

## Russell/Nomura Japan Equity Indexes FY16 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 FY16 handbook.**

**Russell/Nomura Japan Equity Indexes have the following characteristics:**

- They are share price indexes that are weighted by free-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 other exchanges.
- Because the indexes take into consideration the stable shareholding ratio, 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 cap excluding stable shareholdings.
- Stocks are selected quantitatively based on clearly defined criteria.
- The composition of each index is reviewed once a year.

Japanese version published on May 9, 2016

# 1. Introduction

The Russell/Nomura Japan Equity Indexes are Japanese equity indexes developed jointly by Frank Russell Company and the Global Research Division, Financial Engineering & Technology Research Center, Nomura Securities Co., Ltd.

Russell/Nomura Japan Equity Indexes should be useful in:

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

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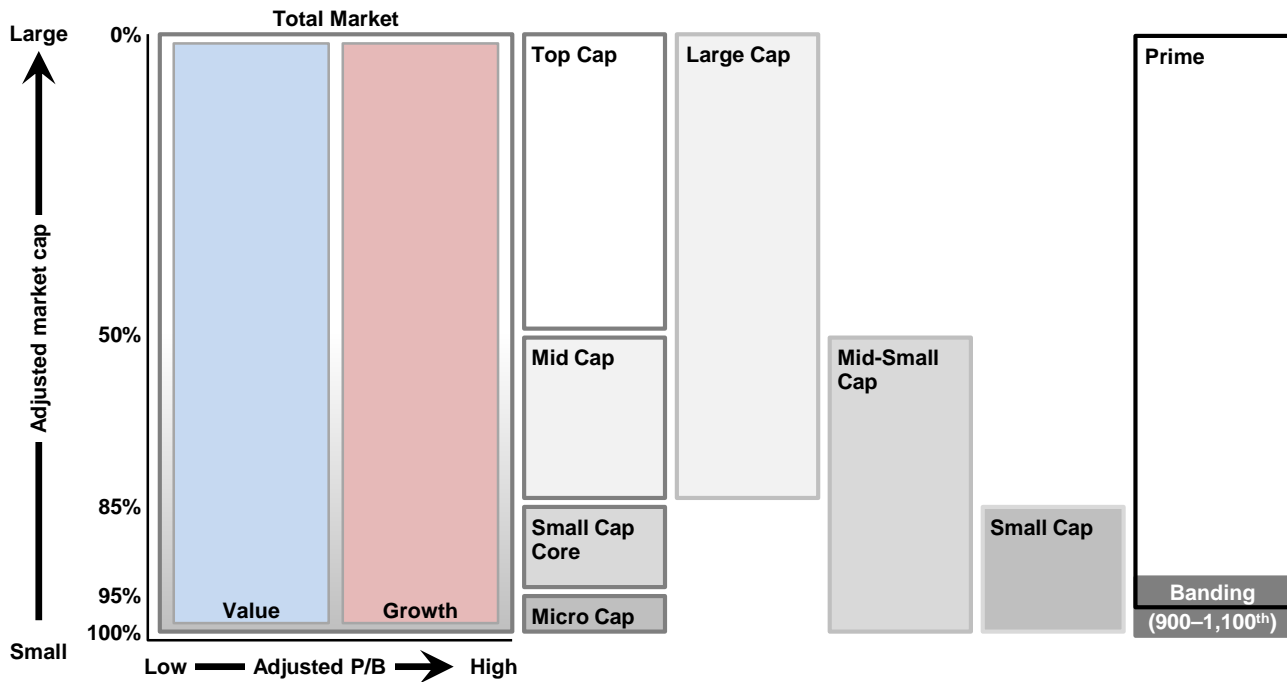
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- Because the indexes take into consideration the stable shareholding ratio, they reflect the stocks that are actually available for investment
- There are style indexes for large and small companies and for value and growth stocks
- The Prime Index consists of the top 1,000 stocks in the Total Market Index by market cap excluding stable shareholdings
- 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 Japan Equity Index can be found in the Russell/Nomura Japan Equity Index Rulebook.

## 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	1,303	1,920	383	570	596
Other	97	1,693	3	8	20
<b>Total</b>	<b>1,400</b>	<b>3,613</b>	<b>387</b>	<b>577</b>	<b>616</b>

Note: Market cap data as of end-Nov 2015. The Russell/Nomura Total Market Index (Russell/Nomura) is as of the Dec 2015 regular reconstitution. 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 for each index as of the date of its regular reconstitution, together with the percentage of total market capitalization, and the market capitalization of the largest and smallest stocks.

**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 stock (¥bn)	
			Largest	Smallest
Total Market	1,400	100.0%	14,732.0	9.6
Value	1,000	47.7%	9,357.7	0.9
Growth	760	52.3%	6,637.1	0.7
Large	350	86.2%	14,732.0	166.2
Large Value	219	39.1%	9,357.7	12.9
Large Growth	240	47.1%	6,637.1	13.1
Top	60	48.6%	14,732.0	1,290.2
Top Value	34	22.1%	9,357.7	96.9
Top Growth	40	26.5%	6,637.1	127.6
Mid	290	37.6%	1,508.6	166.2
Mid Value	185	17.0%	1,359.2	12.9
Mid Growth	200	20.6%	1,476.8	13.1
Mid-Small	1,340	51.4%	1,508.6	9.6
Mid-Small Value	966	25.6%	1,359.2	0.9
Mid-Small Growth	720	25.8%	1,476.8	0.7
Small	1,050	13.8%	209.9	9.6
Small Value	781	8.6%	196.5	0.9
Small Growth	520	5.2%	209.9	0.7
Small Core	350	9.0%	209.9	44.4
Small Core Value	256	5.4%	196.5	3.5
Small Core Growth	202	3.6%	209.9	2.9
Micro	700	4.9%	71.8	9.6
Micro Value	525	3.2%	65.4	0.9
Micro Growth	318	1.7%	71.8	0.7
Prime	1,000	98.1%	14,732.0	16.9
Prime Value	712	46.5%	9,357.7	1.7
Prime Growth	568	51.5%	6,637.1	1.4

Note: Based on constituent stocks as of regular reconstitutions in Dec 2015. Market cap data as of end-Nov 2015.

