

Russell/Nomura Japan Equity Indexes 2013 handbook

EQUITY QUANTITATIVE RESEARCH (INDEX)

NOMURA
EQUITY RESEARCH

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This report constitutes the Russell/Nomura Japan Equity Indexes 2013 handbook.

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They are equity indexes based on free-float methodology market capitalization that cover the top 98% of all listed stocks in terms of float-adjusted market capitalization, thereby offering broad market coverage.
- In addition to stocks listed on the Tokyo Stock Exchange First Section (TSE-1), they include stocks listed on JASDAQ and other exchanges.
- Since the indexes are float-adjusted, they reflect the stocks that are actually available for investment.
- There are style indexes for large and small companies and for growth and value stocks.
- A Prime Index structured for passive investment is included.
- Stocks are selected quantitatively based on clearly defined criteria.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

1. Introduction

Asset management has become more important in recent years, giving rise to management styles tailored to different investors' needs. Investors also want to be able to exercise more control over their own portfolios. Russell Investments and the Quantitative Research Center, Nomura Securities Co., Ltd., have responded to these trends by developing and publishing Russell/Nomura Japan Equity Indexes that can be used by investors employing a variety of different investment styles.

Russell/Nomura Japan Equity Indexes should be useful in:

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

Russell/Nomura Japan Equity Indexes have the following characteristics:

- They represent the entire Japanese equity market in that component stocks are selected from among all listed stocks (including those on the JASDAQ market)
- They reflect the stocks that are actually available for investment, as market capitalization figures factor in stable shareholdings
- There are subindexes for different sizes of company based on market capitalization
- There are subindexes for growth and value stocks
- A Prime Index structured for passive investment is included
- The subindexes for growth and value stocks are based on P/B ratios adjusted for hidden assets
- Indexes are calculated using share prices on major markets (Nomura composite share price)
- There are equity indexes including and excluding dividends
- Clear definitions mean that there is no arbitrariness in stock selection methods
- The composition of each index is reviewed once a year.

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

About Russell Investments

Russell Investments (Russell) is a global asset manager and one of only a few firms that offers actively managed, multi-asset portfolios and services that include advice, investments and implementation. Working with institutional investors, financial advisors and individuals, Russell's core capabilities extend across capital markets insights, manager research, Indexes, portfolio implementation and portfolio construction.

Russell has more than \$173bn in assets under management (as of 31 March 2013) and works with over 2,500 institutional clients, independent distribution partners and individual investors globally. As a consultant to some of the largest pools of capital in the world, Russell has \$2.6trn in assets under advisement (as of 31 December 2012). It has four decades of experience researching and selecting investment managers and meets annually with more than 2,200 managers around the world. Russell traded more than \$1.4trn in 2012 through its implementation services business. Russell calculates more than 700,000 benchmarks daily covering approximately 98% of the investable market globally, 80 countries and more than 10,000 securities. Approximately \$4.1trn in assets currently are benchmarked to these indexes.

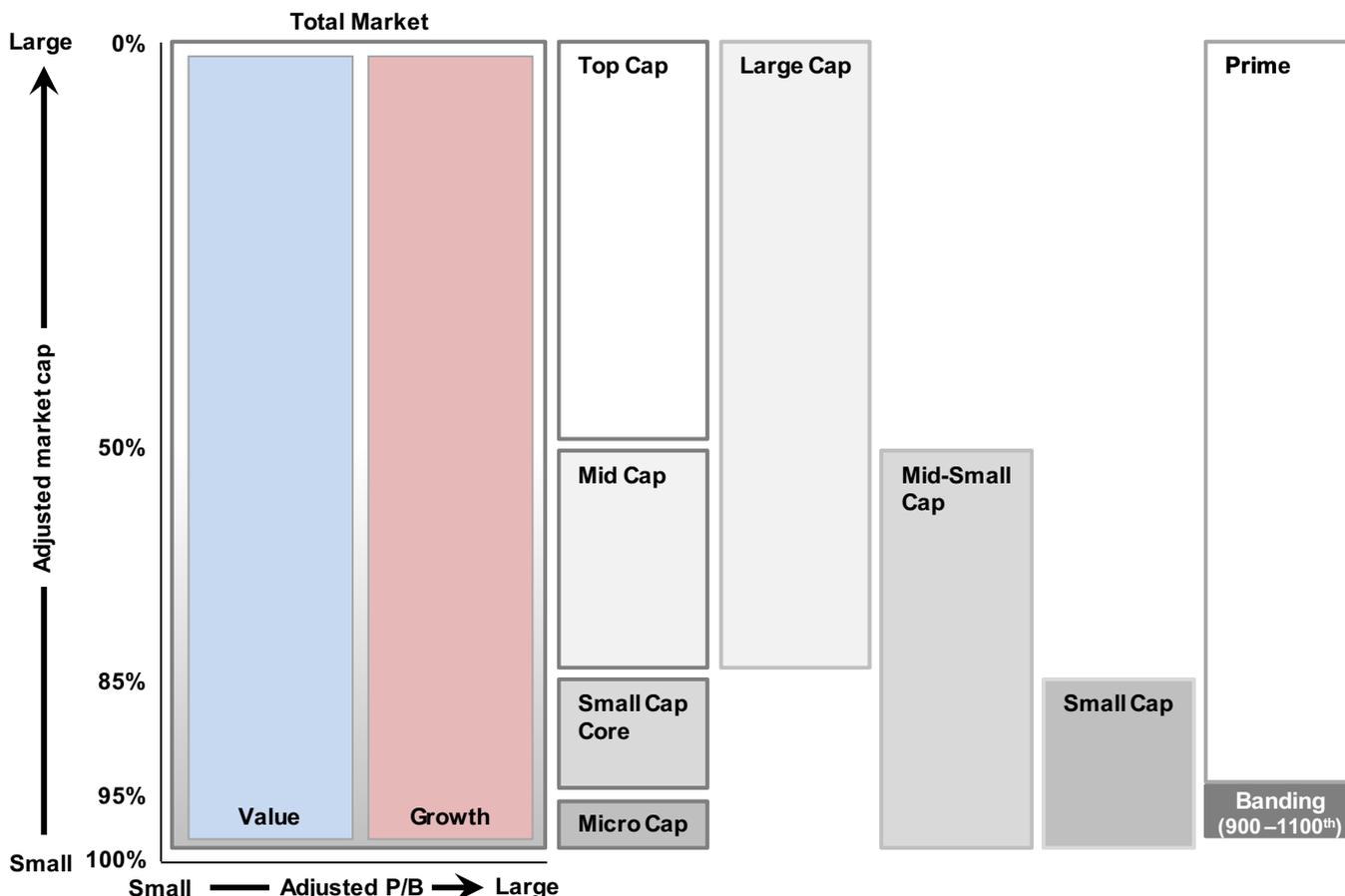
Headquartered in Seattle, Washington, USA, Russell has offices around the world including Amsterdam, Auckland, Beijing, Chicago, Dubai, Frankfurt, London, Melbourne, Milan, New York, Paris, San Francisco, Seoul, Singapore, Sydney, Tokyo and Toronto. For more information about how Russell helps to improve financial security for people, visit www.russell.com or follow us @Russell_News.

