

Nomura Japan Consecutively Increased Dividend Stock Index

Global Markets Research
29 November 2024

EQUITY: INDEX SERVICES DEPARTMENT

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 set period of time. 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 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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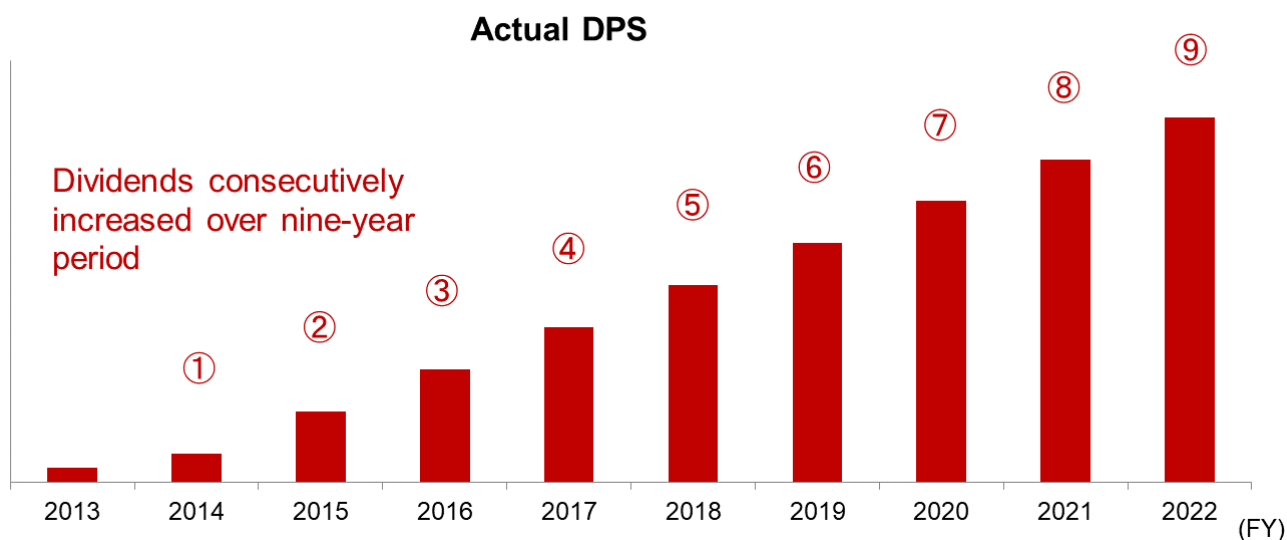
1. Introduction

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 2023 regular reconstitution)



Source: Nomura Fiduciary Research & Consulting Co., Ltd. ("NFRC")

2. Periodic reconstitutions

2.1 Periodic reconstitution date

The periodic reconstitution date is the first business day of December every year, and reconstitution is carried out after the close of trading on the business day preceding the periodic reconstitution date.

2.2 Periodic reconstitution base date

The periodic reconstitution base date is 15 October of each year (or the preceding business day if the 15th is a non-business day). The constituents and the number of shares in each component stock to be included in the index following the periodic reconstitution are determined on the basis of calculations using information as of the periodic reconstitution base date.^[1]

2.3 Announcement of periodic reconstitutions

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

Website: <http://qr.nomuraholdings.com/jp/ncid/index.html> (Japanese only)

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

3. The Selection and Construction Method for Index Constituent Stocks

3.1 Terminology

- Free float-adjusted market cap
We use the following method to calculate free float-adjusted market capitalization in order to reflect the number of shares that are actually available for investment.
Nomura composite price × (number of shares outstanding for index calculation purposes - stable shareholding)
- Nomura composite price
The Nomura composite price refers to the stock price of the exchange selected based on the number of traded days and volume of contracts in the last 60 trading days. As a general rule, the 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 price on previous business day
Note: Priority is given to the final special quote price when the market closed with a special quote.
- Number of shares outstanding for index calculation purposes
The number of shares outstanding for index calculation purposes is the number of shares outstanding after reflecting changes in the number of shares, in accordance with 5.4.2 Adjustments resulting from changes in capital structure.
- Stable shareholdings
The stable shareholding is the number of shares deemed to be held stably. It is estimated based on major shareholders data, a list of securities held in an annual securities report, and information published by an exchange or company (such as a bulletin or prospectuses, etc.).

