1. Annual returns

Fig. 8: Annual returns on individual indexes

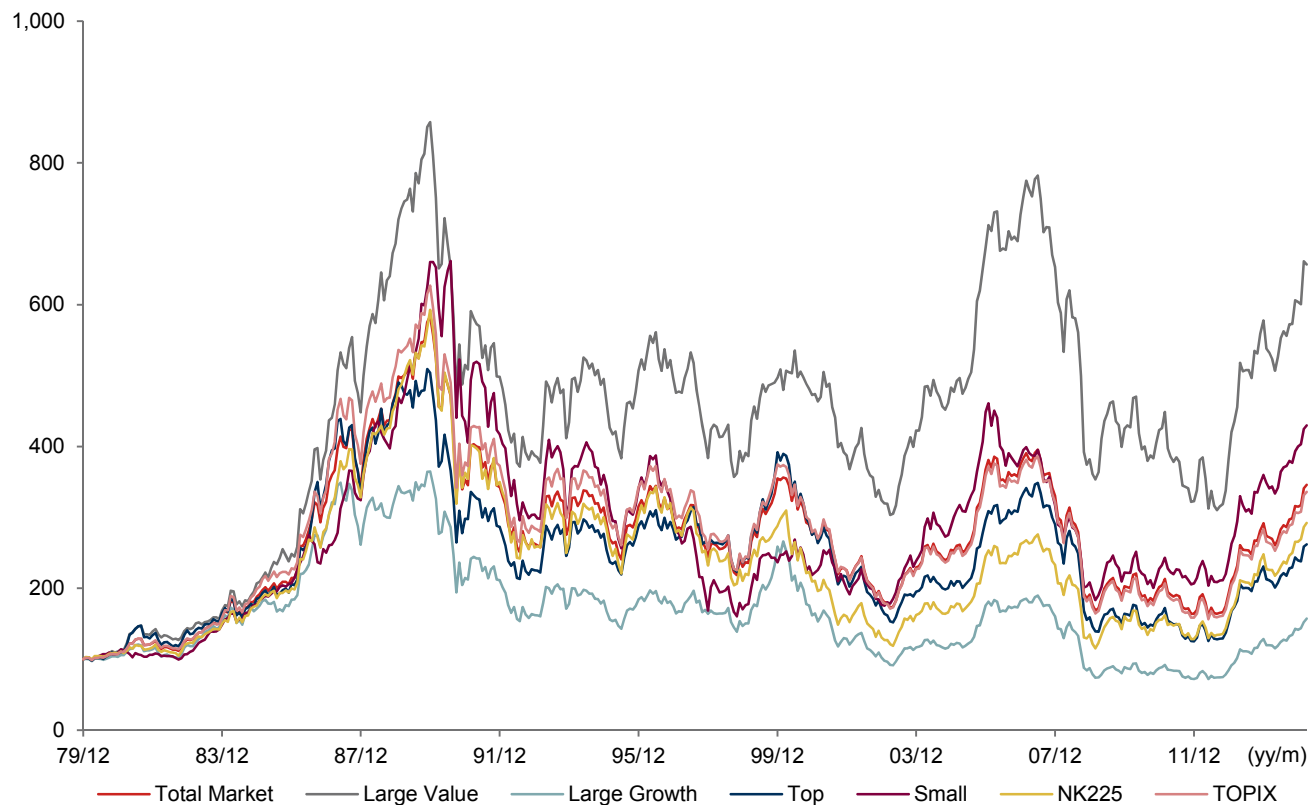
Index	Excluding dividends					Including dividends				
	1 yr	2 yrs	5 yrs	10 yrs	Jan 2001–	1 yr	2 yrs	5 yrs	10 yrs	Jan 2001–
Total Market	25.68%	21.16%	10.63%	4.57%	3.16%	27.54%	23.11%	12.76%	6.41%	4.77%
Value	23.41%	19.67%	9.44%	5.03%	4.83%	25.56%	21.86%	11.75%	6.97%	6.57%
Growth	27.94%	22.66%	11.86%	4.12%	1.51%	29.53%	24.36%	13.82%	5.85%	2.99%
Large	26.20%	21.38%	10.23%	4.53%	2.66%	28.11%	23.37%	12.39%	6.39%	4.27%
Large Value	23.60%	19.60%	8.64%	4.79%	4.06%	25.83%	21.87%	11.00%	6.75%	5.80%
Large Growth	28.57%	23.01%	11.72%	4.39%	1.51%	30.17%	24.75%	13.70%	6.14%	3.01%
Top	23.48%	19.41%	9.57%	4.27%	1.43%	25.58%	21.62%	11.96%	6.29%	3.15%
Top Value	20.46%	17.18%	7.91%	4.88%	2.68%	23.05%	19.81%	10.53%	6.99%	4.51%
Top Growth	25.88%	21.20%	11.08%	4.14%	0.72%	27.61%	23.07%	13.26%	6.08%	2.36%
Mid	30.10%	24.27%	11.30%	4.92%	4.57%	31.73%	25.98%	13.16%	6.56%	6.05%
Mid Value	27.59%	22.72%	9.64%	4.90%	5.76%	29.40%	24.55%	11.65%	6.67%	7.39%
Mid Growth	32.56%	25.91%	12.85%	4.91%	2.92%	33.98%	27.42%	14.54%	6.39%	4.22%
Mid-Small	27.95%	23.00%	11.77%	4.86%	5.07%	29.59%	24.71%	13.66%	6.53%	6.58%
