Nomura Japan Consecutively Increased Dividend Stock Index

EQUITY QUANTITATIVE RESEARCH (INDEX)

Index rulebook

Global Markets Research

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Japan index products

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The Nomura Japan Consecutively Increased Dividend Stock Index is an index of Japanese equities made up of stocks that have increased their dividends in consecutive years over a certain period of time. Below, we refer to these stocks as "consecutively increased dividend stocks." Consecutively increased dividend stocks typically present a picture of companies that combine stable profits as a source of dividends with a proactive approach to shareholder returns. The index provides a benchmark for passive investment funds to track the share price performance of consecutively increased dividend stocks.

The consecutively increased dividend stocks included in the index are defined as stocks for which dividend per share (DPS) has displayed annual consecutive growth over a set period of time in the past. As the index reflects dividend payments made by companies on a consistent basis, it only takes into account regular dividends, excluding any special or commemorative dividend payments. The number of component stocks is restricted in order to permit investment with a narrow focus on consecutively increased dividend stocks via passively managed funds.

Index characteristics

- The index includes Japanese equities for which actual annual DPS payments have increased over a set period of time.
- The maximum number of component stocks is 150 and the minimum is 20.
- The index is reconstituted once a year.
- While the index is weighted by market cap, individual stock weights are capped at 10% to prevent it from being excessively weighted toward large caps.
- To take investability into account, stocks with a low market cap or low liquidity are excluded via prior screening.

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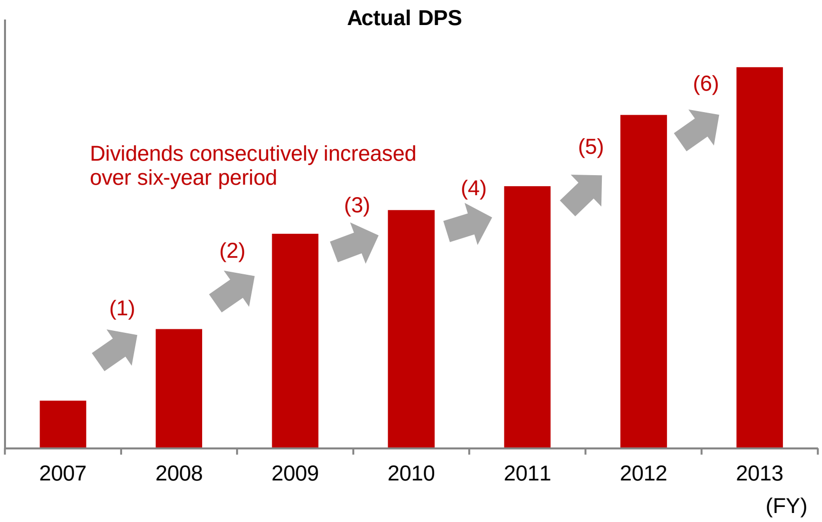
1. Introduction

The Nomura Japan Consecutively Increased Dividend Stock Index is an index of Japanese equities made up of stocks that have increased their dividends in consecutive years over a set period of time. Below, we refer to these stocks as "consecutively increased dividend stocks." Consecutively increased dividend stocks present a picture of companies that combine stable profits as a source of dividends with a proactive approach to shareholder returns. The index provides a benchmark for passive investment funds to track the share price performance of consecutively increased dividend stocks.

The consecutively increased dividend stocks included in the index are defined as stocks for which DPS has displayed annual consecutive growth over a set period of time in the past. Specifically, these are stocks for which actual annual DPS payments have been increased consistently each fiscal year (Apr–Mar). The index only takes into account companies' regular dividend payments, excluding special dividend and commemorative dividend payments, and the start or resumption of dividend payments is not categorized as dividend increases.