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2. Russell/Nomura Japan Equity Indexes

The Russell/Nomura Japan Equity Indexes cover the top 98% of stocks listed on all markets in terms of float-adjusted market value. Size-based and investment style indexes are published separately as subindexes, with the size-based indexes divided according to float-adjusted market value. Investment style indexes use as their determinant adjusted P/B, in accordance with which the market value of constituent stocks is distributed between value and growth indexes.

Fig. 1: Russell/Nomura Japan Equity Indexes



Source: Nomura

- The Russell/Nomura Total Market Index contains the top 98% of all stocks listed on Japan's stock exchanges in terms of float-adjusted market capitalization
- The Russell/Nomura Large Cap Index contains the top 85% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Small Cap Index contains the bottom 15% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Top Cap Index contains the top 50% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Mid Cap Index contains the middle 35% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Mid-Small Cap Index contains the bottom 50% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization

- The Russell/Nomura Small Cap Core Index comprises stocks in the Small Cap Index, excluding the Micro Cap Index, and represents the bottom 15% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization, excluding the bottom 5%
- The Russell/Nomura Micro Cap Index contains the bottom 5% of the Russell/Nomura Total Market Index in terms of float-adjusted market capitalization
- The Russell/Nomura Prime Index contains the top 1,000 stocks from the Total Market Index in terms of float-adjusted market capitalization and taking into account “banding” and the “negative list”

3. Russell/Nomura Japan Equity Indexes: composition

3.1. Number of stocks and market cap

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

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

	Number of stocks		Market cap (¥tn)		
	Russell/Nomura	Total market	Russell/Nomura (adjusted for stable shareholdings)	Russell/Nomura (not adjusted for stable shareholdings)	Total market (not adjusted for stable shareholdings)
TSE-1	1,324	1,691	181	272	275
Other	176	1,853	3	7	14
Total	1,500	3,544	184	279	289

Note: Numbers of stocks, market caps, and market breakdowns are as of end-November 2012. However, figures for the Russell/Nomura Total Market Index are based on constituent stocks as of December 2012 (after regular reconfiguration).

Source: Nomura

Figure 3 shows the number of stocks in the Russell/Nomura indexes after reconfiguration and their market capitalization weightings.

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

Index	Number of stocks	% of total market cap
Total Market	1,500	100.0%
Value	1,159	48.5%
Growth	712	51.5%
Large	350	86.2%
Large Value	218	38.9%
Large Growth	239	47.3%
Top	60	50.2%
Top Value	34	21.3%
Top Growth	45	28.9%
Mid	290	36.0%
Mid Value	184	17.6%
Mid Growth	194	18.5%
Mid-Small	1,440	49.8%
Mid-Small Value	1,125	27.2%
Mid-Small Growth	667	22.6%
Small	1,150	13.8%
Small Value	941	9.7%
Small Growth	473	4.1%
Small Core	350	8.6%
Small Core Value	274	5.9%
Small Core Growth	167	2.8%
Micro	800	5.2%
Micro Value	667	3.8%
Micro Growth	306	1.4%
Prime	1,000	97.7%
Prime Value	746	46.9%
Prime Growth	527	50.8%

Note: Data as of December 2012 (after regular reconfiguration), except for market caps, which are as of end-November 2012.

Source: Nomura

Figure 4 shows the number of constituent stocks in each index after regular reconfigurations.