Mid-Small Value	25.87%	21.77%	10.75%	5.33%	6.58%	27.70%	23.63%	12.79%	7.14%	8.25%
Mid-Small Growth	30.35%	24.49%	12.93%	4.19%	2.62%	31.74%	25.98%	14.63%	5.68%	3.92%
Small	22.96%	19.91%	12.79%	4.60%	6.24%	24.72%	21.68%	14.77%	6.35%	7.84%
Small Value	22.89%	20.07%	12.44%	5.83%	7.98%	24.85%	22.03%	14.55%	7.72%	9.71%
Small Growth	23.06%	19.70%	13.65%	2.22%	2.10%	24.46%	21.11%	15.33%	3.71%	3.38%
Small Core	24.49%	20.66%	12.62%	4.94%	5.81%	26.22%	22.40%	14.57%	6.66%	7.37%
Small Core Value	24.09%	20.10%	11.78%	5.95%	7.59%	25.99%	21.98%	13.84%	7.77%	9.27%
Small Core Growth	25.23%	21.87%	14.27%	3.27%	2.04%	26.66%	23.33%	16.00%	4.81%	3.35%
Micro	20.31%	18.81%	13.18%	3.96%	7.01%	22.08%	20.63%	15.20%	5.78%	8.67%
Micro Value	21.09%	20.18%	13.61%	5.64%	8.63%	23.05%	22.19%	15.82%	7.62%	10.44%
Micro Growth	18.53%	15.56%	12.18%	-0.33%	2.22%	19.85%	16.87%	13.73%	1.07%	3.45%
Prime	25.84%	21.25%	10.58%	4.65%	3.09%	27.70%	23.19%	12.71%	6.48%	4.70%
Prime Value	23.56%	19.72%	9.32%	5.08%	4.71%	25.73%	21.92%	11.63%	7.02%	6.45%
Prime Growth	28.07%	22.75%	11.85%	4.23%	1.53%	29.63%	24.44%	13.80%	5.96%	3.01%
TOPIX	25.69%	21.13%	10.62%	4.44%	2.89%	27.60%	23.10%	12.76%	6.28%	4.50%

