

Russell/Nomura Japan Equity Indexes 2014 handbook

EQUITY QUANTITATIVE RESEARCH (INDEX)

Global Markets Research

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Japan index products

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This report constitutes the Russell/Nomura Japan Equity Indexes 2014 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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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. Russell stands with institutional investors, financial advisors and individuals working with their advisors—using the firm's core capabilities that extend across capital market insights, manager research, portfolio construction, portfolio implementation and indexes to help each achieve their desired investment outcomes.

Russell has more than \$259 billion in assets under management (as of 31 March 2014) 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 \$2.4 trillion in assets under advisement (as of 30 June 2013). 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 \$1.4 trillion in 2012 through its implementation services business. Russell also calculates approximately 700,000 benchmarks daily covering 98% of the investable market globally, including more than 80 countries and more than 10,000 securities. Approximately \$5.2 trillion in assets are benchmarked to the Russell Indexes, which have provided investors with 30 years of smarter beta.

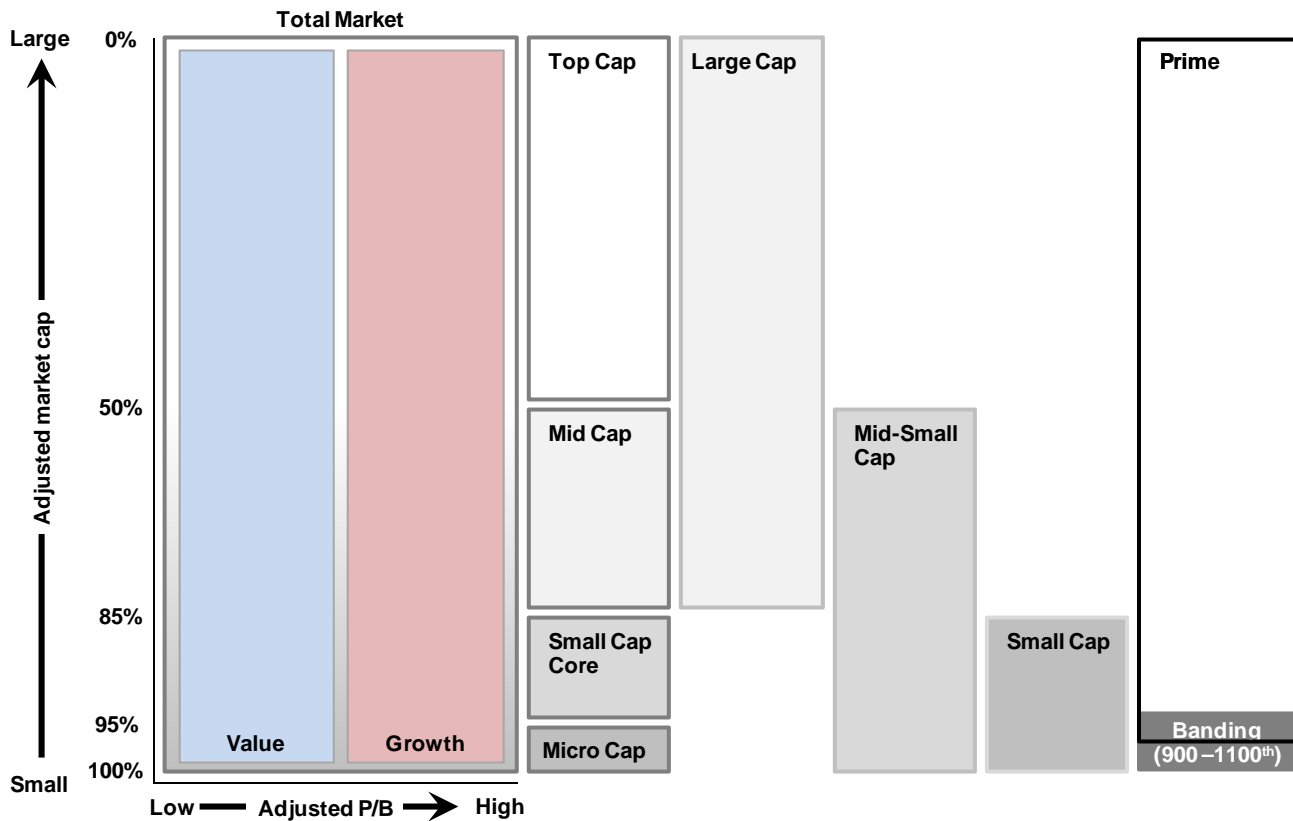
Headquartered in Seattle, Washington, Russell operates globally, including through its offices in Seattle, New York, London, Paris, Amsterdam, Sydney, Melbourne, Auckland, Singapore, Seoul, Tokyo, Beijing, Toronto, Chicago, San Diego, Milwaukee and Edinburgh. For more information about how Russell helps 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 adjusted P/B ratio as their determinant, 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 (¥trn)		
	Russell/Nomura	Total market	Russell/Nomura (adjusted for stable shareholdings)	Russell/Nomura (not adjusted for stable shareholdings)	Total market (not adjusted for stable shareholdings)
TSE-1	1,278	1,761	295	440	446
Other	122	1,767	4	10	21
Total	1,400	3,528	300	450	468

Note: Russell/Nomura here stands for Russell/Nomura Total Market Index. Number of stocks, market cap, and market classification (in order of TSE, NSE, FSE, SSE) are as of end-Nov 2013, but figures for Russell/Nomura are based on constituent stocks after the regular reconfiguration of Dec 2013.