Source: Nomura

### 3.2. Number of stocks as of date of regular reconstitution

Figure 4 shows the number of stocks in each index as of the date of past regular reconstitutions.

**Fig. 4: Number of constituent stocks**

(yyyymm)	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
201512	1,400	1,000	760	350	1,050	1,000

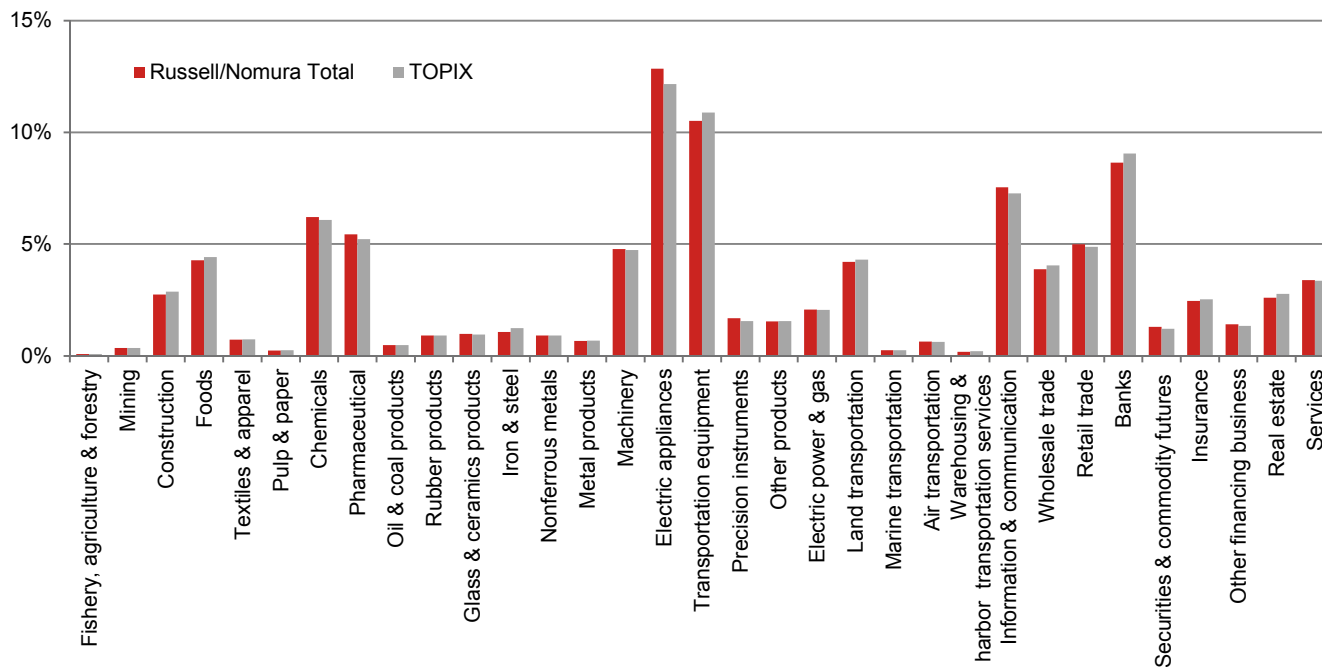
Note: As of regular reconstitution date of each year.