Note: As of end-Mar 2015. Returns are annualized and based on average monthly yen-based returns for each period.

Source: Nomura

4.2. Performance

Fig. 9: Index performance



Note: Shows monthly index values (yen basis, excluding dividends) in Dec 1979–Mar 2015, rebased so that end-Dec 1979 = 100.

Source: Nomura

Fig. 10: Correlation coefficients for monthly returns on main indexes

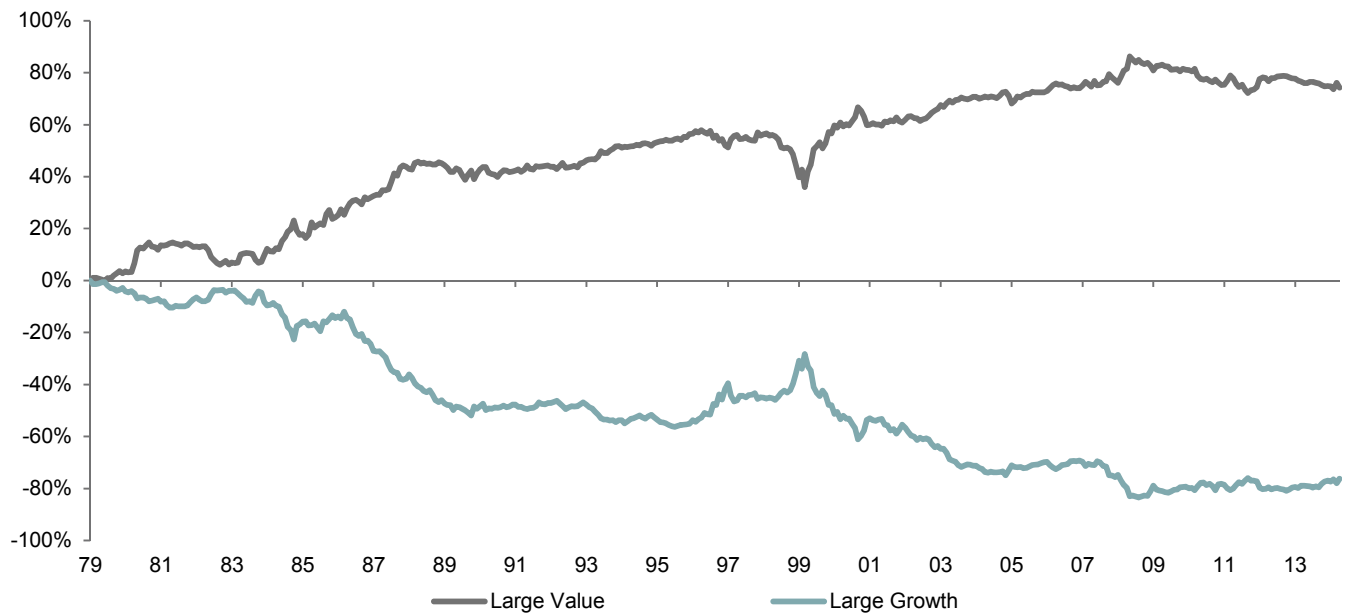
	Average returns	Standard deviation	Russell/Nomura	TOPIX	Nikkei Average
Russell/Nomura	5.18%	18.16%	1		
TOPIX	5.04%	19.85%	0.9945	1	
Nikkei Average	5.17%	18.55%	0.9605	0.9594	1

Note: Russell/Nomura is Russell/Nomura Total Market Index. Based on monthly returns (excluding dividends) in Jan 1980–Mar 2015. Average return and standard deviation data are annualized.

Source: Nomura

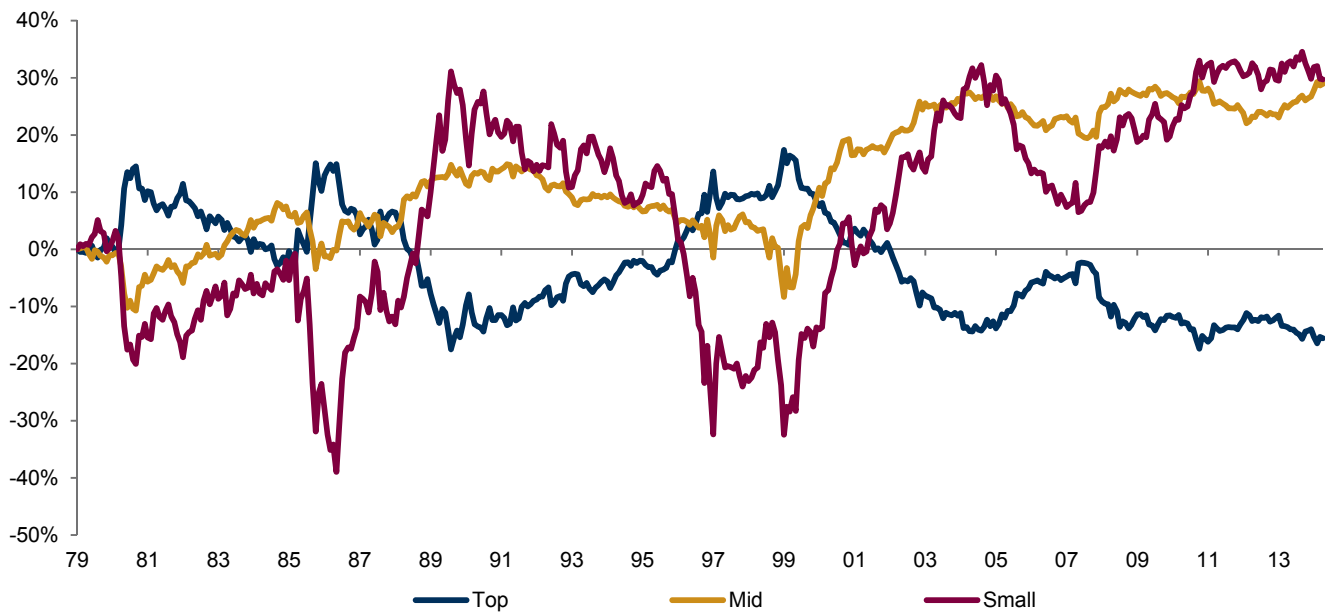
4.3. Relative performance of style indexes

