

## Nomura Japan Consecutively Increased Dividend Stock Index

Global Markets Research  
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EQUITY: EQUITY QUANTITATIVE RESEARCH (INDEX)

### Index rulebook

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.

#### Research Analysts

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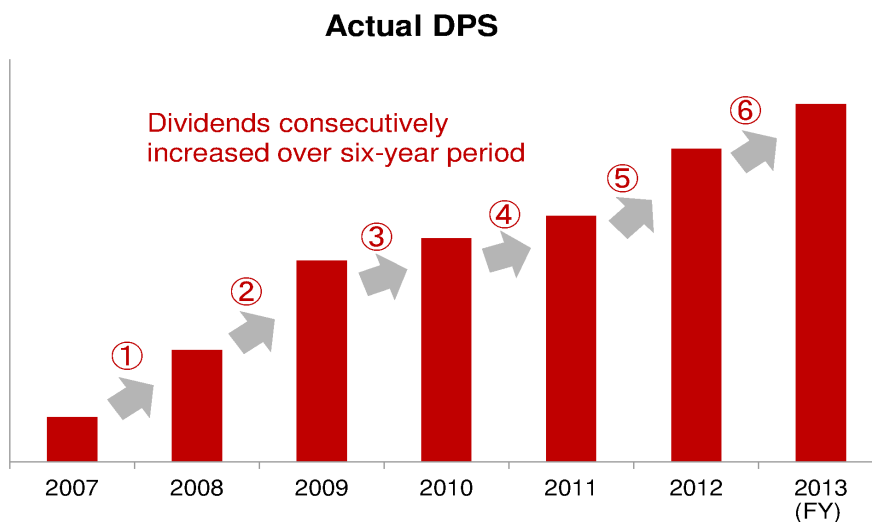
# 1. Introduction

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 (i.e., after close of trading on the last business day in November).

### 2.2. Periodic reconstitution base date

The reconstitution base date<sup>[1]</sup> 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<sup>[2]</sup> 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<sup>[3]</sup> 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<sup>[4]</sup> 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-adjusted 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 (i.e., 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<sup>[5]</sup> 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 stock, warrants, and rights on them are excluded. The Bank of Japan (BOJ) is also excluded.

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5. Tokyo Stock Exchange (Prime Market, Standard Market, Growth Market, TOKYO PRO Market), Nagoya Stock Exchange, Sapporo Securities Exchange, and Fukuoka Stock Exchange

## 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.
- 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-adjusted market cap the day before its delisting<sup>[6]</sup>.

### 3.2.2. Stock selection process

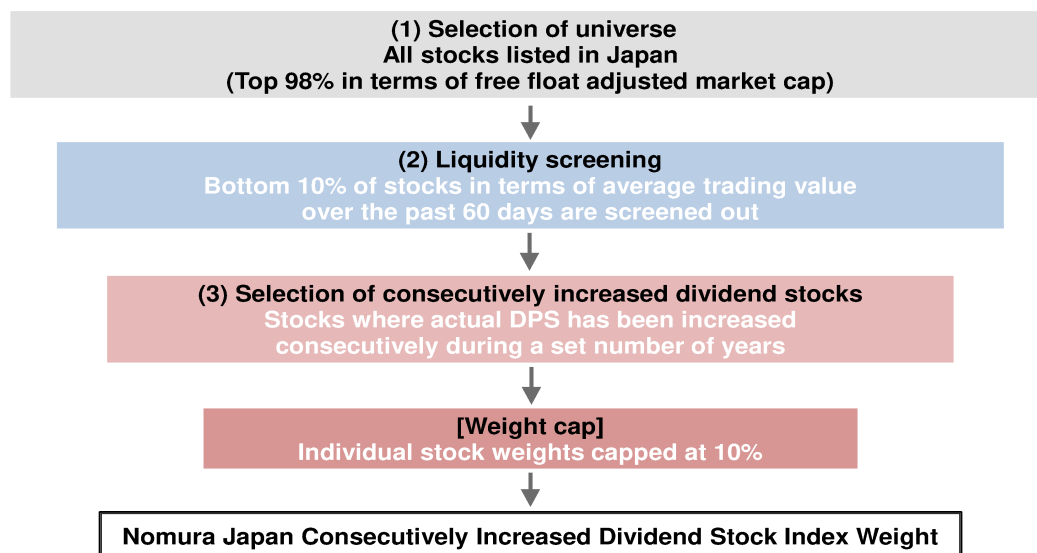
(1) The universe comprises the top 98% of stocks in the stock selection universe in terms of free float-adjusted market cap.

(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<sup>[7]</sup> 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<sup>[8]</sup>, 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

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.

### 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<sup>9</sup>.

- 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, 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 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-adjusted market cap.

- When the number of stocks meeting criterion (3) falls 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-adjusted 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.

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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.

## 4. Unscheduled reconstitutions

### 4.1. Response to stock swaps, stock transfers, etc<sup>[10]</sup>

- 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<sup>[11]</sup>

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 not 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.

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10. This rule applies from April 2002.