Source: Nomura

### 3.3. Sector allocation

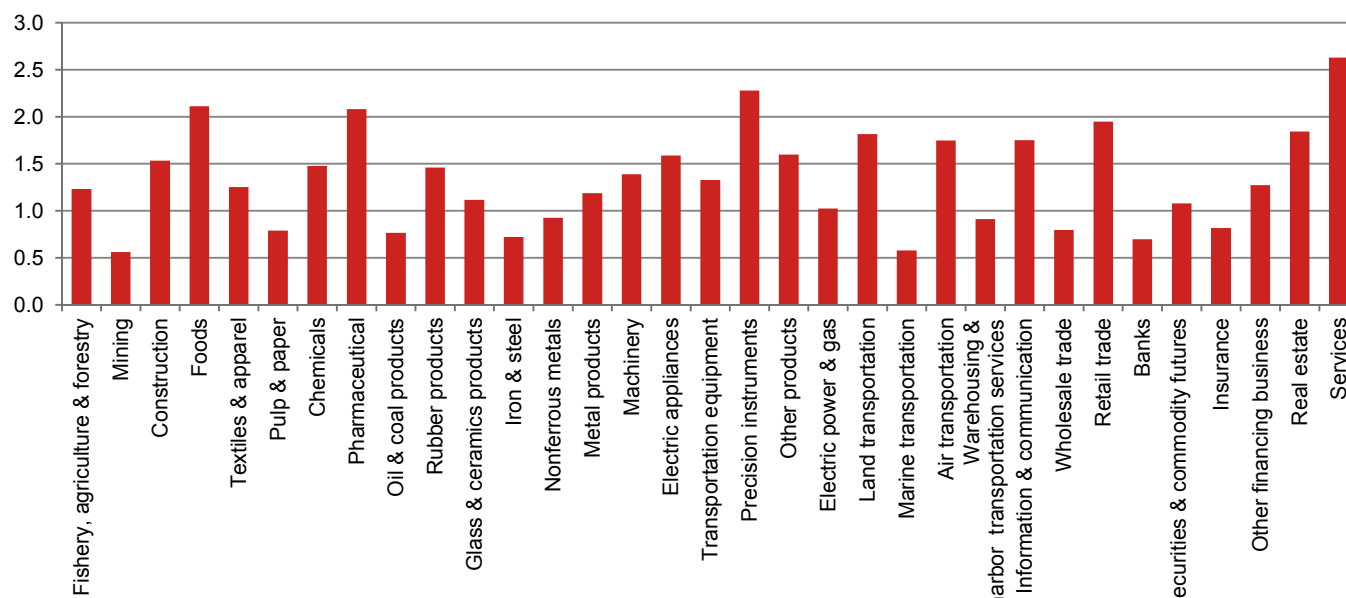
Figure 5 shows the percentage of Russell/Nomura Total Market Index market capitalization in each of 33 sectors. Compared with the TOPIX, the Russell/Nomura Total Market Index is more heavily weighted toward the electric appliances sector and less heavily weighted toward the banks and transportation equipment 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 as of regular reconstitution date in Dec 2015. Market cap data as of end-Nov 2015. 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 as of the regular reconstitution date in Dec 2015. Market cap data as of 15 Oct 2015, the date of determination for the regular reconstitution. 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 Group
3	9432	Nippon Telegraph And Telephone	9432	Nippon Telegraph And Telephone	9433	KDDI
4	7267	Honda Motor	7267	Honda Motor	2914	Japan Tobacco
5	8316	Sumitomo Mitsui FG	8316	Sumitomo Mitsui FG	4502	Takeda Pharmaceutical
6	9984	Softbank Group	8411	Mizuho FG	3382	Seven & i HD
7	8411	Mizuho FG	6501	Hitachi	6954	Fanuc
8	9433	KDDI	8766	Tokio Marine HD	9020	East Japan Railway
9	2914	Japan Tobacco	7201	Nissan Motor	4503	Astellas Pharma
10	4502	Takeda Pharmaceutical	8058	Mitsubishi Corp	7751	Canon
Rank	Mid		Mid Value		Mid Growth	
1	7309	Shimano	8630	Sompo Japan Nipponkoa HD	7309	Shimano
2	4568	Daiichi Sankyo	8601	Daiwa Securities Group	4755	Rakuten
3	4755	Rakuten	8308	Resona HD	4661	Oriental Land
4	8630	Sompo Japan Nipponkoa HD	8053	Sumitomo Corp	9021	West Japan Railway
5	8601	Daiwa Securities Group	9501	Tokyo Electric Power HD	6988	Nitto Denko
6	8308	Resona HD	5802	Sumitomo Electric Industries	2502	Asahi GH
7	4661	Oriental Land	4568	Daiichi Sankyo	2802	Ajinomoto
8	9021	West Japan Railway	1605	Inpex	4507	Shionogi
9	8053	Sumitomo Corp	9502	Chubu Electric Power	2503	Kirin HD
10	6988	Nitto Denko	5020	JX HD	4528	Ono Pharmaceutical
Rank	Small Core		Small Core Value		Small Core Growth	
1	6457	Glory	6457	Glory	2702	McDonald's HD (Japan)
2	2702	McDonald's HD (Japan)	6141	DMG Mori	4716	Oracle Japan
3	6141	DMG Mori	9076	Seino HD	3064	MonotaRO
4	9076	Seino HD	8341	The 77 Bank	2121	mixi
5	8341	The 77 Bank	1911	Sumitomo Forestry	2127	Nihon M&A Center
6	1911	Sumitomo Forestry	5232	Sumitomo Osaka Cement	6136	OSG
7	4716	Oracle Japan	4506	Sumitomo Dainippon Pharma	9435	Hikari Tsushin
8	5232	Sumitomo Osaka Cement	4272	Nippon Kayaku	3197	Skylark
9	4540	Tsumura	7282	Toyoda Gosei	1893	Penta-Ocean Construction
10	3064	MonotaRO	6925	Ushio	4927	Pola Orbis HD
Rank	Micro		Micro Value		Micro Growth	
1	8281	Xebio HD	8281	Xebio HD	2440	Gurunavi
2	2440	Gurunavi	6741	Nippon Signal	8897	Takara Leben
3	6741	Nippon Signal	5741	UACJ	7148	FPG
4	5741	UACJ	5186	Nitta	2337	Ichigo
5	8897	Takara Leben	3132	Macnica Fuji Electronics HD	2379	Dip
6	7718	Star Micronics	7220	Musashi Seimitsu Industry	9716	Nomura
7	5186	Nitta	7167	Ashikaga HD	2120	Next
8	7148	FPG	3222	United Super Markets HD	8179	Royal HD
9	3132	Macnica Fuji Electronics HD	8343	The Akita Bank	3395	Saint Marc HD
10	2337	Ichigo	9869	Kato Sangyo	8255	Axial Retailing
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 Group
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10	4502	Takeda Pharmaceutical	8058	Mitsubishi Corp	7751	Canon