Fig. 11: Cumulative excess returns on value and growth indexes



Note: Shows cumulative excess monthly returns (including dividends) on each index versus the Russell/Nomura Total Market Index, Jan 1980–Mar 2015.
Source: Nomura

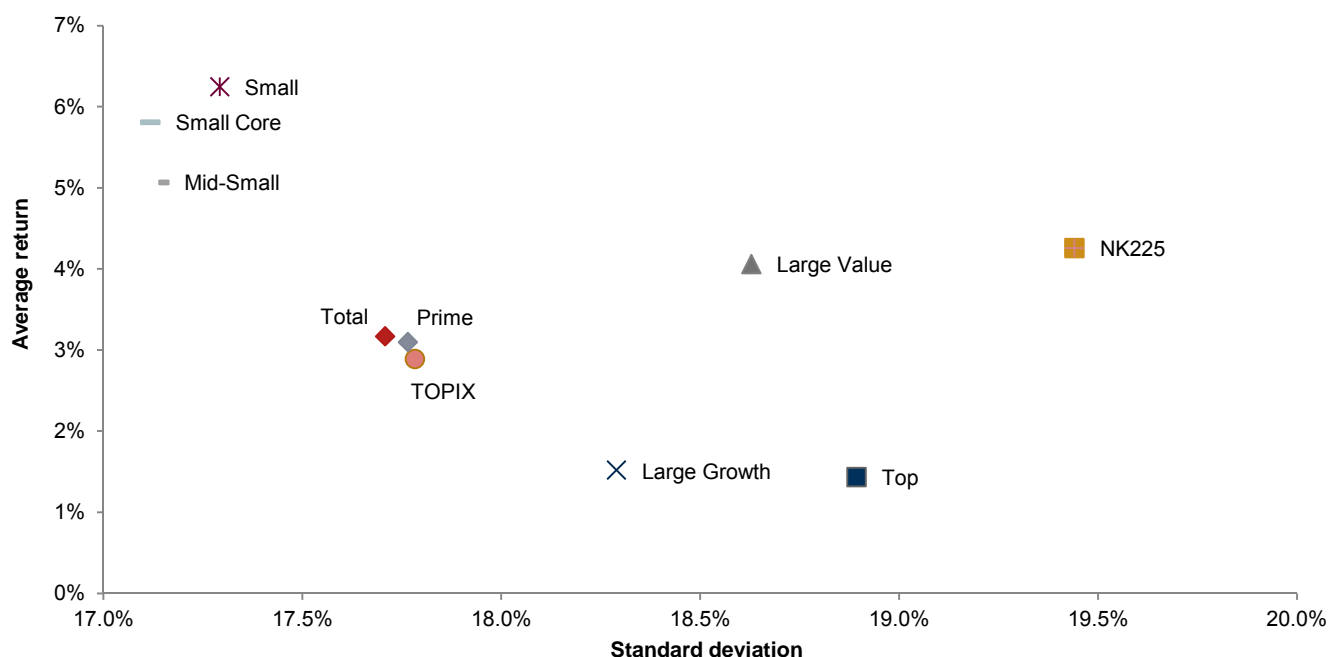
Fig. 12: Cumulative excess returns on size-based indexes



Note: Shows cumulative excess monthly returns (including dividends) on each index versus the Russell/Nomura Total Market Index, Jan 1980–Mar 2015.
Source: Nomura