Fig. 4: Number of constituent stocks

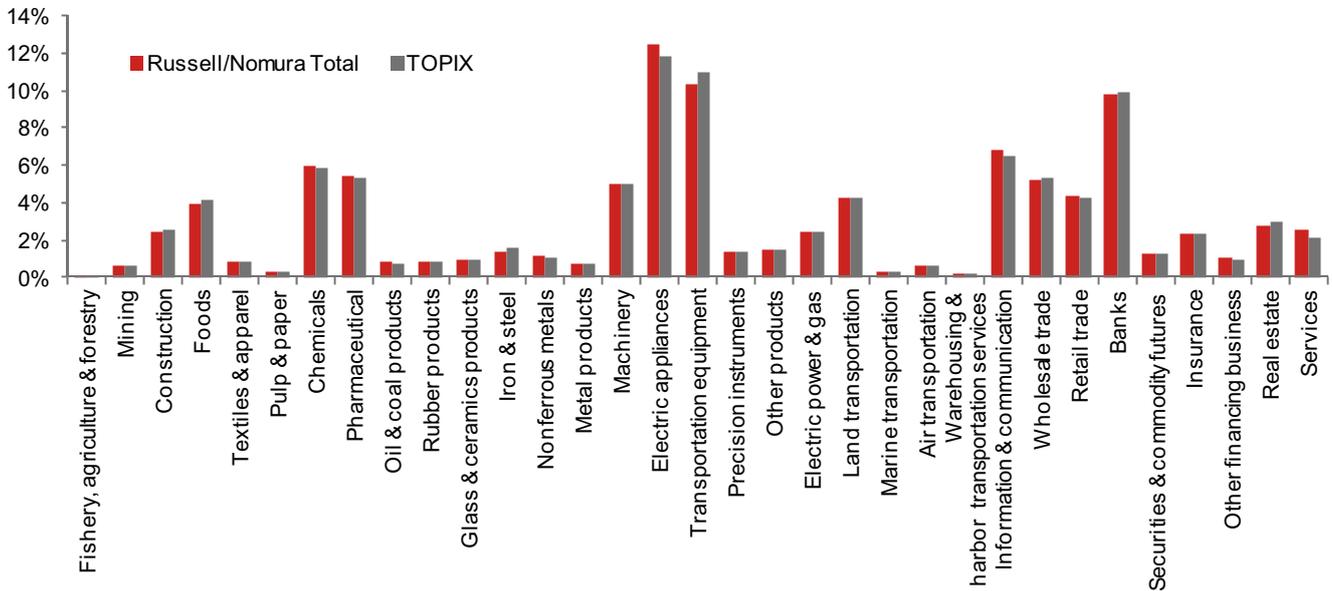
(yyyymm)	Total		Large	Small	Prime	
	Value	Growth				
198101	1,091	656	713	400	691	—
198201	1,091	708	642	400	691	—
198301	1,091	766	592	400	691	—
198401	1,091	738	630	400	691	—
198501	1,104	706	672	400	704	—
198601	1,142	733	762	400	742	—
198701	1,142	833	672	400	742	—
198801	1,199	860	765	400	799	—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

Source: Nomura

3.2. Sector allocations

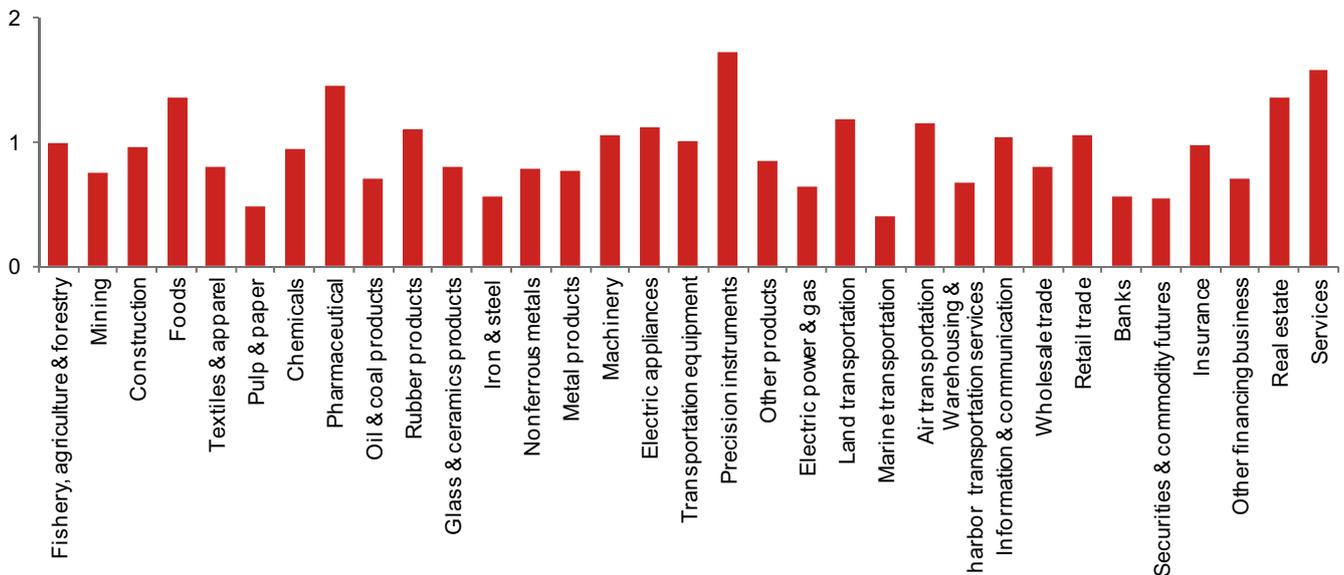
Figure 5 shows the composition of the Russell/Nomura Total Market Index in terms of 33 sector classifications. Compared with the TOPIX, the Russell/Nomura Total Market Index contains a higher proportion of stocks in the electric appliance sector and a lower proportion of stocks in the transportation equipment and iron & steel sectors.