Note: As of 15 Oct 2015, the date of determination for the regular reconstitution. 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	-10.98%	7.35%	10.42%	-0.58%	2.24%	-8.95%	9.30%	12.53%	1.34%	3.87%
Value	-13.18%	5.12%	9.26%	-0.23%	3.65%	-10.73%	7.42%	11.60%	1.83%	5.43%
Growth	-9.09%	9.43%	11.56%	-0.97%	0.81%	-7.42%	11.06%	13.46%	0.82%	2.31%
Large	-12.38%	6.91%	9.94%	-0.83%	1.67%	-10.28%	8.92%	12.09%	1.12%	3.32%
Large Value	-14.53%	4.54%	8.60%	-0.67%	2.84%	-12.03%	6.90%	11.00%	1.42%	4.63%
Large Growth	-10.66%	8.96%	11.17%	-0.93%	0.72%	-8.95%	10.61%	13.10%	0.89%	2.23%
Top	-14.72%	4.38%	8.95%	-1.49%	0.37%	-12.35%	6.62%	11.34%	0.64%	2.14%
Top Value	-16.05%	2.21%	8.00%	-0.93%	1.45%	-13.22%	4.92%	10.69%	1.34%	3.34%
Top Growth	-13.54%	6.17%	9.84%	-1.57%	-0.22%	-11.57%	8.02%	11.98%	0.45%	1.45%
Mid	-9.24%	10.43%	11.44%	0.10%	3.66%	-7.53%	12.10%	13.27%	1.79%	5.16%
Mid Value	-12.52%	7.54%	9.37%	-0.10%	4.56%	-10.39%	9.51%	11.39%	1.76%	6.23%
Mid Growth	-6.79%	12.89%	13.25%	0.14%	2.28%	-5.37%	14.31%	14.89%	1.67%	3.59%
Mid-Small	-7.37%	10.29%	11.93%	0.30%	4.25%	-5.62%	11.99%	13.79%	2.03%	5.78%
Mid-Small Value	-10.60%	7.64%	10.33%	0.55%	5.46%	-8.51%	9.60%	12.37%	2.44%	7.15%
Mid-Small Growth	-4.32%	13.02%	13.63%	-0.22%	2.17%	-2.91%	14.42%	15.27%	1.32%	3.47%
Small	-2.16%	10.40%	13.21%	0.72%	5.69%	-0.30%	12.21%	15.16%	2.55%	7.31%
Small Value	-6.77%	8.06%	11.96%	1.49%	7.01%	-4.63%	10.11%	14.07%	3.46%	8.77%
Small Growth	5.37%	14.22%	15.52%	-0.92%	2.31%	6.84%	15.65%	17.15%	0.63%	3.61%
Small Core	-2.10%	11.20%	13.28%	0.93%	5.29%	-0.28%	12.97%	15.18%	2.72%	6.87%
Small Core Value	-7.39%	8.35%	11.64%	1.38%	6.60%	-5.33%	10.33%	13.68%	3.28%	8.31%
Small Core Growth	5.97%	15.60%	15.98%	0.13%	2.30%	7.45%	17.06%	17.67%	1.72%	3.62%
Micro	-2.16%	9.08%	13.17%	0.33%	6.41%	-0.19%	10.95%	15.17%	2.23%	8.09%
Micro Value	-5.67%	7.71%	12.57%	1.69%	7.69%	-3.45%	9.80%	14.76%	3.75%	9.53%
Micro Growth	4.40%	11.47%	14.58%	-3.41%	2.36%	5.86%	12.86%	16.10%	-1.94%	3.61%
Prime	-11.20%	7.32%	10.36%	-0.56%	2.16%	-9.14%	9.28%	12.48%	1.36%	3.79%
Prime Value	-13.35%	5.11%	9.20%	-0.24%	3.53%	-10.89%	7.42%	11.54%	1.83%	5.31%
Prime Growth	-9.36%	9.36%	11.50%	-0.91%	0.81%	-7.65%	10.99%	13.40%	0.88%	2.31%
TOPIX	-11.34%	7.18%	10.37%	-0.64%	1.95%	-9.24%	9.18%	12.51%	1.28%	3.60%