Periodic reconstitutions of the index take place once a year. Component stocks are selected from among listed Japanese equities. To take investability into account, stocks with low market cap or low liquidity are excluded through prior screening. While the index is weighted by market cap, individual stock weights are capped at 10% to prevent the index from being excessively weighted toward large caps. Furthermore, we have imposed limits on the number of stocks (maximum 150, minimum 20) to permit investment with a narrow focus on consecutively increased dividend stocks via passively managed funds. If the number of stocks fulfilling the selection criteria for consecutively increased dividend stocks exceeds 150, it will be restricted by applying more stringent criteria for inclusion, by increasing the requisite number of years of consecutive increased dividends. Conversely, if the number of stocks meeting selection criteria falls below 20, the number of stocks will be increased by reducing the requisite number of years of consecutively increased dividends.

Fig. 1: Consecutively increased dividend stocks overview (example of December 2014 regular reconstitution)



Source: Nomura

2. Periodic reconstitutions

2.1 Periodic reconstitution date

Periodic reconstitutions take place once a year, on the first business day of December (ie, after close of trading on the last business day in November).

2.2 Periodic reconstitution base date

The reconstitution base date[1] is the 15th of October each year (or the preceding business day if the 15th is a non-business day). Component stocks and the number of shares to be included in the index following its periodic reconstitution are determined based on data as of the reconstitution base date.

2.3 Number of shares included in index for each component stock

On the reconstitution base date, stocks are selected for the index via the process set out in Chapter 3: "Stock selection."

2.3.1 Component stock weight and weight limits

Weights for each component stock in the index are calculated using the free-float adjusted market cap[2] as of the reconstitution base date. The maximum weight for component stocks is limited to 10%. The weight of stocks exceeding the limit is allocated among other component stocks proportionately to free-float adjusted market cap.

2.3.2 Number of component shares and index inclusion ratio

The number of component shares included in the index is calculated so that it is equal to the component stock weight as set out in the previous section. The index market cap for each stock is calculated by multiplying the constant value[3] by the component stock weight. The number of shares included in the index for each component stock is calculated by dividing the index market cap for each stock by the Nomura composite share price[4] as of the reconstitution base date. The index inclusion ratio (%) refers to the number of component shares included in the index as a percentage of the number of shares outstanding for index calculation purposes, and is calculated by dividing the number of component shares included in the index by the number of shares outstanding for index calculation purposes.

2.4 Announcement of periodic reconstitutions

As a general rule, an announcement will appear on our website 10 business days before a periodic reconstitution at around 16:00 (Japan time), except in cases of unforeseen circumstances or when information cannot be confirmed.

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[1] Through 2008, the reconstitution base date is the last business day of November.

[2] The free-float market cap is calculated as follows: Nomura composite share price x (shares outstanding for index calculation purposes - stable shareholding). The stable shareholding (the number of shares considered to be held on a stable basis) is estimated based on major shareholder data, declarations of marketable securities holdings contained in securities filings, and public information such as company prospectuses and stock exchange releases. Shares outstanding for index calculation purposes refer to shares that change according to the timeframe indicated in section 5.2: "Adjusting the base market capitalization."

[3] We take this figure to be ¥1trn.

[4] The Nomura composite price is the price on the exchange that is judged to have the most accurate price for the stock, based on the percentage of days traded and trading volume over the previous 60 business days (ie, its primary exchange). As a general rule, the primary exchange is selected on a daily basis. The share price is selected according to the following order of precedence:

Contract price on selected exchange (see note) > standard price on selected exchange > Nomura composite share price on previous business day

Note: Priority is given to the special quotation price or continuous confirmed quotation price on the selected exchange if these are available.

3. Stock selection

3.1 Universe of stock selection

The universe of stocks eligible for selection consists of all listed stocks[5] as of the regular reconstitution base date. However, the following stocks are excluded from the stock selection universe.

- Equities other than common stock

  As a general rule, only common stock is included in the stock selection universe. However, exceptions to this rule will be made if necessary.