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



Note: Market caps are as of end-November 2012. However, figures for the Russell/Nomura Total Market Index are based on constituent stocks as of December 2012 (after regular reconfiguration)
 Source: Nomura

Fig. 6: P/B ratios for each sector of the Russell/Nomura Total Market Index



Note: Data as of December 2012 (after regular reconfiguration). Adjusted P/B = $\sum (\text{share price of each included stock}) / \sum (\text{adjusted BPS of each included stock})$.
 Source: Nomura

3.3. Top 10 stocks by market cap

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

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

Rank	TOP		TOP value		TOP growth	
1	7203	Toyota Motor	7203	Toyota Motor	7203	Toyota Motor
2	8306	Mitsubishi UFJ FG	8306	Mitsubishi UFJ FG	7267	Honda Motor
3	7267	Honda Motor	7267	Honda Motor	7751	Canon
4	8316	Sumitomo Mitsui FG	8316	Sumitomo Mitsui FG	4502	Takeda Pharmaceutical
5	9432	Nippon Telegraph and Telephone	9432	Nippon Telegraph and Telephone	6954	Fanuc
6	7751	Canon	8411	Mizuho FG	2914	Japan Tobacco
7	8411	Mizuho FG	8031	Mitsui & Co	6501	Hitachi
8	4502	Takeda Pharmaceutical	8058	Mitsubishi Corp	8031	Mitsui & Co
9	6954	Fanuc	9437	NTT Docomo	9437	NTT Docomo
10	2914	Japan Tobacco	3382	Seven & i HD	3382	Seven & i HD

Rank	Mid		Mid value		Mid growth	
1	8308	Resona HD	8308	Resona HD	6326	Kubota
2	6326	Kubota	8035	Tokyo Electron	2502	Asahi Group HD
3	2502	Asahi Group HD	9502	Chubu Electric Power	8035	Tokyo Electron
4	8035	Tokyo Electron	3402	Toray Industries	9983	Fast Retailing
5	9983	Fast Retailing	9532	Osaka Gas	7731	Nikon
6	9502	Chubu Electric Power	5802	Sumitomo Electric Industries	3402	Toray Industries
7	7731	Nikon	8630	NKSJ HD	1878	Daito Trust Construction
8	3402	Toray Industries	4901	Fujifilm HD	9532	Osaka Gas
9	1878	Daito Trust Construction	9021	West Japan Railway	8630	NKSJ HD
10	9532	Osaka Gas	7269	Suzuki Motor	1963	JGC

Rank	Small core		Small core value		Small core growth	
1	4521	Kaken Pharmaceutical	8282	K's HD	4521	Kaken Pharmaceutical
2	3360	Ship Healthcare HD	4569	Kyorin HD	3360	Ship Healthcare HD
3	7735	Dainippon Screen Mfg	2579	Coca-Cola West	7735	Dainippon Screen Mfg
4	8282	K's HD	6479	Minebea	4569	Kyorin HD
5	4569	Kyorin HD	9107	Kawasaki Kisen	2670	ABC-Mart
6	2579	Coca-Cola West	5471	Daido Steel	6479	Minebea
7	2670	ABC-Mart	8361	Ogaki Kyoritsu Bank	6465	Hoshizaki Electric
8	6479	Minebea	6856	Horiba	9427	eAccess
9	9107	Kawasaki Kisen	4205	Zeon	7947	FP
10	6465	Hoshizaki Electric	8367	Nanto Bank	6856	Horiba

Rank	Micro		Micro value		Micro growth	
1	6816	Alpine Electronics	6816	Alpine Electronics	7846	Pilot
2	7846	Pilot	7846	Pilot	9945	Plenus
3	9302	Mitsui-Soko	9302	Mitsui-Soko	1766	Token
4	9945	Plenus	9945	Plenus	8237	Matsuya
5	1766	Token	1766	Token	7447	Nagaileben
6	6454	Max	6454	Max	6961	Enplas
7	8237	Matsuya	6756	Hitachi Kokusai Electric	3048	Bic Camera
8	7447	Nagaileben	3048	Bic Camera	7718	Star Micronics
9	6756	Hitachi Kokusai Electric	7718	Star Micronics	8170	Aderans
10	6961	Enplas	9830	Trusco Nakayama	9052	Sanyo Electric Railway

Note: As of 15 October 2012 reconfiguration. FG = Financial Group, HD = Holdings.