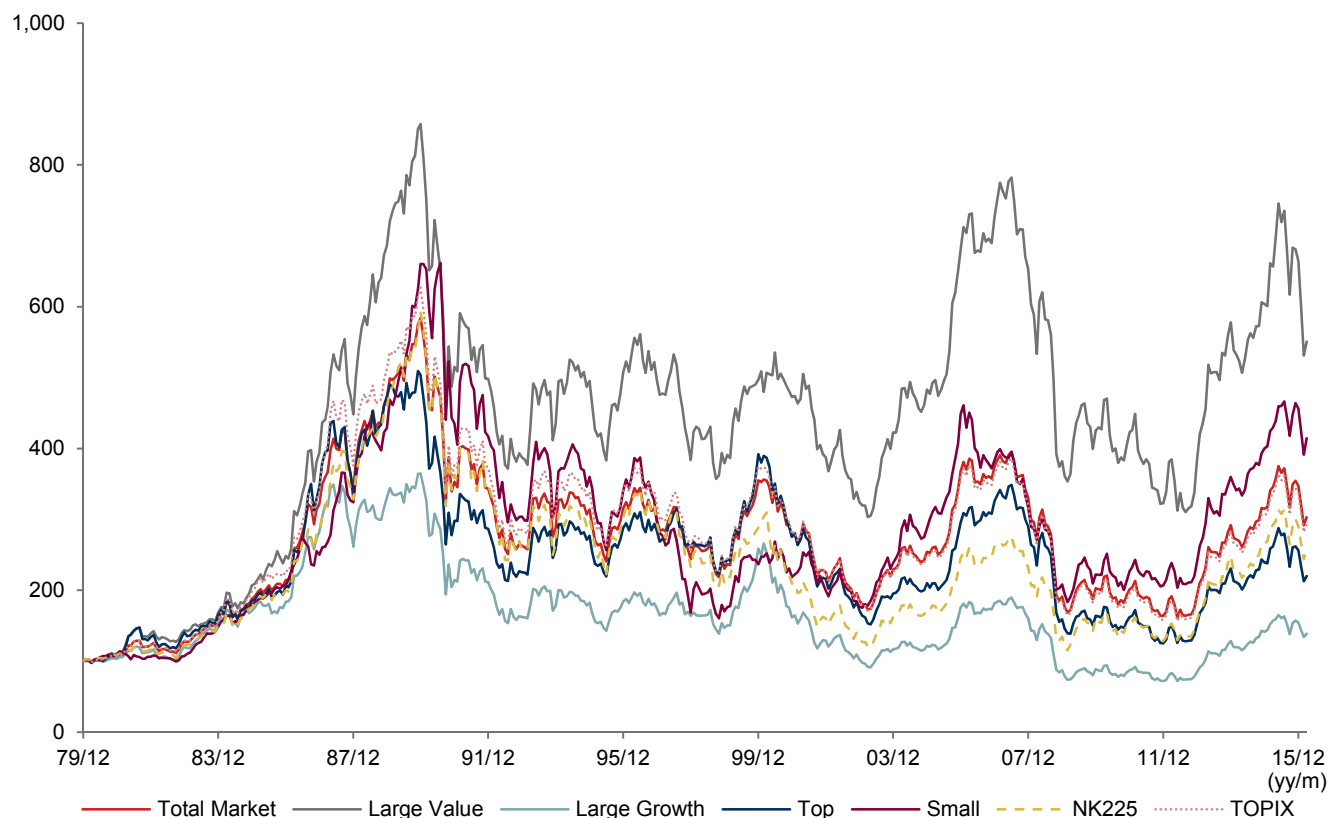
Note: As of end-Mar 2016. Returns are annualized and based on average monthly yen-based returns for each period.

Source: Nomura



## 4.2. Performance

Fig. 9: Index performance



Note: Shows monthly index values (yen basis, excluding dividends) in Dec 1979–Mar 2016, rebased so that end-Dec 1979 = 100.

Source: Nomura

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

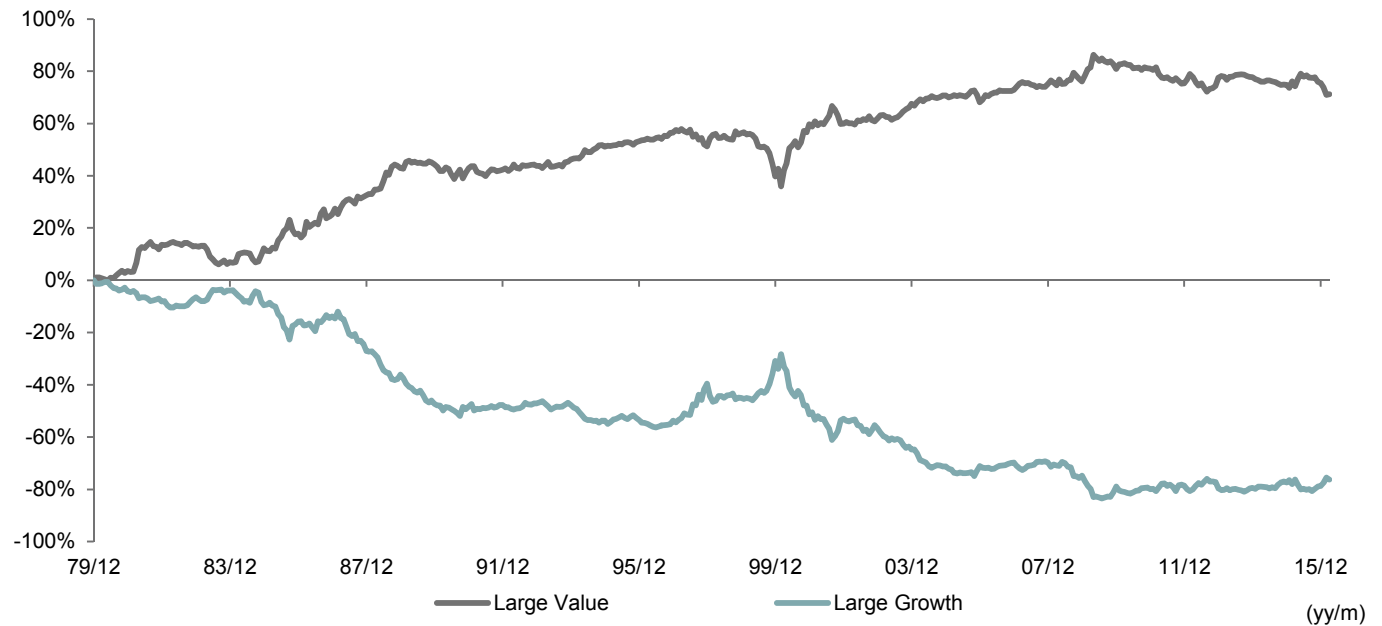
	Average returns	Standard deviation	Russell/Nomura	TOPIX	Nikkei Average
Russell/Nomura	4.74%	18.25%	1		
TOPIX	4.59%	19.90%	0.9947	1	
Nikkei Average	4.71%	18.63%	0.9613	0.9602	1

Note: Russell/Nomura is Russell/Nomura Total Market Index. Based on monthly returns (excluding dividends) in Jan 1980–Mar 2016. Average return and standard deviation data are annualized.