- Stocks assigned for delisting

  Stocks assigned for delisting are not included in the universe.

- Stocks under supervision (examination) and stocks under supervision (confirmation)

  Stocks under supervision (examination) and stocks under supervision (confirmation) that are not part of the index composition immediately prior to regularly scheduled reconstitutions are not included in the universe.

- Tender offer target companies

  Stocks that are the targets of tender offers may be removed from the universe of stock selection only if all of the following requirements are met:

  –the offer close date is between the periodic reconstitution base date and the periodic reconstitution date;

  –the company conducting the tender offer plans to acquire all the outstanding shares in the target company; and

  –the company conducting the tender offer is planning to acquire all of the stock of the target company in exchange either for money or its own stock, and the target company agrees to the offer.

- Listed investment trusts/real estate investment trusts (REITs)
- Foreign stocks

  Stocks listed on foreign sections of Japanese exchanges or stocks regarded as overseas companies are excluded, even if these stocks are traded in the Japanese market.

- Other exceptions

  Latent stocks, warrants, and rights on them are excluded. The Bank of Japan (BOJ) is also excluded.

3.2 Stock selection method

Stocks eligible for inclusion in the index are selected from stocks that have increased their dividends consecutively for a set number of years. However, stocks are subject to prior screening in order to limit inclusion in the index of stocks with low market caps and low liquidity.

3.2.1 DPS

DPS criteria are as follows.

–Each one-year period is a fiscal year (i.e., April through March of the following year).

–Special and commemorative dividends are excluded.

–Stock splits and reverse stock splits are taken into account.

[5] Tokyo Stock Exchange (1st Section, 2nd Section, Mothers, JASDAQ, TOKYO PRO Market), Nagoya Stock Exchange, Sapporo Securities Exchange, and Fukuoka Stock Exchange.

–The DPS before listing of a newly listing parent company is calculated by applying the merger ratio to the DPS of the delisted subsidiary or the merged entity, whichever has the largest free-float market cap the day before its delisting[6].

3.2.2 Stock selection process

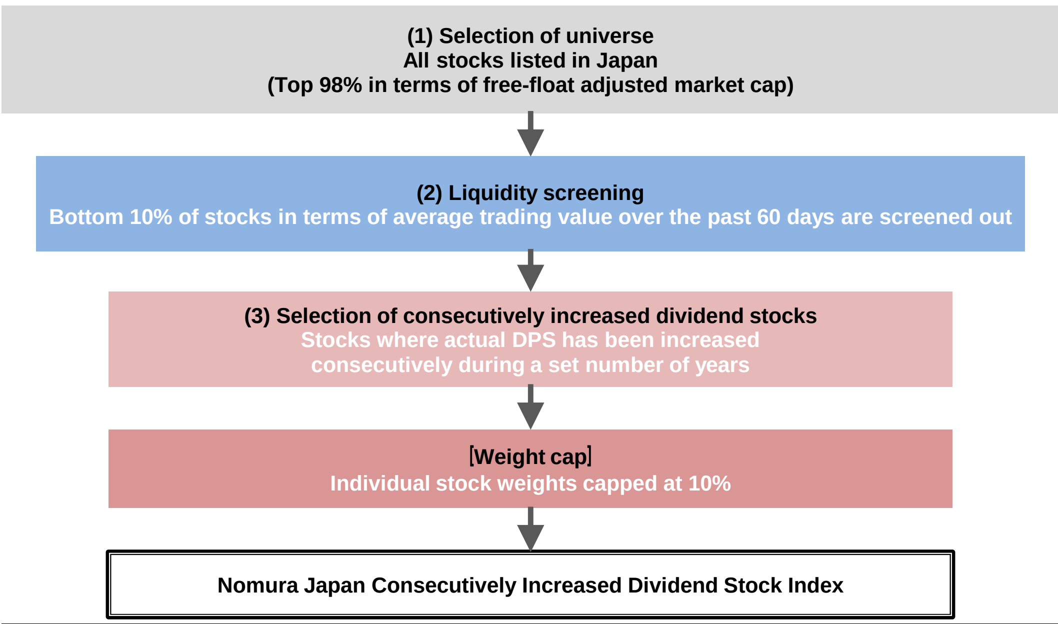
(1) The universe comprises the top 98% of stocks in the stock selection universe in terms of free-float adjusted market cap.