Source: Nomura

4. Performance analysis

4.1. Annual returns

Fig. 8: Annual returns on individual indexes

Index	Excluding dividends					Including dividends				
	1 yr	2 yrs	5 yrs	10 yrs	Jan 2001–	1 yr	2 yrs	5 yrs	10 yrs	Jan 2001–
Total Market	21.34%	10.38%	-0.75%	4.66%	0.23%	23.65%	12.69%	1.34%	6.31%	1.78%
Value	20.25%	10.07%	0.60%	6.44%	2.40%	22.71%	12.51%	2.75%	8.17%	4.07%
Growth	22.45%	10.80%	-2.11%	2.80%	-1.95%	24.65%	13.01%	-0.07%	4.38%	-0.50%
Large	21.02%	9.66%	-1.55%	4.27%	-0.40%	23.36%	12.01%	0.56%	5.94%	1.16%
Large Value	20.13%	9.16%	-0.38%	6.00%	1.52%	22.60%	11.64%	1.77%	7.74%	3.17%
Large Growth	21.95%	10.26%	-2.45%	2.76%	-2.00%	24.19%	12.49%	-0.40%	4.37%	-0.53%
Top	22.33%	10.32%	-2.29%	3.67%	-1.50%	24.93%	12.91%	0.02%	5.46%	0.14%
Top Value	22.64%	10.84%	-0.42%	6.18%	0.32%	25.31%	13.52%	1.87%	7.99%	2.01%
Top Growth	22.69%	10.16%	-3.13%	2.07%	-2.62%	25.22%	12.66%	-0.81%	3.84%	-1.02%
Mid	19.26%	8.95%	-0.44%	5.08%	1.35%	21.25%	10.96%	1.38%	6.57%	2.80%
Mid Value	16.91%	6.97%	-0.01%	5.98%	2.99%	19.05%	9.12%	1.96%	7.62%	4.59%
Mid Growth	20.86%	10.62%	-1.06%	4.07%	-0.84%	22.70%	12.51%	0.63%	5.42%	0.43%
Mid-Small	20.37%	10.51%	0.78%	5.57%	2.14%	22.40%	12.58%	2.67%	7.11%	3.62%
Mid-Small Value	18.35%	9.37%	1.72%	6.83%	4.10%	20.51%	11.56%	3.75%	8.51%	5.74%
Mid-Small Growth	22.16%	11.76%	-0.58%	3.89%	-0.95%	24.03%	13.67%	1.14%	5.25%	0.32%
Small	23.33%	14.20%	3.51%	6.68%	4.01%	25.48%	16.36%	5.53%	8.29%	5.58%
Small Value	20.97%	13.21%	4.43%	8.19%	6.00%	23.23%	15.45%	6.54%	9.92%	7.70%
Small Growth	27.98%	16.43%	1.50%	3.85%	-0.78%	29.87%	18.35%	3.28%	5.20%	0.49%
Small Core	22.00%	13.60%	3.06%	6.35%	3.38%	24.09%	15.70%	5.04%	7.93%	4.92%
Small Core Value	20.04%	12.70%	3.78%	7.85%	5.54%	22.22%	14.88%	5.83%	9.53%	7.20%
Small Core Growth	25.04%	15.11%	1.72%	3.85%	-1.19%	26.98%	17.11%	3.56%	5.23%	0.09%
Micro	25.55%	15.19%	4.36%	7.34%	5.08%	27.76%	17.39%	6.44%	9.00%	6.72%
Micro Value	22.52%	14.08%	5.60%	8.84%	6.74%	24.89%	16.44%	7.83%	10.65%	8.52%
Micro Growth	33.52%	18.70%	0.53%	3.69%	0.04%	35.27%	20.46%	2.20%	4.98%	1.26%
Prime	21.22%	10.26%	-0.88%	4.63%	0.13%	23.52%	12.57%	1.21%	6.29%	1.68%
Prime Value	20.22%	9.95%	0.42%	6.41%	2.26%	22.65%	12.38%	2.58%	8.15%	3.92%
Prime Growth	22.22%	10.68%	-2.15%	2.82%	-1.94%	24.42%	12.89%	-0.12%	4.40%	-0.49%
TOPIX	21.54%	10.48%	-0.78%	4.46%	-0.09%	23.84%	12.81%	1.32%	6.12%	1.47%

Note: As of end-March 2013. Returns are annualized, based on average monthly yen-based returns for each period.

Source: Nomura

4.2. Performance

Fig. 9: Index performance



Note: Monthly returns in December 1979–March 2013; end-December 1979 indexed to 100.

Source: Nomura

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

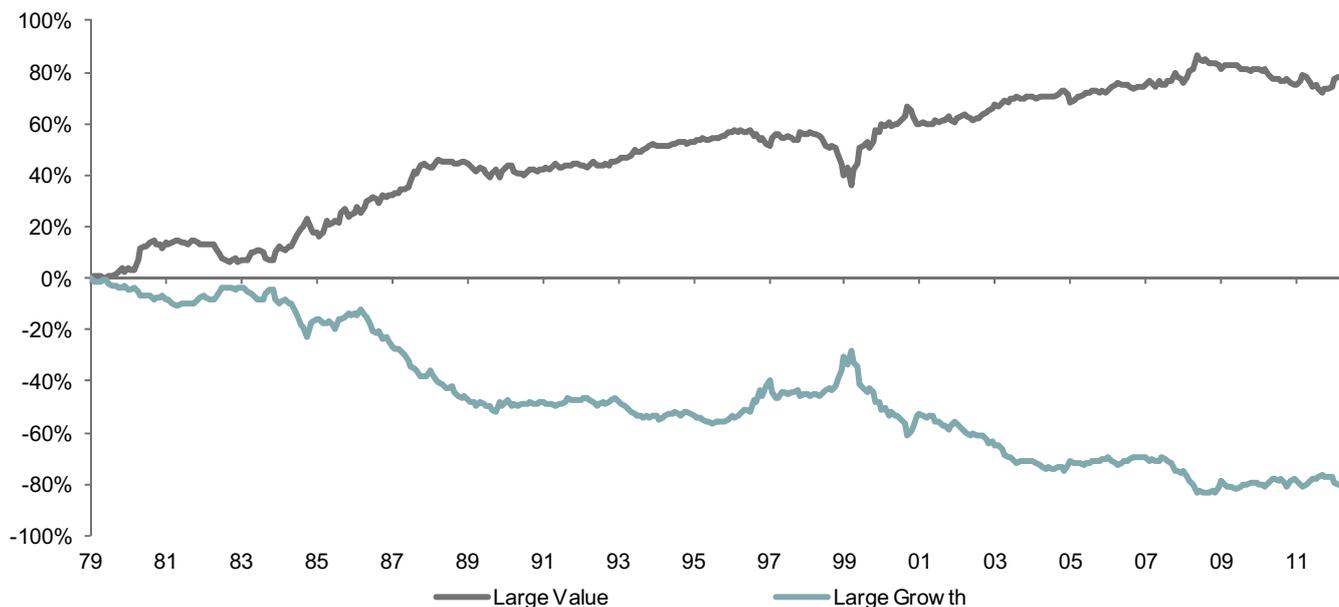
	Average return	Standard deviation	Russell/Nomura	TOPIX	Nikkei Average
Russell/Nomura	4.22%	18.34%	1		
TOPIX	3.95%	20.07%	0.9943	1	
Nikkei Average	4.21%	18.74%	0.9603	0.9592	1

Note: Based on monthly returns (excluding dividends) in January 1980–March 2013. Average return and standard deviation data are annualized.