Source: Nomura

Figure 3 shows the number of stocks, share of total market cap, and stocks with largest and smallest market cap for each index at the time of the regular reconfiguration.

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

Index	Number of stocks	% of total market cap	Market cap of largest and smallest stock (¥bn)	
			Largest	Smallest
Total Market	1,400	100.0%	12,534.4	9.2
Value	1,043	50.1%	7,598.4	0.7
Growth	686	49.9%	11,296.2	0.5
Large	300	84.5%	12,534.4	166.3
Large Value	194	40.0%	7,598.4	12.5
Large Growth	197	44.5%	11,296.2	10.9
Top	60	51.4%	12,534.4	1,072.6
Top Value	38	22.8%	7,598.4	163.0
Top Growth	44	28.7%	11,296.2	146.7
Mid	240	33.1%	1,049.7	166.3
Mid Value	156	17.3%	1,049.7	12.5
Mid Growth	153	15.8%	986.7	10.9
Mid-Small	1,340	48.6%	1,049.7	9.2
Mid-Small Value	1,005	27.4%	1,049.7	0.7
Mid-Small Growth	642	21.2%	986.7	0.5
Small	1,100	15.5%	165.4	9.2
Small Value	849	10.1%	164.2	0.7
Small Growth	489	5.4%	165.4	0.5
Small Core	350	10.2%	65.4	42.0
Small Core Value	258	6.3%	164.2	3.0
Small Core Growth	188	3.9%	65.4	2.4
Micro	750	5.2%	42.0	9.2
Micro Value	591	3.7%	42.0	0.7
Micro Growth	301	1.5%	40.2	0.5
Prime	1,000	98.2%	12,534.4	16.7
Prime Value	741	48.9%	7,598.4	1.7
Prime Growth	522	49.3%	11,296.2	0.9

Note: Figures for Total Market are based on constituent stocks at the regular configuration of Dec 2013. Market cap data as of end-Nov 2013.

Source: Nomura

3.2. Number of stocks at time of regular reconfiguration

Figure 4 shows the number of stocks in each index at the time of past regular reconfigurations.

Fig. 4: Number of constituent stocks

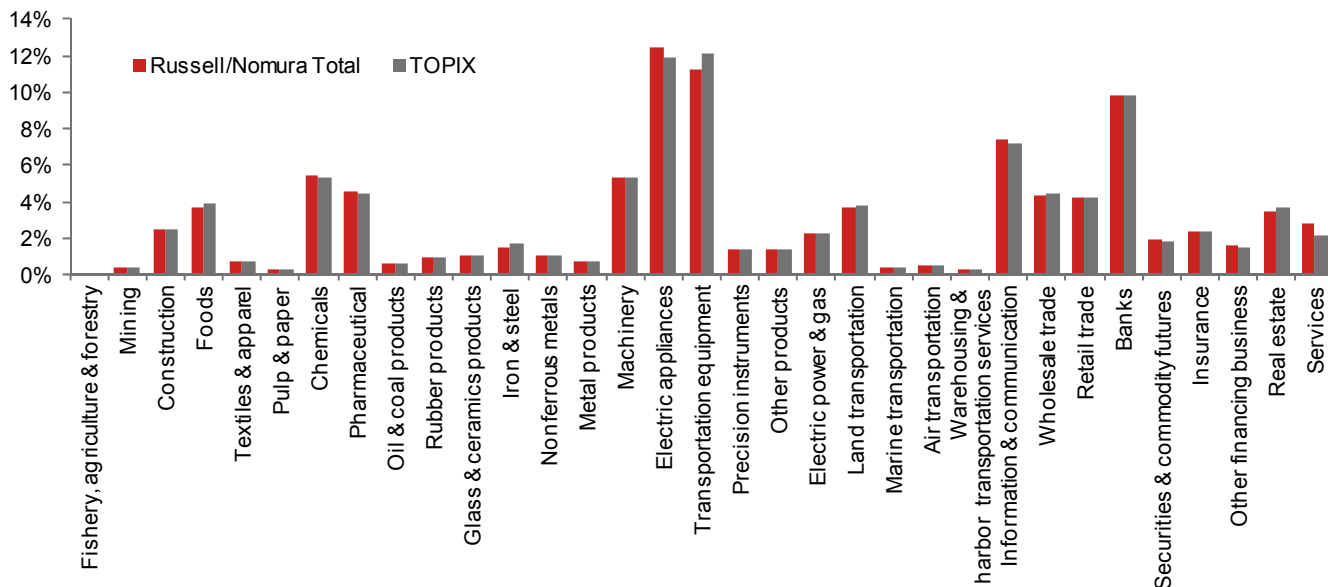
(yyyymm)	Total		Large	Small	Prime	
	Value	Growth				
198101	1,091	656	713	400	691	-
198201	1,091	708	642	400	691	-
198301	1,091	766	592	400	691	-
198401	1,091	738	630	400	691	-
198501	1,104	706	672	400	704	-
198601	1,142	733	762	400	742	-
198701	1,142	833	672	400	742	-
198801	1,199	860	765	400	799	-
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
201312	1,400	1,043	686	300	1,100	1,000