3.2 Stock selection universe

The universe includes, out of all stocks listed on Japanese stock exchanges^[2] as of end-March preceding the periodic reconstitution base date, the top 98% of stocks in terms of free float-adjusted market cap. However, of the stocks that were newly listed in or after April preceding the periodic reconstitution base date, those in approximately the top 85% in terms of cumulative free float-adjusted market cap, and newly merged stocks, are also included in the universe, while stocks that meet the following criteria as of the periodic reconstitution date are excluded from the universe.

- Equities other than common stock
As a general rule, only common stock is included in the 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
Stocks under supervision (examination) and stocks under supervision (confirmation) that are not included in the index immediately before the periodic reconstitution are not included in the universe.
- Target companies of a tender offer
Stocks that are the targets of tender offers (i.e., TOBs) may be excluded from the universe of stock selection only if all of the following requirements are met:
(1) the offer close date is between the periodic reconstitution base date and the periodic reconstitution date;
(2) the company conducting the tender offer plans to acquire all the outstanding shares in the target company; and
(3) 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.

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

- Exchange Traded Funds/REITs
- Foreign stocks
Stocks listed on foreign sections of Japanese exchanges or stocks regarded as overseas companies are excluded from the universe even if they are traded in the Japanese market.
- Other exceptions
Latent stocks, warrants, and rights on them are excluded. The Bank of Japan is also excluded.

3.3 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.

3.3.1 DPS

- 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^[3].

3.3.2. Stock selection process

(1) The universe includes, out of all stocks listed on Japanese stock exchanges as of end-March preceding the periodic reconstitution base date, the top 98% of stocks in terms of free float-adjusted market cap. For details see section 3.2 Stock selection universe.

(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^[4] 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^[5], 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 3.3.3 Adjustments to stock number restrictions.

3. This rule applies with effect from 2015 periodic reconstitution.
4. The start or resumption of dividend payments is not regarded as dividend increases.
5. We have assumed base number of years as five as of 30 November 2000 stock selection.

3.3.3. 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.

- 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 3.3.2 (*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.