Source: Nomura

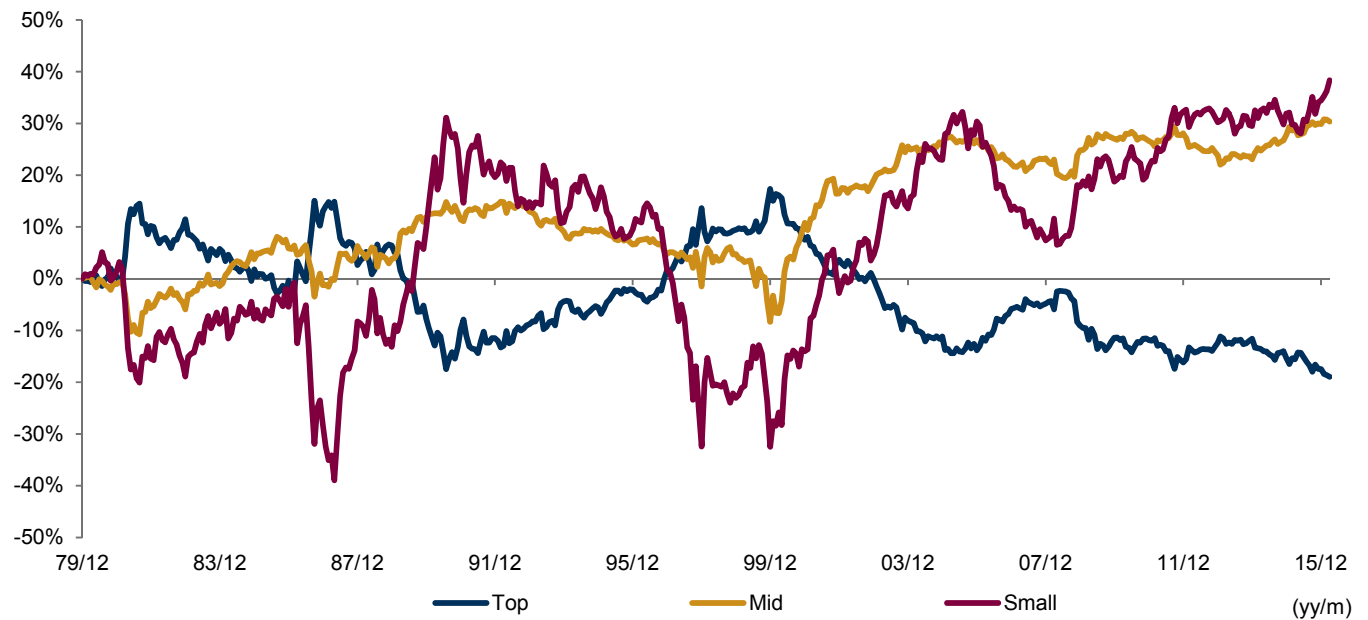
### 4.3. Relative performance of style indexes

**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 2016.  
Source: Nomura

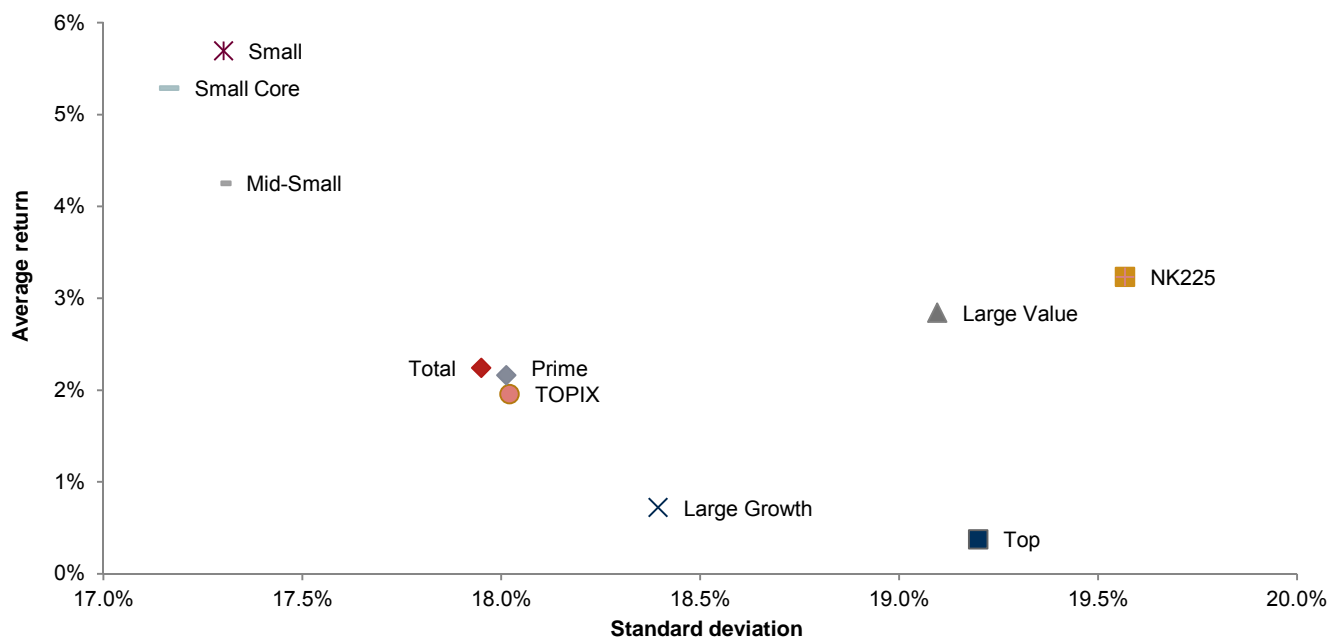
**Fig. 12: Cumulative excess returns on size-based indexes**