Source: Nomura

3.3. Sector allocations

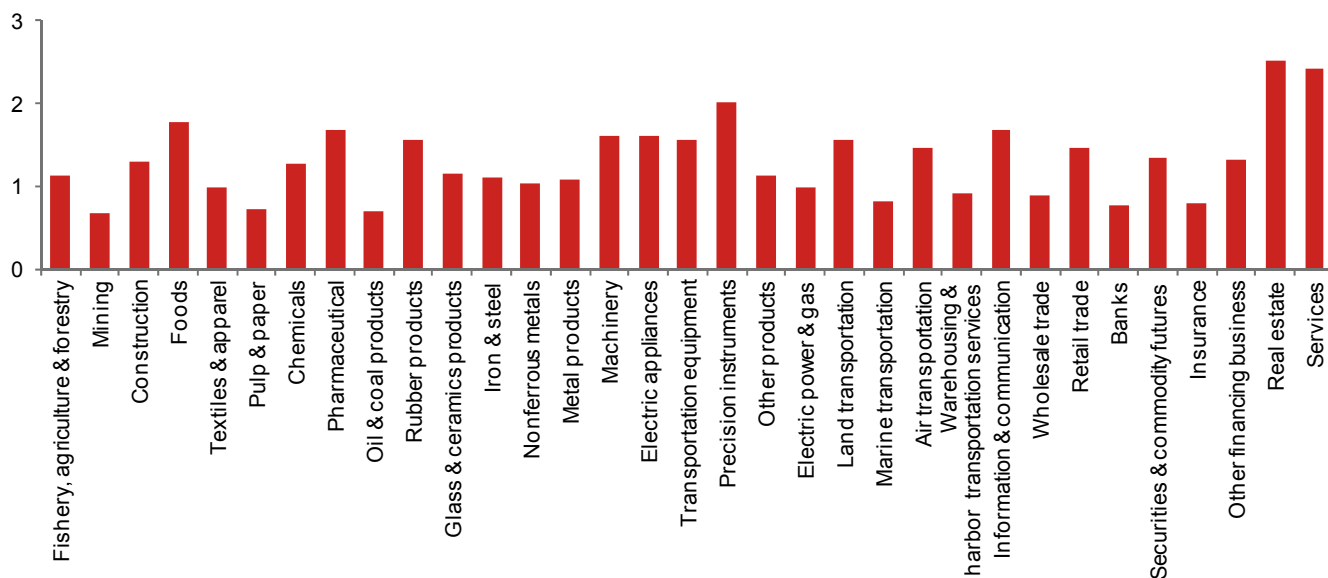
Figure 5 shows the composition of the Russell/Nomura Total Market Index in terms of 33 sector classifications. Compared with the TOPIX, the Russell/Nomura Total Market Index contains a higher proportion of stocks in the electric appliance sector and a lower proportion of stocks in the transportation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

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



Note: Figures for Russell/Nomura Total are based on constituent stocks after the regular reconfiguration of Dec 2013. Market caps as of end-Nov 2013.
Source: Nomura

Fig. 6: Average adjusted P/B ratio by sector for the Russell/Nomura Total Market Index



Note: Market caps as of 15 Oct 2013, the date of determination for the regular reconfiguration. Constituent stocks are those at the regular reconfiguration of Dec 2013. Average adjusted P/B = [sum of share prices of stocks included] / [sum of BPS adjusted for unrealized gains/losses for stocks included].
Source: Nomura

3.4. 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	8306	Mitsubishi UFJ FG	7203	Toyota Motor
2	8306	Mitsubishi UFJ FG	8316	Sumitomo Mitsui FG	9984	Softbank
3	8316	Sumitomo Mitsui FG	8411	Mizuho FG	2914	Japan Tobacco
4	7267	Honda Motor	9432	Nippon Telegraph and Telephone	6954	Fanuc
5	9984	Softbank	7267	Honda Motor	8802	Mitsubishi Estate
6	8411	Mizuho FG	8058	Mitsubishi Corp	9433	KDDI
7	9432	Nippon Telegraph and Telephone	8604	Nomura HD	4502	Takeda Pharmaceutical
8	2914	Japan Tobacco	8031	Mitsui & Co	8801	Mitsui Fudosan
9	7751	Canon	7201	Nissan Motor	7751	Canon
10	4502	Takeda Pharmaceutical	8766	Tokio Marine HD	3382	Seven & i HD

Rank	Mid		Mid Value		Mid Growth	
1	5020	JX HD	5020	JX HD	9201	Japan Airlines
2	1605	Inpex	1605	Inpex	7741	Hoya
3	4578	Otsuka HD	4578	Otsuka HD	4523	Eisai
4	5802	Sumitomo Electric Industries	5802	Sumitomo Electric Industries	4755	Rakuten
5	9201	Japan Airlines	8308	Resona HD	6988	Nitto Denko
6	7741	Hoya	4901	Fujifilm HD	2502	Asahi Group HD
7	8308	Resona HD	8630	NKSJ HD	6594	Nidec
8	4901	Fujifilm HD	9503	Kansai Electric Power	8035	Tokyo Electron
9	8035	Tokyo Electron	9502	Chubu Electric Power	4661	Oriental Land
10	4523	Eisai	9501	Tokyo Electric Power	1963	JGC