(2) Stocks ranked in the bottom 10% of stock selection universe (1) above in terms of average trading value over the past 60 trading days are excluded.

(3) Stocks are included for which actual DPS has increased[7] annually during a specified number of years of consecutive increases (which we refer to below as the "base number of years"), backdating from the fiscal year before the periodic reconstitution year. The base number of years remains the same as for the previous periodic reconstitution[8], unless criterion (4) below applies.

(4) If the number of component stocks falls below 20 or exceeds 150, the base number of years will be changed, and stocks selected accordingly. For details see section 3.2.3: "Adjustments to stock number restrictions."

Fig. 2: Overview of stock selection process for Nomura Japan Consecutively Increased Dividend Stock Index



Source: Nomura

3.2.3 Adjustments to stock number restrictions

The base number of years for the portfolio is changed to ensure that the index contains between 20 and 150 stocks at the time of the periodic reconstitution[9].

- When the number of stocks meeting criterion (3) above exceeds 150

  The base number of years is increased by one year at a time until the number of component stocks totals 150 or less. If the number of component stocks falls below 20 as a result of the base number of years being increased, all stocks that are eligible for selection with that base number of years are selected first. Next, from among candidate stocks that were selected at the stage when the base number of

[6] This rule applies with effect from 2015 periodic reconstitution.

[7] The start or resumption of dividend payments is not regarded as dividend increases.

[8] We have assumed base number of years as five as of 30 November 2000 stock selection.

[9] As a result of this rule being applied, the number of base years for consecutive increased dividends was five in 2007 and six thereafter.

years was one short of the requisite number but that were not eligible for selection when the base number of years was determined (*1), stocks for which DPS forecasts were higher in the fiscal year of the periodic reconstitution than actual DPS in the previous fiscal year are included in descending order of their free-float adjusted market cap. If the number of component stocks still fails to reach 20, stocks in (*1) are to be included in descending order of their free-float market cap.

- When the number of stocks meeting criterion (3) fall short of 20 minimum

  The base number of years is decreased by one year each until the number of component stocks totals 20 or more. If the resulting number of stocks exceeds 150, the base number of years is determined at the stage immediately before, and all stocks are included that are eligible with that base number of years. Next, from among candidate constituent stocks that were selected at the stage when the base number of years was one short of the set number but that were not eligible for selection when the base number of years was determined (*2), stocks with higher DPS forecasts in the fiscal year of the periodic reconstitution than actual DPS in the previous fiscal year will be included in descending order of their free-float market cap. If the number of component stocks still fails to reach 20, stocks in (*2) are to be selected in descending order of their free-float adjusted market cap.

  If after reducing them one by one, the base number of years reaches one and the number of stocks still fails to reach 20, any stocks that meet the selection criteria are included first. Next, from among stocks selected after processes (1) and (2) in 3.2.2 (*3), stocks are selected that have higher DPS forecasts in the fiscal year for the periodic reconstitution than actual DPS in the previous fiscal year will be included, in descending order of free-float adjusted market cap. If the number of component stocks still fails to reach 20, stocks in (*3) are to be selected in descending order of their free-float adjusted market cap.

4. Unscheduled reconstitutions

4.1 Response to stock swaps, stock transfers, etc[10]

- Stock swaps, mergers, etc

  When a stock is delisted because it is about to become a wholly owned subsidiary or be merged into another company, it will continue to be included in the index after its delisting but removed from the index on the day of the merger. Following its delisting, and until its removal from the index, the stock's valuation will be based on the market value of the company that will become the parent or the surviving company multiplied by the exchange or merger ratio.