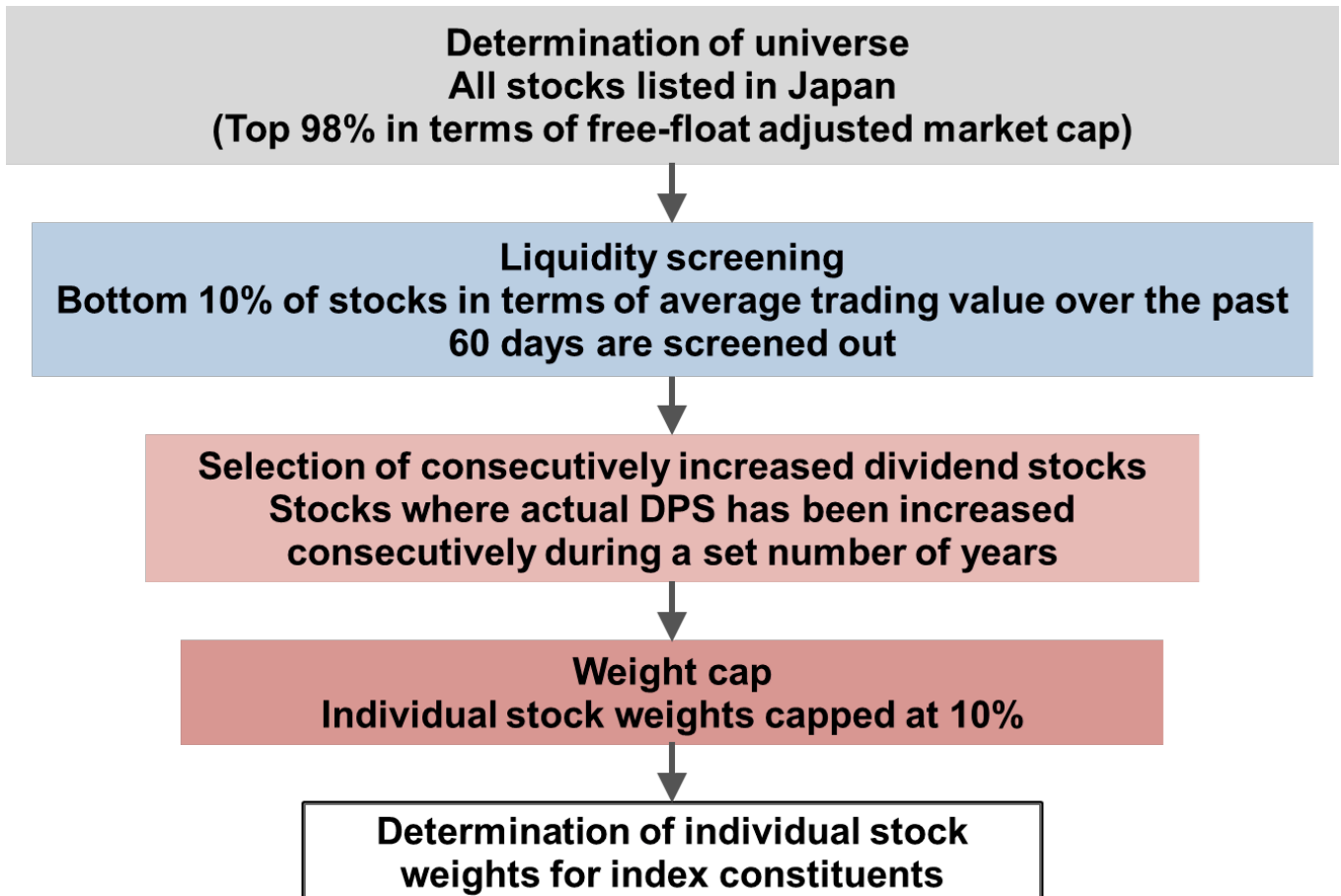
3.4 Component stock weight and weight limits

Weights for each component stock in the index are calculated using the free float-adjusted market cap 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.

3.5 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^[6] 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 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.

6. 1 trillion yen.

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

Source: NFRC

4. Unscheduled reconstitutions

As a general rule each time an event such as corporate realignment occurs, the reconstitution shall be carried out based on the following rules, taking into consideration the actual situation after the event. However, a material event other than those below may lead to an unscheduled index reconstitution. Any such change would be announced in advance.

4.1 Newly listed stocks

Stocks newly listed in the period following the periodic reconstitution base date will be considered for inclusion in the index at the time of the next periodic reconstitution^[7].

4.2 Treatment of stock swaps, stock transfers, mergers, etc^[8]

Unscheduled reconstitutions are carried out in response to various forms of corporate reorganization, based on the following rules. Changes are made on a case-by-case basis taking the situation following the restructuring into account. The objective is to avoid temporary exclusions of companies that have conducted a stock swap, stock transfer or similar action, and thus maintain the consistency of the stocks included in the index.

- Stock swaps and absorption-type mergers
When a stock is delisted because it is about to become a wholly owned subsidiary or be merged into another company, it may be included in the index after its delisting but must be removed from the index on the day of the listing change. Following its delisting, and until the business day prior to the listing change, the merged company's valuation is based on the market value of the company that will become the parent company or the surviving company multiplied by the exchange or merger ratio. Also, the number of shares of the stock within the index of the surviving company is changed on the listing change date based on the exchange or merger ratio.
- Stock transfers and consolidation-type mergers
When an unlisted surviving company takes over the operations of another company and becomes listed after a short period of time, the merged company is removed from the index on the new listing date of the surviving company. The price used for the delisted merged company through to the business day prior to the surviving company's listing is the price on the day before its delisting. The price used for the surviving company is the price on its new listing date. However, if it is apparent the surviving company will not be eligible for the index periodic reconstitution, the merged company is removed from the index on the delisting date.