Rank	Small Core		Small Core Value		Small Core Growth	
1	9989	Sundrug	8327	Nishi-Nippon City Bank	9989	Sundrug
2	4042	Tosoh	4114	Nippon Shokubai	4205	Zeon
3	4205	Zeon	9301	Mitsubishi Logistics	2413	M3
4	8327	Nishi-Nippon City Bank	7762	Citizen HD	4684	Obic
5	2433	Hakuhodo DY HD	4118	Kaneka	6141	DMG Mori Seiki
6	4506	Dainippon Sumitomo Pharma	4042	Tosoh	7649	Sugi HD
7	2413	M3	5019	Idemitsu Kosan	4666	Park24
8	7762	Citizen HD	5232	Sumitomo Osaka Cement	6754	Anritsu
9	4684	Obic	5471	Daido Steel	7313	TS Tech
10	4114	Nippon Shokubai	4217	Hitachi Chemical	3659	Nexon

Rank	Micro		Micro Value		Micro Growth	
1	6773	Pioneer	6773	Pioneer	4997	Nihon Nohyaku
2	7280	Mitsuba	1924	PanaHome	4708	Moshi Moshi Hotline
3	1924	PanaHome	8871	Goldcrest	2337	Ichigo Group HD
4	7915	Nissha Printing	8342	Aomori Bank	3076	Ai HD
5	7014	Namura Shipbuilding	5851	Ryobi	8703	Kabu.com Securities
6	8613	Marusan Securities	8522	Bank of Nagoya	5959	Okabe
7	8871	Goldcrest	5975	Topre	2160	GNI Group
8	5959	Okabe	6816	Alpine Electronics	4564	OncoTherapy Science
9	4548	Seikagaku	4921	Fancl	2489	Adways
10	8342	Aomori Bank	7014	Namura Shipbuilding	3715	Dwango

Rank	Prime		Prime Value		Prime Growth	
1	7203	Toyota Motor	8306	Mitsubishi UFJ FG	7203	Toyota Motor
2	8306	Mitsubishi UFJ FG	8316	Sumitomo Mitsui FG	9984	Softbank
3	8316	Sumitomo Mitsui FG	8411	Mizuho FG	2914	Japan Tobacco
4	7267	Honda Motor	9432	Nippon Telegraph and Telephone	6954	Fanuc
5	9984	Softbank	7267	Honda Motor	8802	Mitsubishi Estate
6	8411	Mizuho FG	8058	Mitsubishi Corp	9433	KDDI
7	9432	Nippon Telegraph and Telephone	8604	Nomura HD	4502	Takeda Pharmaceutical
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9	7751	Canon	7201	Nissan Motor	7751	Canon
10	4502	Takeda Pharmaceutical	8766	Tokio Marine HD	3382	Seven & i HD

Note: As of 15 Oct 2013, the date of determination for the regular reconfiguration. FG = Financial Group, HD = Holdings.