4.4. Risk-return characteristics of individual indexes

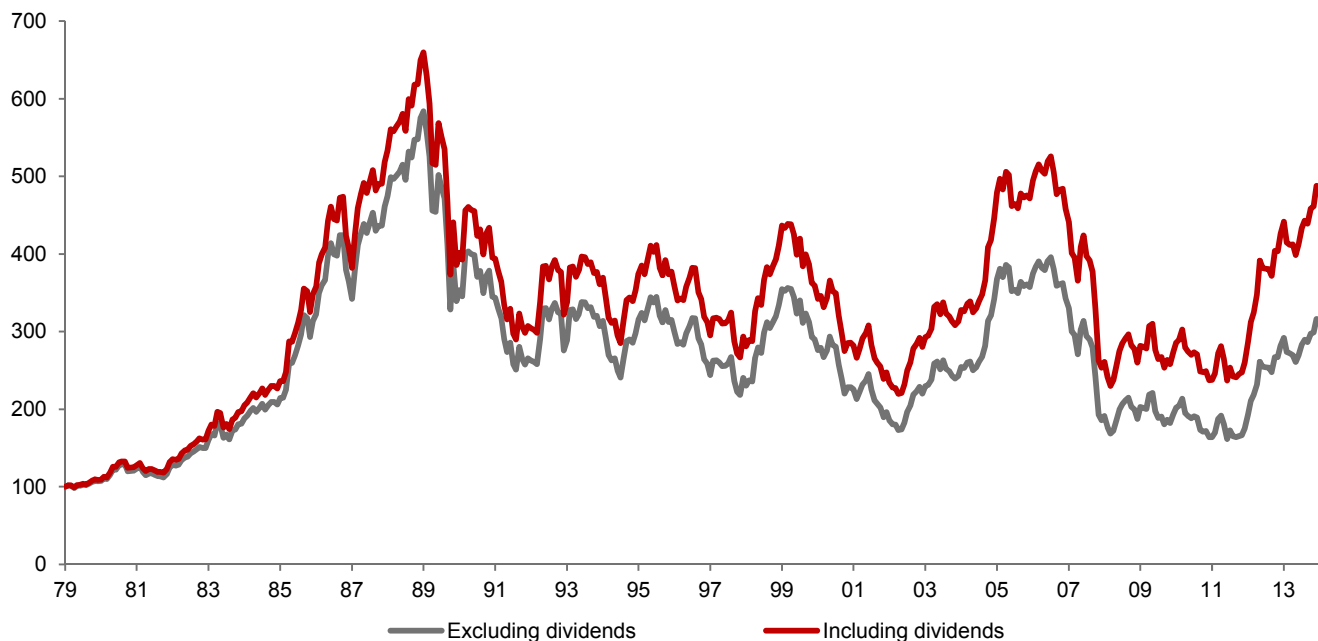
Fig. 13: Average return and standard deviation of individual indexes



Note: Shows average returns and standard deviation on annualized basis, calculated from monthly returns (excluding dividends) in Jan 2001–Mar 2015.
 Source: Nomura

4.5. Impact of dividends

Fig. 14: Impact of dividends on performance of Russell/Nomura Total Market Index



Note: Shows monthly values of Russell/Nomura Total Market Index in Dec 1979–Mar 2015, rebased so that end-Dec 1979 = 100.
 Source: Nomura

5. Index investability

5.1. Turnover ratios at the time of regular reconfigurations

Figure 15 shows turnover ratios at the time of regular reconfigurations.