Note: Shows cumulative excess monthly returns (including dividends) on each index versus the Russell/Nomura Total Market Index, Jan 1980–Mar 2016.  
Source: Nomura

### 4.4. Risk-return characteristics of individual indexes

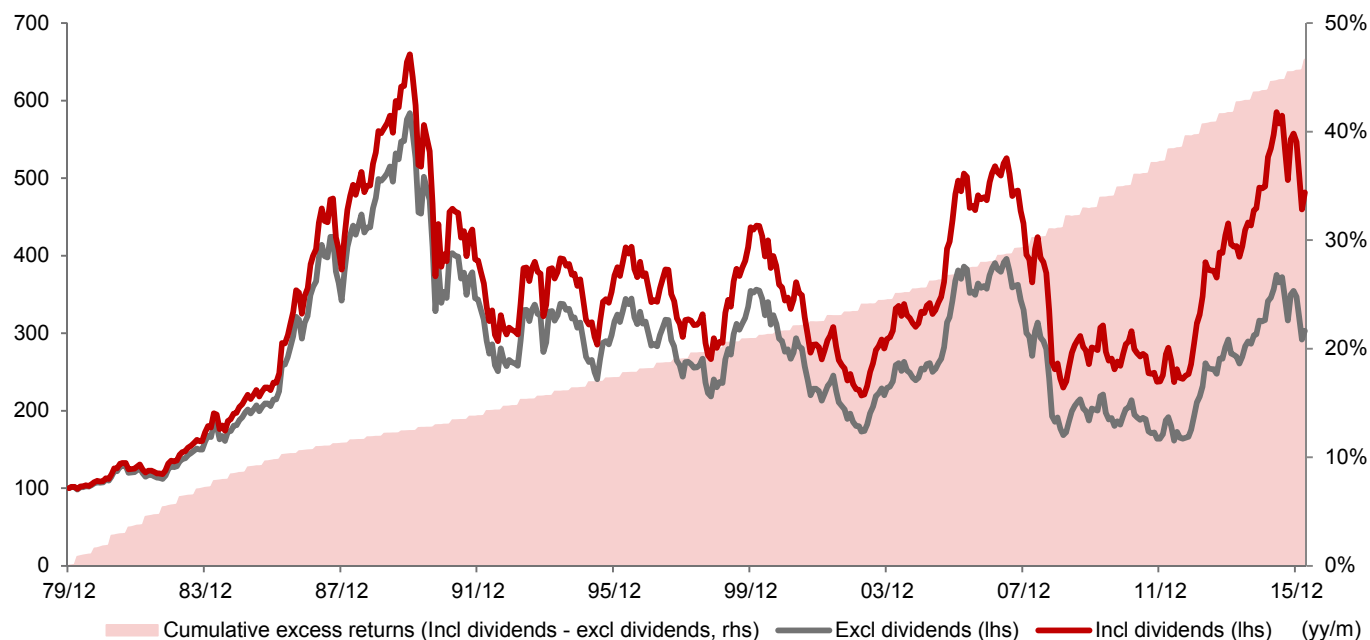
Fig. 13: Average return and standard deviation of individual indexes



Note: Shows average returns and standard deviation on annualized basis, calculated from monthly returns (excluding dividends) in Jan 2001–Mar 2016.  
 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 2016, rebased so that end-Dec 1979 = 100. Cumulative excess returns are the sum of index returns (including dividends) in excess of index returns (excluding dividends).  
 Source: Nomura

## 5. Index investability

### 5.1. Turnover ratios as of regular reconstitutions

Figure 15 shows turnover ratios as of the date of regular reconstitutions.

**Fig. 15: Turnover ratios at time of regular reconstitutions**

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%
201512	1.7%	13.1%	2.7%	12.2%	1.7%
Average	2.5%	16.7%	3.9%	17.5%	2.2%

Note: Turnover ratio is  $[\Sigma | \text{market cap weighting before reconstitution} - \text{market cap weighting after reconstitution} | / 2]$ , 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 reconstitutions

Figure 16 shows the estimated number of days' impact in the case of regular reconstitutions for passive funds that track each index using the full replication approach. The higher the turnover ratio on the date of the regular reconstitution, 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 reconstitutions