Source: Nomura

4. Performance analysis

4.1. Annual returns

Fig. 8: Annual returns on individual indexes

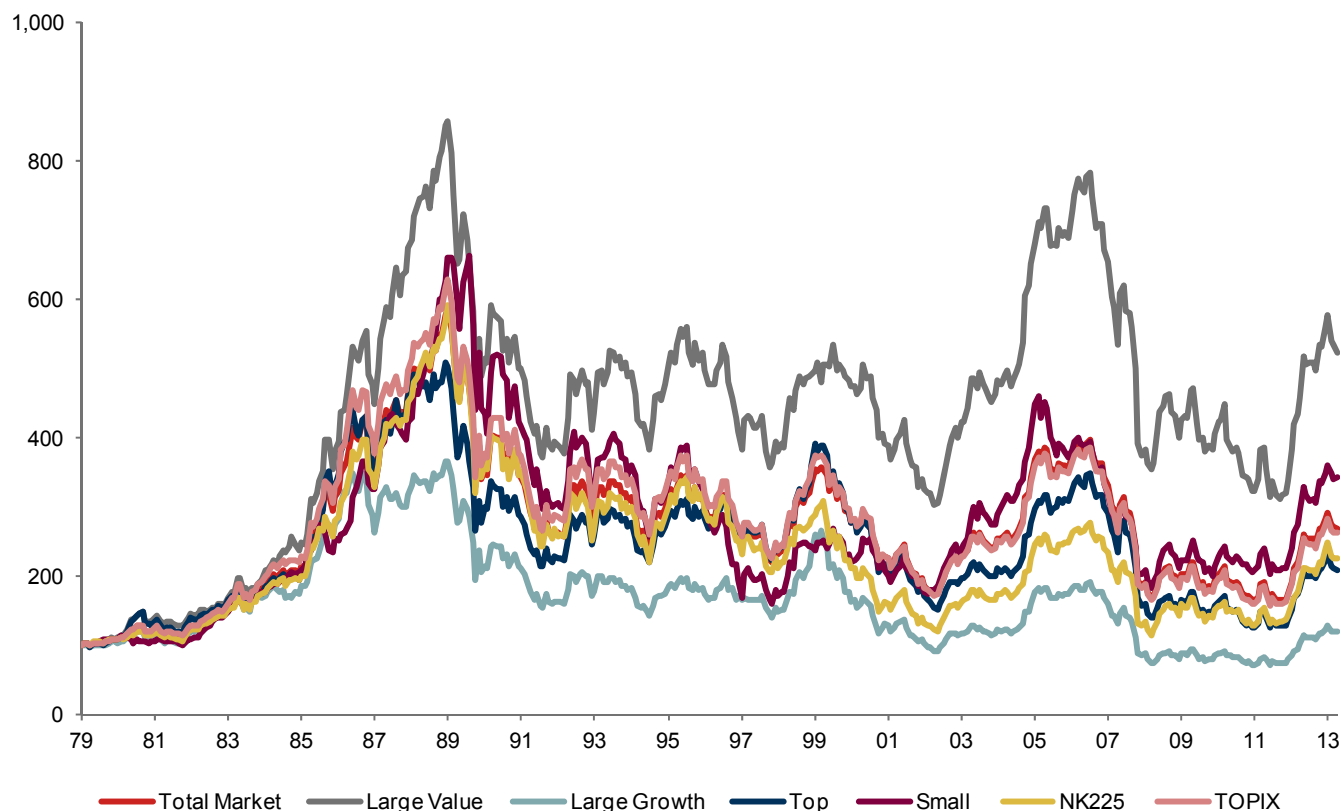
Index	Excluding dividends					Including dividends				
	1 yr	2 yrs	5 yrs	10 yrs	Jan 2001–	1 yr	2 yrs	5 yrs	10 yrs	Jan 2001–
Total Market	16.64%	18.99%	10.66%	2.15%	1.46%	18.68%	21.17%	12.76%	3.91%	3.06%
Value	15.93%	18.09%	10.17%	3.21%	3.42%	18.15%	20.43%	12.39%	5.05%	5.13%
Growth	17.38%	19.92%	11.23%	1.06%	-0.49%	19.19%	21.92%	13.22%	2.74%	0.99%
Large	16.56%	18.79%	10.16%	1.90%	0.88%	18.62%	20.99%	12.28%	3.68%	2.47%
Large Value	15.60%	17.87%	9.41%	2.73%	2.58%	17.91%	20.26%	11.66%	4.59%	4.29%
Large Growth	17.45%	19.70%	10.94%	1.20%	-0.53%	19.32%	21.76%	12.95%	2.90%	0.97%
Top	15.33%	18.83%	10.06%	1.65%	-0.23%	17.65%	21.29%	12.41%	3.57%	1.46%
Top Value	13.89%	18.27%	9.51%	2.83%	1.34%	16.56%	20.94%	11.97%	4.79%	3.11%
Top Growth	16.52%	19.61%	10.90%	1.03%	-1.18%	18.52%	21.87%	13.14%	2.92%	0.45%
Mid	18.44%	18.85%	10.45%	2.28%	2.64%	20.22%	20.74%	12.28%	3.86%	4.11%
Mid Value	17.84%	17.38%	9.64%	2.85%	4.11%	19.69%	19.37%	11.61%	4.57%	5.73%
Mid Growth	19.25%	20.06%	11.27%	1.63%	0.68%	20.85%	21.78%	12.95%	3.07%	1.97%
Mid-Small	18.04%	19.21%	11.34%	2.64%	3.34%	19.82%	21.11%	13.22%	4.26%	4.85%
Mid-Small Value	17.66%	18.01%	10.99%	3.71%	5.13%	19.55%	20.03%	13.00%	5.46%	6.78%
Mid-Small Growth	18.62%	20.39%	11.83%	1.21%	0.53%	20.21%	22.12%	13.53%	2.65%	1.82%
Small	16.85%	20.09%	13.36%	3.40%	4.98%	18.64%	22.06%	15.32%	5.08%	6.57%
Small Value	17.25%	19.11%	13.09%	5.01%	6.85%	19.21%	21.22%	15.16%	6.82%	8.57%
Small Growth	16.34%	22.16%	14.16%	0.25%	0.51%	17.76%	23.82%	15.86%	1.68%	1.79%
Small Core	16.83%	19.42%	13.10%	3.34%	4.40%	18.58%	21.34%	15.01%	4.99%	5.95%
Small Core Value	16.10%	18.07%	12.20%	4.84%	6.34%	17.97%	20.10%	14.20%	6.60%	8.01%
Small Core Growth	18.50%	21.77%	15.01%	0.74%	0.29%	20.00%	23.49%	16.77%	2.20%	1.59%
Micro	17.31%	21.43%	13.90%	3.52%	6.01%	19.17%	23.47%	15.91%	5.26%	7.66%
Micro Value	19.26%	20.89%	14.63%	5.31%	7.69%	21.33%	23.11%	16.81%	7.21%	9.49%
Micro Growth	12.58%	23.05%	11.97%	-1.01%	0.99%	13.88%	24.58%	13.54%	0.33%	2.21%
Prime	16.65%	18.94%	10.59%	2.16%	1.38%	18.68%	21.10%	12.69%	3.93%	2.97%
Prime Value	15.88%	18.05%	10.03%	3.19%	3.29%	18.10%	20.38%	12.25%	5.04%	4.99%
Prime Growth	17.42%	19.82%	11.21%	1.12%	-0.48%	19.25%	21.84%	13.19%	2.81%	1.00%
TOPIX	16.56%	19.05%	10.54%	1.95%	1.17%	18.59%	21.21%	12.61%	3.70%	2.76%