Fig. 15: Turnover ratios at time of regular reconfigurations

Date (yyyymm)	Total		Large	Small	Prime
	Value	Growth			
198101	2.4%	11.2%	3.5%	13.1%	-
198201	2.1%	15.7%	3.1%	12.1%	-
198301	2.1%	15.2%	3.1%	13.5%	-
198401	2.6%	14.2%	4.3%	16.2%	-
198501	2.9%	16.3%	4.1%	17.5%	-
198601	3.7%	15.6%	4.8%	16.2%	-
198701	2.3%	17.5%	3.3%	18.4%	-
198801	3.5%	12.4%	5.1%	16.8%	-
198901	3.7%	17.1%	4.9%	15.8%	-
199001	3.0%	15.9%	7.2%	27.3%	-
199101	3.4%	19.0%	4.6%	20.9%	-
199201	1.9%	13.1%	3.1%	13.6%	-
199301	1.9%	12.0%	3.2%	13.3%	-
199401	1.5%	11.7%	2.6%	12.0%	-
199501	3.3%	13.6%	4.0%	15.4%	-
199601	2.2%	13.1%	2.5%	9.8%	-
199701	2.2%	18.0%	2.3%	10.7%	-
199801	1.4%	18.4%	2.5%	16.6%	1.4%
199901	3.1%	12.9%	4.1%	12.3%	3.0%
200001	3.4%	31.3%	5.4%	31.8%	3.5%
200101	2.8%	18.6%	3.8%	18.3%	2.7%
200202	2.5%	16.7%	7.6%	43.0%	2.4%
200212	3.3%	15.5%	4.7%	15.8%	2.2%
200312	2.5%	19.6%	4.6%	20.2%	2.1%
200412	3.5%	17.5%	4.9%	18.9%	3.4%
200512	3.2%	21.0%	3.8%	15.8%	3.1%
200612	2.5%	18.6%	3.1%	16.4%	2.5%
200712	1.8%	20.5%	3.5%	18.8%	1.7%
200812	1.6%	29.3%	3.8%	17.6%	1.7%
200912	1.6%	26.8%	4.2%	21.6%	1.5%
201012	1.8%	14.5%	3.1%	15.8%	1.8%
201112	1.6%	16.2%	4.6%	20.6%	1.5%
201212	1.9%	13.2%	2.7%	11.9%	1.7%
201312	1.6%	16.1%	3.2%	20.1%	1.7%
201412	1.7%	11.9%	3.9%	19.0%	1.5%
Average	2.5%	16.9%	4.0%	17.6%	2.2%

Note: Turnover ratio is $(\sum | \text{market cap weighting before reconfiguration} - \text{market cap weighting after reconfiguration} | / 2)$, based on share prices at end of previous month. The figures thus show one-way turnover for an index fund constructed using the full replication approach. A change in all of the constituent stocks would give a turnover ratio of 100%.
Source: Nomura

5.2. Estimated number of days' impact in the case of regular reconfigurations

Figure 16 shows the estimated number of days' impact in the case of regular reconfigurations for passive funds that track each index using the full replication approach. The higher the turnover ratio at the time of the regular reconfiguration, and the greater the number of stocks with low liquidity that are added, the greater the number of days' impact.

Fig. 16: No. of days' impact in case of regular reconfigurations

Index	No. of days' impact Maximum (days)	Turnover ratio (one-way)	Index market cap (¥trn)	Number of stocks				
				Before	After	Change	Out	In
Total Market	2	1.7%	341	1,392	1,500	108	37	145
Value	3	11.9%	168	1,037	1,103	66	89	155
Growth	1	11.7%	174	685	806	121	86	207
Large	1	3.9%	296	300	350	50	2	52
Large Value	1	13.8%	139	194	225	31	14	45
Large Growth	1	12.2%	157	197	233	36	19	55
Top	1	6.5%	172	60	60	0	7	7
Top Value	1	19.9%	79	38	37	-1	7	6
Top Growth	1	12.6%	94	44	40	-4	8	4
Mid	1	15.1%	123	240	290	50	9	59
Mid Value	1	24.6%	60	156	188	32	18	50
Mid Growth	1	23.6%	63	153	193	40	17	57
Mid-Small	3	7.4%	169	1,332	1,440	108	44	152
Mid-Small Value	6	19.2%	89	999	1,066	67	93	160
Mid-Small Growth	2	19.5%	80	641	766	125	84	209
Small	11	19.0%	45	1,092	1,150	58	88	146
Small Value	17	23.9%	29	843	878	35	103	138
Small Growth	8	34.9%	17	488	573	85	100	185
Small Core	5	29.9%	28	350	350	0	69	69
Small Core Value	7	32.3%	18	258	269	11	52	63
Small Core Growth	9	44.9%	11	189	189	0	63	63
Micro	28	19.5%	17	742	800	58	99	157
Micro Value	43	25.0%	11	585	609	24	100	124
Micro Growth	23	35.1%	6	299	384	85	73	158
Prime	1	1.5%	334	994	1,000	6	21	27
Prime Value	1	11.7%	163	737	740	3	58	61
Prime Growth	1	11.5%	171	521	563	42	59	101

Note: Based on constituent stocks at the time of regular reconfigurations in Dec 2014. Market cap data as of end-Nov 2014. We estimated the number of days' impact (maximum) for each index as the number of days required for a scheduled reconfiguration of a ¥100bn passive fund that tracks the index using the full replication approach, based on $[\max(|\text{market cap before reconfiguration} - \text{market cap after reconfiguration}| / \text{average daily trading value})]$. Average daily trading value is the average over the year to 15 Oct 2014, the date of determination for the regular reconfiguration of the Russell/Nomura indexes. Turnover ratio is $[\sum|\text{market cap weighting before reconfiguration} - \text{market cap weighting after reconfiguration}| / 2]$.