- Stock transfers, etc

  When an unlisted parent company assumes the operations of another company and becomes listed after a short period of time, the stock of the wholly owned subsidiary is removed from the index on the date of the parent company's listing. The price of the delisted subsidiary used is the price on the day before its delisting.

4.2 Removal of stocks

- Designation as securities to be delisted[11]

  Stocks designated as securities to be delisted will be removed from the index four business days later (or on the following business day if this is a non-business day). However, stocks that are listed on more than one market and have not been designated for delisting on one or more of the markets will not be removed.

- Delisting

  Stocks delisted for reasons other than those noted in Section 4.1 will be removed from the index on the delisting date.

- Marked loss of eligibility for inclusion in stock selection universe

  In the case of an event that is considered to seriously damage a component stock's eligibility for inclusion in the stock selection universe, the stock may be removed from the index following an official announcement by the company in question, the stock exchange, or a government/regulatory agency.

4.3 Announcement of unscheduled reconstitutions

As a general rule, an announcement will appear on our website by five business days before an unscheduled reconstitution, except in cases of unforeseen circumstances or when information cannot be confirmed.

[10] This rule applies from April 2002.

[11] This rule applies from 21 April 2010. Prior to 28 December 2001, stocks assigned for delisting were removed on the date of the delisting. Effective from 29 December 2001 through 23 August 2009, they were removed two business days after delisting, and from 24 August 2009 through 20 April 2010, three business days after delisting.

5. Index calculation

5.1 Calculation of index values

The index must be protected from changes in share price and market capitalization that are not due to market fluctuations. This is done by adjusting the index's base market capitalization as follows.

5.1.1 Index base date, index base value, announcement date
The base date for the Nomura Japan Consecutively Increased Dividend Stock Index is 29 December 2000 (= 10,000).

The index was launched on 21 August 2015.

Index values before this announcement date are calculated according to the rules pertaining at the time for reference purposes.

5.1.2 Index excluding dividends
Base market cap (*t*) = market cap (*t*-1) + adjusted market cap (*t*)[12]

$$\text{Return}\ (t) = \frac{\text{market cap}\ (t)}{\text{base market cap}\ (t)} - 1$$

Index value (*t*) = index value (*t*-1) × [1 + return (*t*)]

5.1.3 Index including dividends

Base market cap (*t*) = market cap (*t*-1) + adjusted market cap (*t*) - adjusted total dividends (*t*)[13]

$$\text{Return}\ (t) = \frac{\text{market cap}\ (t) + \text{total dividends}\ (t)}{\text{base market cap}\ (t)} - 1$$

Index value (*t*) = index value (*t*-1) × [1 + return (*t*)]

5.1.4 Method for reflecting dividends
For the index including dividends, dividend data are reflected on the ex-dividend date. However, as the value of the dividend has not yet been determined on the ex-dividend date, the company's dividend forecast is used (or where unavailable the Toyo Keizai forecast)[14]. In the event of a difference between the dividend forecast and the actual dividend, the base market capitalization is adjusted on the last business day of the month of the company's earnings announcement. If the company announces its earnings on the last business day of the month, the adjustment is made on the last business day of the following month.

5.2 Adjusting the base market capitalization

Adjustments in the base market capitalization take place when a change in the capital structure of a component stock causes an increase or decrease in market capitalization that is not due to market changes, or when a change in the stocks making up the index causes an increase or decrease in market capitalization.

However, no adjustment to base market capitalization is made for changes in capital structure that do not involve payment, such as stock splits and reverse stock splits, as these do not affect market capitalization.

[12] Calculated as change in market cap as a result of changes in the capital structure of a component stock, or as change in market cap as a result of changes in component stocks.

[13] Differences between dividend forecast and actual dividend are calculated by subtracting the dividend forecast from the actual dividend.