Note: As of end-Mar 2014. 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 Dec 1979–Mar 2014; indexed to end-Dec 1979 = 100.
Source: Nomura

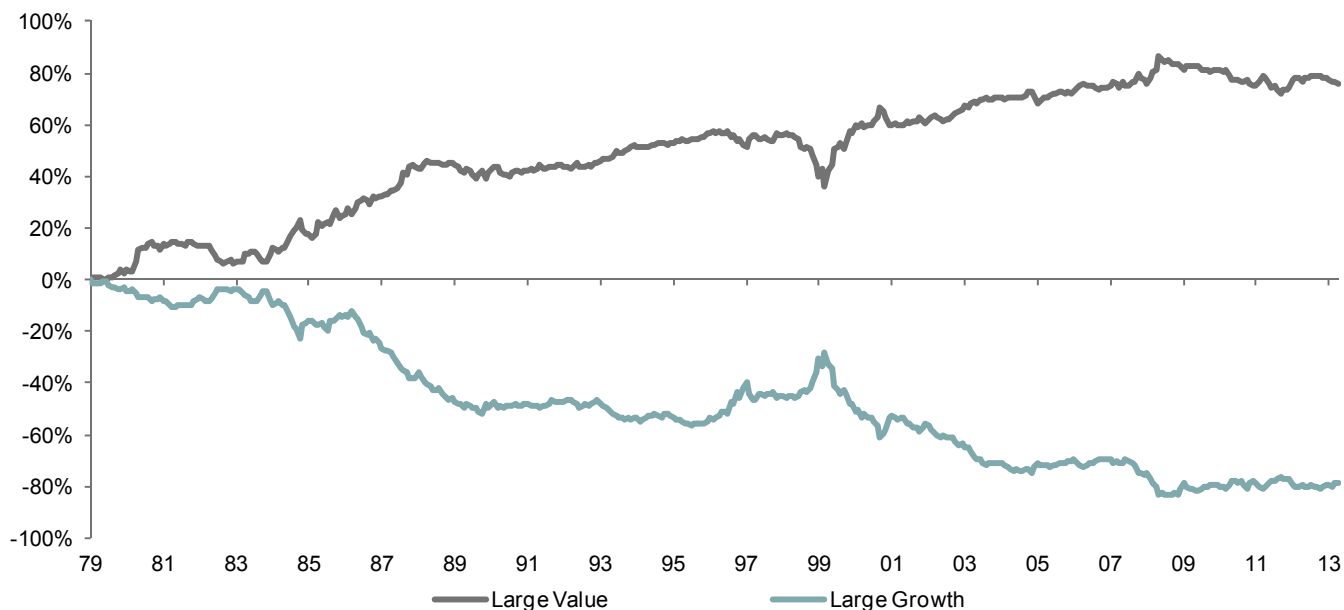
Fig. 10: Correlation coefficients for monthly returns on main indexes

	Average returns	Standard deviation	Russell/Nomura	TOPIX	Nikkei Average
Russell/Nomura	4.58%	18.31%	1		
TOPIX	4.57%	18.70%	0.9945	1	
Nikkei Average	4.41%	20.04%	0.9605	0.9594	1

Note: Russell/Nomura stands for Russell/Nomura Total Market Index. Based on monthly returns (excluding dividends) in Jan 1980–Mar 2014. Average return and standard deviation data are annualized.
Source: Nomura