Index	No. of days of impact Maximum (days)	Turnover ratio (one-way)	Index market cap (¥trn)	Number of stocks				
				Before	After	Change	Out	In
Total Market	2	1.7%	387	1,490	1,400	-90	134	44
Value	3	13.1%	185	1,093	1,000	-93	173	80
Growth	3	13.3%	202	802	760	-42	151	109
Large	1	2.7%	333	351	350	-1	25	24
Large Value	1	14.2%	151	225	219	-6	37	31
Large Growth	1	14.1%	182	234	240	6	37	43
Top	1	5.5%	188	60	60	0	6	6
Top Value	1	13.9%	86	37	34	-3	9	6
Top Growth	1	15.6%	102	40	40	0	6	6
Mid	1	10.6%	145	291	290	-1	31	30
Mid Value	1	22.1%	66	188	185	-3	35	32
Mid Growth	1	20.6%	80	194	200	6	39	45
Mid-Small	3	6.5%	199	1,430	1,340	-90	140	50
Mid-Small Value	5	17.5%	99	1,056	966	-90	171	81
Mid-Small Growth	5	17.4%	100	762	720	-42	153	111
Small	9	12.2%	53	1,139	1,050	-89	156	67
Small Value	13	17.2%	33	868	781	-87	161	74
Small Growth	22	29.0%	20	568	520	-48	146	98
Small Core	3	21.4%	35	348	350	2	65	67
Small Core Value	5	23.1%	21	268	256	-12	58	46
Small Core Growth	4	38.5%	14	188	202	14	58	72
Micro	23	20.1%	19	791	700	-91	174	83
Micro Value	33	24.5%	12	600	525	-75	152	77
Micro Growth	65	30.6%	6	380	318	-62	126	64
Prime	1	1.7%	379	997	1,000	3	28	31
Prime Value	2	13.0%	180	737	712	-25	78	53
Prime Growth	1	13.4%	199	562	568	6	85	91

Note: Based on constituent stocks as of regular reconstitutions in Dec 2015. Market cap data as of end-Nov 2015. We estimated the number of days' impact (maximum) for each index as the number of days required for a scheduled reconstitution of a ¥100bn passive fund that tracks the index using the full replication approach, based on  $(\text{market cap before reconstitution} - \text{market cap after reconstitution}) / \text{average daily trading value}$ . Average daily trading value is the average over the year to 15 Oct 2015, the date of determination for the regular reconstitution of the Russell/Nomura indexes. Turnover ratio is  $(\text{market cap weighting before reconstitution} - \text{market cap weighting after reconstitution}) / 2$ .

Source: Nomura

### 5.3. Estimating number of days of impact and minimum unit of investment when a fund is established

Figure 17 shows the minimum unit of investment and number of days of impact when passive funds are established that track indices using the full replication approach.

The minimum unit of investment is calculated as shown below. Our calculation assumes at least 50% of shares in a stock trading unit are included, as we round up for incomplete trading units.

$$\text{Minimum unit of investment} = \max_{i=1..n} \left\{ \frac{\text{trading unit } i * 50\% * \text{transaction price } i}{\text{index weighting } i} \right\}$$

*Here the notation "n" represents the number of stocks in the index and the notation "i" indicates the ith stock in the index.*

As the minimum unit of investment 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. The method for calculating the number of impact days is the same as in 5.2.

**Fig. 17: Number of days of impact and minimum unit of investment when a fund is established**

Index	No. of days of impact Maximum (days)	Minimum unit of investment (¥bn)	Index market cap (¥trn)	Number of stocks
Total Market	1	38.5	387	1,400
Value	2	30.1	185	1,000
Growth	2	113.0	202	760
Large	1	3.9	333	350
Large Value	1	4.7	151	219
Large Growth	1	4.9	182	240
Top	1	0.3	188	60
Top Value	1	0.7	86	34
Top Growth	1	0.2	102	40
Mid	1	1.7	145	290
Mid Value	1	2.0	66	185
Mid Growth	1	2.1	80	200
Mid-Small	2	19.8	199	1,340
Mid-Small Value	4	16.2	99	966
Mid-Small Growth	4	55.8	100	720
Small	7	5.3	53	1,050
Small Value	10	5.4	33	781
Small Growth	19	11.3	20	520
Small Core	3	3.4	35	350
Small Core Value	5	3.4	21	256
Small Core Growth	7	1.5	14	202
Micro	20	1.3	19	700
Micro Value	26	1.9	12	525
Micro Growth	58	3.6	6	318
Prime	1	37.7	379	1,000
Prime Value	1	29.4	180	712
Prime Growth	1	21.5	199	568

Note: Based on constituent stocks as of regular reconstitutions in Dec 2015. Market cap data as of end-Nov 2015. We estimated the number of days of 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 2015, the date of determination for the regular reconstitution 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>)

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

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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  
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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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Transactions involving Japanese equities (including Japanese REITs, Japanese ETFs, and Japanese ETNs) are subject to a sales commission of up to 1.404% of the transaction amount (or a commission of ¥2,808 for transactions of ¥200,000 or less). When Japanese equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Japanese equities carry the risk of losses

owing to price fluctuations. Japanese REITs carry the risk of losses owing to fluctuations in price and/or earnings of underlying real estate. Japanese ETFs carry the risk of losses owing to fluctuations in the underlying indexes or other benchmarks.

Transactions involving foreign equities are subject to a domestic sales commission of up to 1.026% of the transaction amount (which equals the local transaction amount plus local fees and taxes in the case of a purchase or the local transaction amount minus local fees and taxes in the case of a sale) (for transaction amounts of ¥750,000 and below, maximum domestic sales commission is ¥7,668). Local fees and taxes in foreign financial instruments markets vary by country/territory. When foreign equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Foreign equities carry the risk of losses owing to factors such as price fluctuations and foreign exchange rate fluctuations.

Margin transactions are subject to a sales commission of up to 1.404% of the transaction amount (or a commission of ¥2,808 for transactions of ¥200,000 or less), as well as management fees and rights handling fees. In addition, long margin transactions are subject to interest on the purchase amount, while short margin transactions are subject to fees for the lending of the shares borrowed. A margin equal to at least 30% of the transaction amount and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

Transactions involving convertible bonds are subject to a sales commission of up to 1.08% of the transaction amount (or a commission of ¥4,320 if this would be less than ¥4,320). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

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.

## **Nomura Securities Co., Ltd.**

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