Source: Nomura

5.3. Estimating number of days' impact and minimum unit of investment when starting a fund

Figure 17 shows the minimum unit of investment and number of days' impact when starting a passive fund that tracks each index using the full replication approach (figures have been rounded up or down as required).

The minimum unit of investment is calculated as shown below. As it is calculated by dividing the minimum investment amount for each constituent stock by its weighting, the smaller the minimum investment amount for the constituent stock, or the larger its weighting, the smaller the minimum unit of investment will be.

$$\text{Minimum unit of investment} = \max ((\text{trading unit} \times \text{transaction price}) / \text{index weighting}) / 2$$

The calculation of the number of days' impact is the same as in section 5.2.

Fig. 17: Number of days' impact and minimum unit of investment when starting a fund

Index	No. of days' impact Maximum (days)	Minimum unit of investment (¥bn)	Index market cap (¥trn)	Number of stocks
Total Market	2	38.6	341	1,500
Value	3	298.8	168	1,103
Growth	2	56.9	174	806
Large	1	2.4	296	350
Large Value	1	4.1	139	225
Large Growth	1	11.0	157	233
Top	1	0.3	172	60
Top Value	1	0.2	79	37
Top Growth	1	0.1	94	40
Mid	1	1.0	123	290
Mid Value	1	1.8	60	188
Mid Growth	2	4.4	63	193
Mid-Small	3	19.1	169	1,440
Mid-Small Value	6	158.8	89	1,066
Mid-Small Growth	3	26.2	80	766
Small	11	5.2	45	1,150
Small Value	17	51.3	29	878
Small Growth	12	5.5	17	573
Small Core	5	2.9	28	350
Small Core Value	7	31.3	18	269
Small Core Growth	9	1.2	11	189
Micro	28	1.9	17	800
Micro Value	43	2.6	11	609
Micro Growth	32	1.9	6	384
Prime	1	33.7	334	1,000
Prime Value	1	290.5	163	740
Prime Growth	1	33.8	171	563

Note: Based on constituent stocks at the time of regular reconfigurations in Dec 2014. Market cap data as of end-Nov 2014. We estimated the number of days' impact (maximum) for each index as the number of days required to set up a new ¥100bn passive fund that tracks the index using the full replication approach, based on [max (market cap / average daily trading value)]. Average daily trading value is the average over the year to 15 Oct 2014, the date of determination for the regular reconfiguration of the Russell/Nomura indexes.

Source: Nomura

6. Data publication services

Data for the Russell/Nomura Japan Equity Indexes can be obtained via the following channels.

Index values are published in the following media:

- Bloomberg (RNJI)
- Jiji (SQ21, SQ22, SQ23, SQ24)
- QUICK (NRIJ500–503, 510–517)
- Reuters (FRCNRI01, FRCNRI02, FRCNRI03, FRCNRI04)
- Our website (<http://qr.nomura.co.jp/en/frcnri/index.html>)

Daily index values for the Russell/Nomura Prime Index are published in the following media:

- Bloomberg (RNPJ <INDEX>)
- Jiji (RT14 or RNPF/2)
- QUICK (140)
- Reuters (.JRN)

Daily index values for the Russell/Nomura Small Cap Core Index are published in the following media:

- Bloomberg (RNSCC <INDEX>)
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- QUICK (130)
- Reuters (.JRNSC)

More detailed data

More detailed data on index values and individual stock information can be obtained through Nomura Research Institute services e-Aurora and IDS.

For information, contact:

Nomura Research Institute
Investment Information Systems Business Department
+81-45-277-9260
e-mail: ids-sales@nri.co.jp

Other reports:

Russell/Nomura Japan Equity Indexes rulebook
Russell/Nomura Japan Equity Indexes - Performance summary (monthly reports)

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Appendix A-1

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When bonds are purchased via public offerings, secondary distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. Bond prices may also fall below the invested principal as a result of such factors as changes in the management and financial circumstances of the issuer, or changes in third-party valuations of the bond in question. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used. When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index. The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For J117 and subsequent issues, the maturity value shall not undercut the face amount. Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors. No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

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