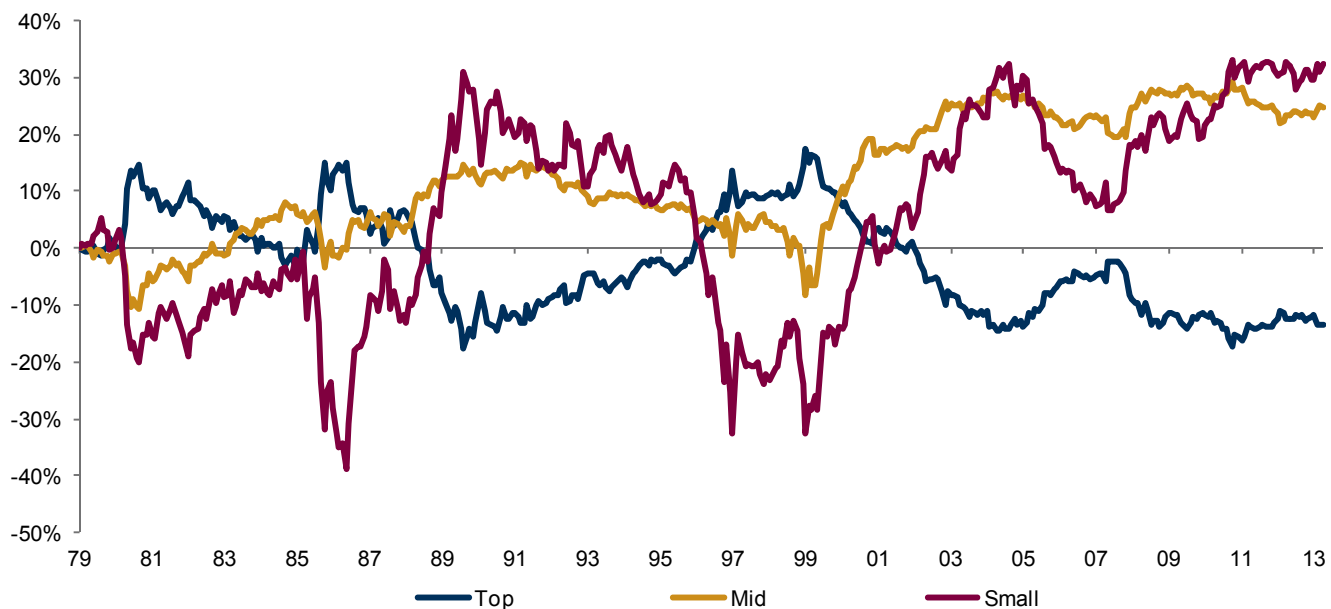
4.3. Relative performance of style indexes

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



Note: Cumulative excess return on each index versus the Russell/Nomura Total Market Index, Jan 1980–Mar 2014. Monthly returns (including dividends).
 Source: Nomura

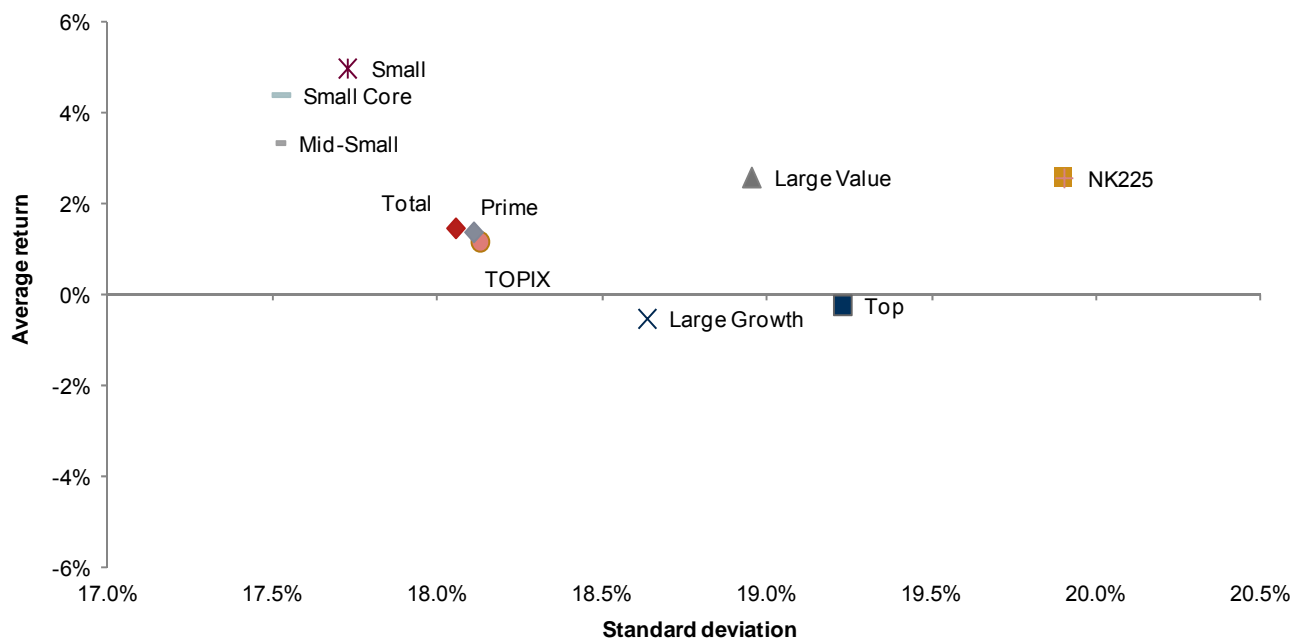
Fig. 12: Cumulative excess returns on indexes by size



Note: Cumulative excess return on each index versus the Russell/Nomura Total Market Index, Jan 1980–Mar 2014. Monthly returns (including dividends).
 Source: Nomura