Source: Nomura

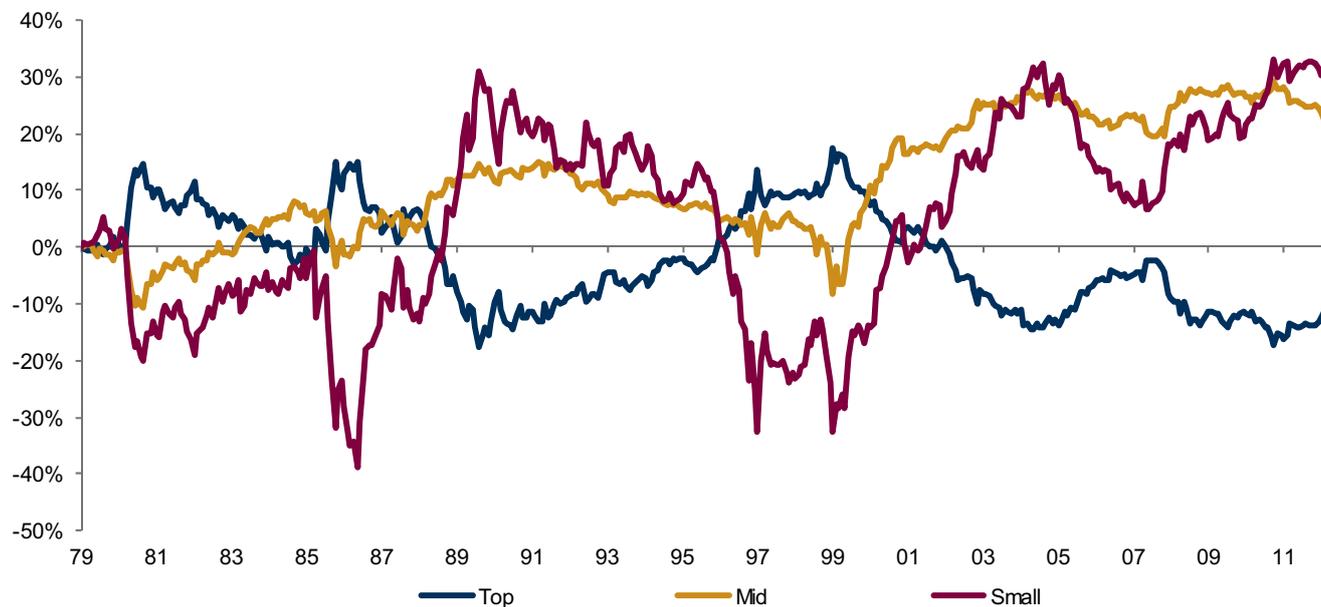
4.3. Relative performance of style indexes

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



Note: Cumulative excess return on each index versus the Russell/Nomura Total Market Index, January 1980–March 2013. Dividends included.
Source: Nomura

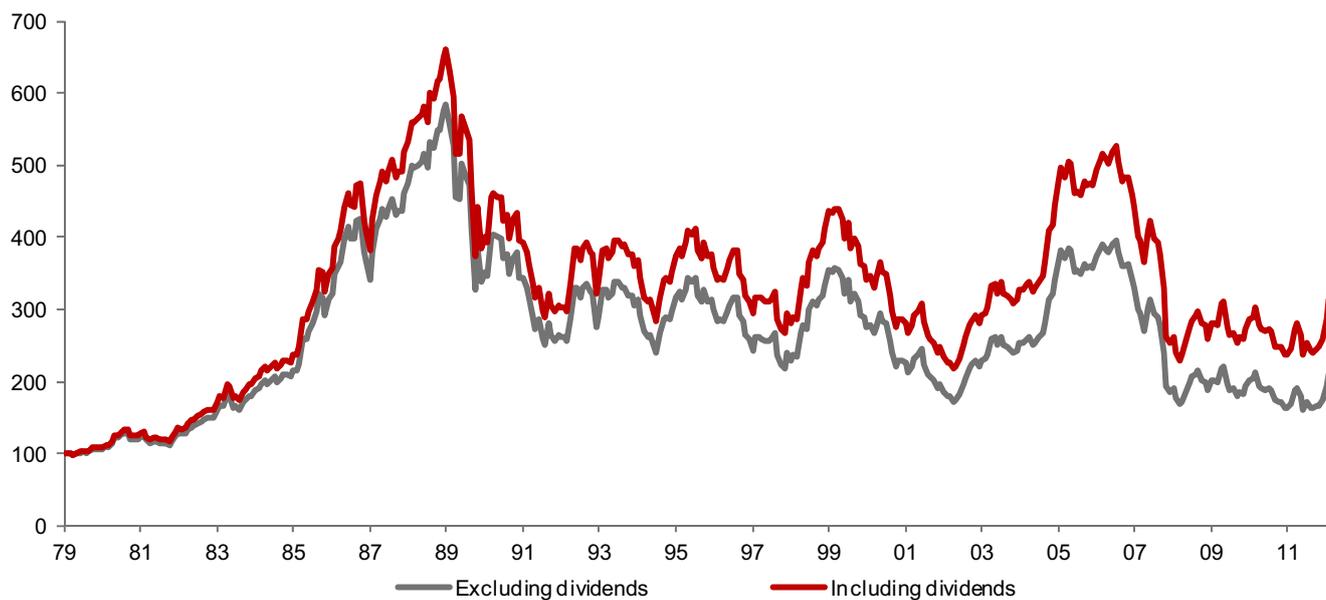
Fig. 12: Cumulative excess returns on indexes by size



Note: Cumulative excess return on each index versus the Russell/Nomura Total Market Index, January 1980–March 2013. Dividends included.
Source: Nomura

4.4. Impact of dividends

Fig. 13: Impact of dividends on the performance of the Russell/Nomura Total Market Index



Note: Monthly performance December 1979–March 2013 indexed to end-December 1979 = 100.