11. This rule applies from 21 April 2010. Prior to 28 December 2001, stocks designated as securities to be delisted were removed on the date of the designation. Effective from 29 December 2001 through 23 August 2009, they were removed two business days after the designation, and from 24 August 2009 through 20 April 2010, three business days after the designation.



## 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( $t$ )<sup>[12]</sup>

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

$$\text{Index value}(t) = \text{index value}(t-1) \times [1 + \text{return}(t)]$$

$t$  is the day in question,  $t-1$  is the preceding business day.

#### 5.1.3. Index including dividends

Base market cap ( $t$ ) = market cap ( $t-1$ ) + adjusted market cap ( $t$ ) - adjusted total dividends ( $t$ )<sup>[13]</sup>

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

$$\text{Index value}(t) = \text{index value}(t-1) \times [1 + \text{return}(t)]$$

$t$  is the day in question,  $t-1$  is the preceding business day.

#### 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)<sup>[14]</sup>. 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.

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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.

## 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 of component stock 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.

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

	<b>Change in capital structure</b>	<b>Adjustment date</b>	<b>Share price used</b>
Stock replacement	Stock transfer, stock swap, merger	Date of listing change	Previous day's price
	Corporate divestiture (company/division spinoff)	Ex-rights date	Not used <sup>[15]</sup>
	Stock replacement	Replacement date	Previous day's price
Capital increase	Rights offering	Ex-rights date	Issue price
	Gratis allocation of stock acquisition rights	Ex-rights date	Exercise price
	Gratis allocation of treasury stock	Ex-rights date	Previous day's 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 date of listing change	Previous day's price
	Conversion of preferred stock	Last business day of month in which number of converted shares becomes known	Previous day's price
	Conversion of CBs	Last business day of month in which number of new shares for which rights were exercised becomes known	Previous day's price
	Exercise of stock acquisition rights		
Corporate divestiture (new stock in continuing company)	Date of listing change	Previous day's price	
Capital reduction	Retirement of treasury stock	Last business day of month following month of treasury stock retirement	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
Other	Other adjustments	Other adjustments to base market capitalization, if required, are made on the last business day of the month of the disclosure of the relevant information (or the last business day of the following month if the disclosure is made 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<sup>[16]</sup>
- Share allotment
- Public offering
- Rights offering refusal
- Rights issue
- Corporate divestiture (new shares in surviving company)
- Other adjustments

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16. When the wholly owned subsidiary (merged entity) is an index component, the index inclusion ratio of the wholly owning parent (merging entity) is changed, so that the total of the product of the number of shares of the wholly owned subsidiary (merged entity) and the merger or exchange ratio for each stock is to be reflected.

## 6. Data Service

Nomura Japan Consecutively Increased Dividend Stock Index data provision<sup>17)</sup>

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.

The Nomura Japan Consecutively Increased Dividend Stock Index is released by Nomura Securities Co., Ltd. ("Nomura") and its intellectual and all other rights belong to Nomura. Nomura does not guarantee the accuracy, completeness, reliability, usefulness, marketability, merchantability, or fitness of the index, and does not take any responsibility for business activities or services that any index user and/or its affiliates undertakes with the use of the index.

A license agreement with Nomura is required to use the index and access detailed data.

In the case of an unavoidable event such as computer breakdown or natural disaster, calculation of the index may be delayed or suspended.

While every effort is made to ensure that the information used in this report and all published information is based on reliable data, it should be noted that data may be changed or amended when necessary.

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17. Published data are all for reference only.

# Policies with regard to Nomura Securities Co., Ltd. (NSC)'s indices

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

See the following link for details:

<http://qr.nomuraholdings.com/en/guides/index.html>

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

# Appendix A-1

## Analyst Certification

I, Index Operations Dept., hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Important Disclosures

The lists of issuers that are affiliates or subsidiaries of Nomura Holdings Inc., the parent company of Nomura Securities Co., Ltd., issuers that have officers who concurrently serve as officers of Nomura Securities Co., Ltd., issuers in which the Nomura Group holds 1% or more of any class of common equity securities and issuers for which Nomura Securities Co., Ltd. has lead managed a public offering of equity or equity linked securities in the past 12 months are available at <https://www.nomuraholdings.com/report/>. Please contact the Research Production Operation Dept. of Nomura Securities Co., Ltd. for additional information.

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### Distribution of ratings (Nomura Group)

The distribution of all ratings published by Nomura Group Global Equity Research is as follows:

56% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 38% of companies with this rating are investment banking clients of the Nomura Group\*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services\*\* by the Nomura Group.

41% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 60% of companies with this rating are investment banking clients of the Nomura Group\*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group

3% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 12% of companies with this rating are investment banking clients of the Nomura Group\*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.

As at 31 March 2022.

\*The Nomura Group as defined in the Disclaimer section at the end of this report.

\*\* As defined by the EU Market Abuse Regulation

### Definition of Nomura Group's equity research rating system and sectors

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

### STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as '**Not rated**' or shown as '**No rating**' are not in regular research coverage. Investors should not expect continuing or

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## SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan**: Sector ratings are not assigned.

## Target Price

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