4.3 Removal of stocks

- Assignment to securities to be delisted^[9]
Stocks assigned as securities to be delisted will be removed from the index four business days after the assignment. However, stocks that are listed on more than one stock exchange and not assigned to be delisted on all stock exchanges will not be removed.
- Delisting
Stocks delisted for reasons other than those cited in 4.2 Treatment of stock swaps, stock transfers, mergers, etc, are removed from the index on the delisting date.
- Marked loss of eligibility for inclusion in the universe
In the case of an event that is considered to seriously damage a component stock's eligibility for inclusion in the 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.

7. Excludes newly listed stocks as a result of stock transfers or consolidation-type mergers. See 4.2 for the treatment of such stocks.

8. This rule applies from April 2002.

9. 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.

4.4 Announcement of unscheduled reconstitutions

As a rule, unscheduled reconstitutions are announced on the NFRC website no later than five business days before the date of reconstitution, except in the case of unforeseen circumstances or when information cannot be confirmed.

Website: <http://qr.nomuraholdings.com/jp/ncid/index.html> (Japanese only)

5. Index calculation

5.1 Index base date, Index base values, Publication start date

Index base date	: 29 December 2000
Index base values	: 10,000
Publication start date	: 21 August 2015

Index values before the publication start date were calculated based on the rules as of the publication start date for reference purposes.

5.2 index market cap

5.2.1 Index market capitalization

Stock market cap for the index_{*j*}
 = Nomura composite price_{*j*} × number of shares of the stock within the index_{*j*}

Index market cap = \sum_j (stock_{*j*}'s market cap of the index)

j indicates each index constituent. \sum_j indicates the sum for all index constituents.

5.2.2 Base market capitalization

Base market capitalization is used in index calculations to avoid index values being affected by changes in market capitalization that are caused by non-market factors, such as changes in capital structure or in the constituents of the index.

- Base market capitalization (excluding dividends)
 Base market capitalization_{*t*} (excluding dividends) = index market capitalization_{*t-1*} + adjusted market cap_{*t*}
t is the day in question. *t-1* is the preceding business day.
- Base market capitalization (including dividends)
 Base market capitalization_{*t*} (including dividends) = index market capitalization_{*t-1*} + adjusted market capitalization_{*t*}
 - adjusted total dividend_{*t*}
t is the day in question. *t-1* is the preceding business day.

Adjusted market capitalization refers to the movement of market capitalization due to the change in the capital structure or the change in constituents. Regarding the method of adjusting the base market capitalization, please see Section 5.4.2 Adjustments resulting from changes in capital structure.

Adjusted total dividends is calculated as the difference between forecast dividends and actual dividends. Regarding the method of adjusting total dividends please see Method for reflecting dividends on the next page.

5.3 Calculation of index values

The index value and return are calculated using the values described above as follows;

5.3.1 JPY-denominated index value

- Index excluding dividends
 Return_{*t*} (excluding dividends) = index market capitalization_{*t*} / base market capitalization_{*t-1*} - 1
 Index value_{*t*} (excluding dividends) = index value_{*t-1*} (excluding dividends) × (1 + return_{*t*} (excluding dividends))
t is the day in question. *t-1* is the preceding business day.
- Index including dividends
 Return_{*t*} (including dividends) = (index market capitalization_{*t*} + total dividends_{*t*}) / base market capitalization_{*t-1*} - 1
 Index value_{*t*} (including dividends) = index value_{*t-1*} (including dividends) × (1 + return_{*t*} (including dividends))
t is the day in question. *t-1* is the preceding business day.

- 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 stock issuer's dividend forecast is used (if this is unavailable, the Toyo Keizai dividend forecast is used)^[10]. Furthermore, in the following circumstances, base market capitalization (including dividends) is adjusted for adjusted total dividends on the stipulated business day.