Source: Nomura

4.5. Risk-return characteristics of individual indexes

Fig. 14: Average performance and standard deviation of individual indexes



Note: Monthly returns (excluding dividends), January 2001–March 2013, annualized.

Source: Nomura

5. Index investability

5.1. Turnover ratios at the time of regular reconfigurations

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

Fig. 15: Turnover ratio at time of regular reconfigurations

Date (yyyymm)	Total			Large	Small	Prime
		Value	Growth			
198101	2.4%	11.2%	12.9%	3.5%	13.1%	—
198201	2.1%	15.7%	17.8%	3.1%	12.1%	—
198301	2.1%	15.2%	15.1%	3.1%	13.5%	—
198401	2.6%	14.2%	15.6%	4.3%	16.2%	—
198501	2.9%	16.3%	19.1%	4.1%	17.5%	—
198601	3.7%	15.6%	16.7%	4.8%	16.2%	—
198701	2.3%	17.5%	17.7%	3.3%	18.4%	—
198801	3.5%	12.4%	16.9%	5.1%	16.8%	—
198901	3.7%	17.1%	22.1%	4.9%	15.8%	—
199001	3.0%	15.9%	18.2%	7.2%	27.3%	—
199101	3.4%	19.0%	20.8%	4.6%	20.9%	—
199201	1.9%	13.1%	13.5%	3.1%	13.6%	—
199301	1.9%	12.0%	12.8%	3.2%	13.3%	—
199401	1.5%	11.7%	12.2%	2.6%	12.0%	—
199501	3.3%	13.6%	17.0%	4.0%	15.4%	—
199601	2.2%	13.1%	13.6%	2.5%	9.8%	—
199701	2.2%	18.0%	19.2%	2.3%	10.7%	—
199801	1.4%	18.4%	14.8%	2.5%	16.6%	1.4%
199901	3.1%	12.9%	14.2%	4.1%	12.3%	3.0%
200001	3.4%	31.3%	25.5%	5.4%	31.8%	3.5%
200101	2.8%	18.6%	21.3%	3.8%	18.3%	2.7%
200202	2.5%	16.7%	16.2%	7.6%	43.0%	2.4%
200212	3.3%	15.5%	13.5%	4.7%	15.8%	2.2%
200312	2.5%	19.6%	20.7%	4.6%	20.2%	2.1%
200412	3.5%	17.5%	20.9%	4.9%	18.9%	3.4%
200512	3.2%	21.0%	22.8%	3.8%	15.8%	3.1%
200612	2.5%	18.6%	17.6%	3.1%	16.4%	2.5%
200712	1.8%	20.5%	20.8%	3.5%	18.8%	1.7%
200812	1.6%	29.3%	31.7%	3.8%	17.6%	1.7%
200912	1.6%	26.8%	26.5%	4.2%	21.6%	1.5%
201012	1.8%	14.5%	14.6%	3.1%	15.8%	1.8%
201112	1.6%	16.2%	15.7%	4.6%	20.6%	1.5%
201212	1.9%	13.2%	11.7%	2.7%	11.9%	1.7%
Average	2.5%	17.0%	17.9%	4.0%	17.5%	2.3%

Note: Turnover ratio is $[\Sigma | \text{market cap weighting before reconfiguration} - \text{market cap weighting after reconfiguration} | / 2]$, based on share price at end of previous month. The figures thus show one-way turnover in the case of an index fund constructed by actually investing in all of the constituent stocks of the benchmark index. A change in all of the constituent stocks would give a turnover ratio of 100%.

Source: Nomura

5.2 Estimated no. of days of impact at time of regular reconfigurations

Figure 16 shows the estimated number of days of impact needed for regular reconfiguration by fully passive funds that track each index. The higher the turnover ratio at the time of the regular reconfiguration—and the greater the number of stocks with low liquidity that are added—the greater the number of days of impact.

Fig. 16: No. of days of impact at time of regular reconfigurations

Index	Maximum (days)	Index market cap (¥trn)	Turnover ratio (one-way)	Number of stocks				
				Before	After	Change	Out	In
Total Market	2.7	184	1.9%	1,386	1,500	114	36	150
Value	5.5	89	13.2%	1,035	1,159	124	71	195
Growth	2.8	94	11.7%	714	712	-2	138	136
Large	0.3	158	2.7%	348	350	2	24	26
Large Value	0.5	71	13.6%	212	218	6	29	35
Large Growth	0.4	87	11.8%	244	239	-5	41	36
Top	0.4	92	5.4%	60	60	0	6	6
Top Value	0.7	39	15.2%	38	34	-4	8	4
Top Growth	0.5	53	15.9%	44	45	1	5	6
Mid	0.6	66	9.8%	288	290	2	29	31
Mid Value	1.2	32	23.6%	174	184	10	27	37
Mid Growth	1.0	34	22.2%	200	194	-6	44	38
Mid-Small	5.4	91	6.1%	1,326	1,440	114	41	155
Mid-Small Value	9.9	50	19.4%	997	1,125	128	69	197
Mid-Small Growth	6.3	42	20.6%	670	667	-3	141	138
Small	19.5	25	11.9%	1,038	1,150	112	60	172
Small Value	27.8	18	19.3%	823	941	118	67	185
Small Growth	34.6	8	35.0%	470	473	3	126	129
Small Core	8.0	16	19.4%	347	350	3	61	64
Small Core Value	11.7	11	26.5%	275	274	-1	59	58
Small Core Growth	24.2	5	44.0%	184	167	-17	69	52
Micro	52.0	9	19.4%	691	800	109	76	185
Micro Value	70.7	7	25.0%	548	667	119	61	180
Micro Growth	104.8	3	35.2%	286	306	20	86	106
Prime	0.7	179	1.7%	990	1,000	10	25	35
Prime Value	1.1	86	13.0%	723	746	23	58	81
Prime Growth	0.9	93	11.6%	556	527	-29	106	77