[14] This rule applies with effect from the fiscal year ended December 2011. Prior to this date we use the actual dividend on the ex-dividend date.

Fig. 3: Timing of adjustments resulting from changes in capital structure used

Type of change in capital structure	Adjustment date	Share price used
Share allotment, rights issue	Ex rights date	Issue price
Public offering	Business day following payment date (listing date of new shares when settlement is on issuance date)	Previous day's price
Capital increase via third-party placement	Five business days after placement date	Previous day's price
Conversion of CBs Conversion of preferred stock into common stock	Last business day of month in which conversion ratio becomes known (or on last business day of following month if the announcement is within five business days of the month-end)	Previous day's price
Exercise of bonds with warrants, exercise of stock options	Last business day of month in which number of shares per warrant becomes known (or last business day of following month if announcement is within five business days of the month-end)	Previous day's price
Merger	Date of listing change	Previous day's price
Retirement of treasury stock	Last business day of month following month in which shares are retired	Previous day's price
Rights offering refusal	Last business day of month in which rights offering refusal is announced (or last business day of following month if announcement is within five business days of month-end)	Previous day's price
Capital reduction with compensation	Effective date	Previous day's price
Stock swap	Date of listing change	Previous day's price
Corporate divestiture (new stock in continuing company)	Date of listing change	Previous day's price
Corporate divestiture (company/division spinoff)	Ex rights date	Not used[15]
Stock replacement	Replacement date	Previous day's price
Other adjustments	Other adjustments to the base market capitalization, if required, are made on the last business day of the month of the announcement of the relevant report (or the last business day of the following month if the announcement is within five business days of the month-end)	Previous day's price

Source: Nomura

[15]The base market capitalization is adjusted for the reduction in capital. A reduction in capital is defined as follows:

(1) when the divesting entity does not announce the value of the divested division or of the shares of the divested (spun-off) company, capital is reduced by the amount by which the company's shareholders' equity is expected to be reduced, and (2) when the company does announce the value of the divested division or of the shares of the divested company, capital is reduced by the value of the division or the value of the divested company's shares multiplied by the total number of shares.

5.3 Index maintenance

Component stocks and the number of shares in each stock included in the index are changed using the methodology set out in this rulebook. Component stocks are also replaced in periodic and unscheduled reconstitutions and when necessary for other reasons.

When the following changes in capital structure result in a change in the number of shares outstanding for index calculation purposes, for a particular stock, the index inclusion ratio is changed so that the number of shares in the stock that are included in the index does not change.

- Capital increase via third-party placement
- Retirement of treasury stock
- Exercise of convertible bonds with stock acquisition rights, exercise of bonds with stock acquisition rights, conversion of preferred shares, exercise of stock acquisition rights
- Stock swap, stock transfer, merger[16]
- Share allotment
- Public offering
- Rights offering refusal
- Rights issue
- Corporate divestiture (new shares in surviving company)
- Other adjustments

[16] When the wholly owned subsidiary (merged company) is an index component, the number of shares in the parent company (merging company) is adjusted to reflect the exchange ratio (merger ratio).

6. Data Service

Nomura Japan Consecutively Increased Dividend Stock Index data provision[17]

Data for the Nomura Japan Consecutively Increased Dividend Stock Index are published via the following.

Website (Japanese only): http://qr.nomura.co.jp/jp/ncid/index.html

* Data on component stocks may only be accessed via paid subscription agreement to data services.

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[17] Published data are all for reference only.

Policies with regard to NSC's indices

The below index-related policies are published on our website.

See the following link for details:

http://qr.nomura.co.jp/en/guides/index.html

- Index Calculation Policy
- Complaints Handling Policy
- Glossary (Equity)
- Index Governance Framework
- Conflicts of Interest Policy

Appendix A-1

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STOCKS

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A Target Price, if discussed, indicates the analyst’s forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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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 JI17 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.
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