In the event of a difference between the dividend forecast and the actual dividend:

Base market capitalization is adjusted on the last business day of the month of the earnings announcement (or the last business day of the following month if the earnings announcement is made on the last business day of the month)

When a dividend adjustment is necessary:

Base market capitalization is adjusted on the last business day of the month in which NFRC comes to know (or the last business day of the following month if the day in which NFRC comes to know is the last business day of the month)

5.4 Index maintenance

5.4.1 Reconstitutions

Constituents are replaced in periodic and unscheduled reconstitutions and also when necessary for other reasons. The base market capitalization is calculated on the reconstitution date using share prices from day prior to the reconstitution date.

10. This rule is effective from fiscal years ended end-December 2011 onward. For fiscal years before this, the actual dividend is used on the ex-dividend date.

5.4.2 Adjustments resulting from changes in capital structure Adjusting the base market capitalization

The base market capitalization is adjusted in the following way if market cap moved due to a change of capital structure regardless of market movement. However, no adjustment is made to base market capitalization to reflect changes in capital structure that do not involve payment, such as stock splits, reverse stock splits, and changes in face value, as these do not affect market capitalization.

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

	Change in capital structure	Adjustment date	Share price used
Corporate reorganization	Stock transfer, stock swap, merger	Date of listing change	Previous day's price
	Corporate divestiture (company/division spinoff)	Ex-rights date	Not used ^[11]
Capital increase	Shareholder allocation	Ex-rights date	Issue price
	Allotment of acquisition rights to shares without contribution	Ex-rights date	Exercise price
	Allotment of treasury stock without contribution	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
	Third-party allocation of shares	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	Last business day of month in which number of new shares for which rights were exercised becomes known	Previous day's price
	Corporate divestiture (new shares of successor 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
	Forfeiture of stock acquisition rights	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: NFRC

11. In the case of a corporate divestiture (company/division spinoff), the base market capitalization is adjusted for the reduction in capital. The 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 divesting entity's shareholders' equity is expected to be reduced and

2)when the divesting entity does announce the value of the divested division or of the shares of the divested (spun-off) 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.

Adjustments to index weightings

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

- Stock transfer, stock swap, merger ^[12]
- Shareholder allocation
- Allotment of acquisition rights to shares without contribution
- Public offering
- Third-party allocation of shares
- Conversion of preferred stock
- Conversion of CBs, exercise of stock acquisition rights
- Corporate divestiture (new shares of successor company)
- Retirement of treasury stock
- Forfeiture of stock acquisition rights
- Capital reduction with compensation
- Other adjustments

12. When an index constituent becomes a wholly owned subsidiary (or merged company), the index inclusion ratio of the parent (or surviving company) is changed so that the total number of shares in the index remains the same as it was before, taking the exchange ratio (or merger ratio) into account.

6. Data services

Data for the indices can be obtained via the following channels^[13]

Index values are published in the following media:

Bloomberg	:	JPY-denominated (excluding dividends): NMRIJOID <Index> JPY-denominated (including dividends): NMRIJIID <Index>
QUICK	:	JPY-denominated (excluding dividends): SNJPCID/NRIJ
Website	:	http://qr.nomuraholdings.com/jp/ncid/index.html (Japanese only)

13. Published data are all for reference only.

For further information on the indexes

Nomura Fiduciary Research & Consulting Co., Ltd. ^[14]

Index Services Department

e-mail : idx_mgr@nfrco.jp

Website : http://qr.nomuraholdings.com/jp/ncid/index_contacts.html (Japanese only)

14. As of February 1, 2023, the index business of Nomura Securities Co., Ltd. has been inherited.

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Nomura Fiduciary Research & Consulting Co., Ltd.

Registration Number: Director-General of the Kanto Local Financial Bureau (Finance & Commerce)
Registration No.451

Membership: Japan Investment Advisers Association No. 011-00961

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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
- Complaints Handling Policy