Note: No. of days of impact at time of regular reconfigurations calculated on the assumption of a passive fund managing ¥100bn of assets. Based on regular reconfiguration as of December 2012. However, market caps are as of end-November 2012.

Source: Nomura

5.3. Minimum unit of investment required to establish a fund

Figure 17 shows the minimum unit of investment required to start up fully passive funds that track each index. The minimum unit of investment is calculated as follows:

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

Since the minimum unit of investment to establish a fund is calculated by dividing the minimum investment value of component stocks by their weighting within the fund, the smaller the minimum investment value of component stocks, the smaller the minimum unit of investment. Also, the greater the weightings of component stocks, the smaller the minimum unit of investment.

Fig. 17: Minimum unit of investment required to establish a new fund

Index	Minimum unit of investment (¥bn)	(Ref) Index market cap (¥trn)	(Ref) number of stocks
Total Market	30.1	184	1,500
Value	50.3	89	1,159
Growth	141.5	94	712
Large	1.0	158	350
Large Value	4.5	71	218
Large Growth	5.6	87	239
Top	0.1	92	60
Top Value	0.1	39	34
Top Growth	0.1	53	45
Mid	0.4	66	290
Mid Value	2.0	32	184
Mid Growth	2.2	34	194
Mid-Small	15.0	91	1,440
Mid-Small Value	28.2	50	1,125
Mid-Small Growth	62.2	42	667
Small	4.2	25	1,150
Small Value	10.0	18	941
Small Growth	11.4	8	473
Small Core	1.2	16	350
Small Core Value	2.0	11	274
Small Core Growth	0.7	5	167
Micro	1.6	9	800
Micro Value	3.9	7	667
Micro Growth	3.8	3	306
Prime	18.5	179	1,000
Prime Value	29.5	86	746
Prime Growth	139.8	93	527

Note: Based on regular reconfiguration as of December 2012. However, market caps are as of end-November 2012.

Source: Nomura

5.4. Estimated no. of days of impact at the time of establishing a fund

Figure 18 shows the estimated no. of days of impact needed to start up fully passive funds that track each index. The calculation method is the same as that in 5.3.

Fig. 18: No. of days of impact at the time of establishing a new fund

Index	Maximum (days)	(Ref) Index market cap (¥trn)
Total Market	5.0	184
Value	10.3	89
Growth	4.8	94
Large	1.3	158
Large Value	1.5	71
Large Growth	2.3	87
Top	0.5	92
Top Value	0.9	39
Top Growth	0.8	53
Mid	3.0	66
Mid Value	3.4	32
Mid Growth	5.9	34
Mid-Small	10.0	91
Mid-Small Value	18.3	50
Mid-Small Growth	11.0	42
Small	36.1	25
Small Value	51.6	18
Small Growth	60.0	8
Small Core	23.3	16
Small Core Value	13.3	11
Small Core Growth	72.5	5
Micro	96.3	9
Micro Value	130.8	7
Micro Growth	181.7	3
Prime	2.1	179
Prime Value	2.5	86
Prime Growth	4.0	93

Note: Number of days of impact required to create a portfolio of component stocks is calculated on the assumption of a fully passive fund managing ¥100bn of assets. Based on regular reconfiguration as of December 2012. However, market caps are as of end-November 2012.

Source: Nomura

6. Data publication services

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- Index values are published in the following media:
 - * Bloomberg (RNJI)
 - * Jiji (SQ21, SQ22, SQ23, SQ24)
 - * QUICK (NRIJ500–503, 510–517)
 - * Reuters (FRCNRI01, FRCNRI02, FRCNRI03, FRCNRI04)
 - * Our website (<http://qr.nomuraholdings.com/en/frcnri/index.html>)
- Real-time index values for the Russell/Nomura Prime Index are published in the following media:
 - * Bloomberg (RNPJ <INDEX>)
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- More detailed data

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For information, contact:

Nomura Research Institute

Investment Information Systems Business Department

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e-mail: ids-sales@nri.co.jp

- Other reports:

Rulebook:

Russell/Nomura Japan Equity Indexes rulebook

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Index Products Group

Quant Research Department

Global Markets Research, Japan

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Appendix A-1

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Margin transactions are subject to a sales commission of up to 1.365% (tax included) of the transaction amount (or a commission of ¥2,730 (tax included) for transactions of ¥200,000 or less), as well as management fees and rights handling fees. In addition, long margin transactions are subject to interest on the purchase amount, while short margin transactions are subject to fees for the lending of the shares borrowed. A margin equal to at least 30% of the transaction amount and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

Transactions involving convertible bonds are subject to a sales commission of up to 1.05% (tax included) of the transaction amount (or a commission of ¥4,200 (tax included) if this would be less than ¥4,200). When convertible bonds are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

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

When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index.

Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.25% (tax included) 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 5.25% (tax included, 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.

No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,500 (tax included) per issue transferred depending on volume.

Nomura Securities Co., Ltd.

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