4.4. Risk-return characteristics of individual indexes

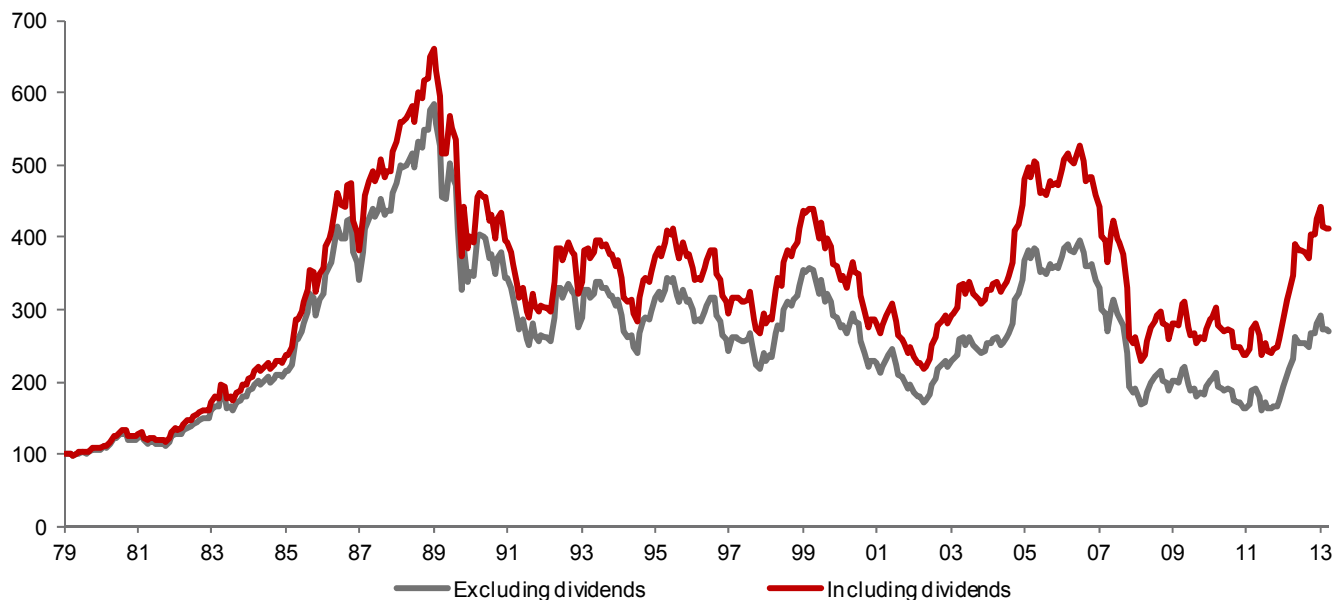
Fig. 13: Average performance and standard deviation of individual indexes



Note: Monthly returns (excluding dividends), Jan 2001–Mar 2014, annualized.
Source: Nomura

4.5. Impact of dividends

Fig. 14: Impact of dividends on the performance of the Russell/Nomura Total Market Index



Note: Monthly performance Dec 1979–Mar 2014; indexed to end-Dec 1979 = 100.
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%
201312	1.6%	16.1%	16.5%	3.2%	20.1%	1.7%
Average	2.5%	17.0%	17.8%	4.0%	17.6%	2.2%

Note: Turnover ratio is $[\sum | \text{market cap weighting before reconfiguration} - \text{market cap weighting after reconfiguration} | / 2]$, 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 number 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—then the greater the number of days of impact.

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

Index	No. of days of impact Maximum (days)	Turnover ratio (one-way)	Index market cap (¥trn)	Number of stocks				
				Before	After	Change	Out	In
Total Market	2	1.6%	300	1,481	1,400	-81	165	84
Value	4	16.1%	150	1,146	1,043	-103	211	108
Growth	3	16.5%	150	700	686	-14	183	169
Large	1	3.2%	253	349	300	-49	58	9
Large Value	1	18.4%	120	218	194	-24	56	32
Large Growth	1	17.5%	133	238	197	-41	66	25
Top	1	6.8%	154	60	60	0	7	7
Top Value	1	21.4%	68	34	38	4	5	9
Top Growth	1	22.2%	86	45	44	-1	11	10
Mid	1	16.2%	99	289	240	-49	65	16
Mid Value	2	23.3%	52	184	156	-28	56	28
Mid Growth	2	28.2%	47	193	153	-40	63	23
Mid-Small	4	7.8%	146	1,421	1,340	-81	172	91
Mid-Small Value	7	16.7%	82	1,112	1,005	-107	211	104
Mid-Small Growth	7	23.4%	64	655	642	-13	180	167
Small	14	20.1%	46	1,132	1,100	-32	173	141
Small Value	20	23.4%	30	928	849	-79	195	116
Small Growth	36	42.3%	16	462	489	27	153	180
Small Core	9	32.0%	31	348	350	2	89	91
Small Core Value	7	32.4%	19	273	258	-15	79	64
Small Core Growth	29	50.6%	12	165	188	23	65	88
Micro	37	26.0%	16	784	750	-34	195	161
Micro Value	50	28.7%	11	655	591	-64	188	124
Micro Growth	107	48.1%	4	297	301	4	127	131
Prime	1	1.7%	294	990	1,000	10	48	58
Prime Value	1	16.3%	146	740	741	1	89	90
Prime Growth	2	16.5%	148	521	522	1	113	114

Note: Based on constituents' data at the regular reconfiguration of Dec 2013. Number of days of impact is estimated on the basis of average turnover for the year to 15 Oct 2013, assuming regular reconfiguration with a ¥100bn passive fund (tracking). Market cap data as of end-Nov 2013.

Source: Nomura

5.3. Estimating number of days of impact and minimum unit of investment when starting a fund

Figure 17 shows the minimum unit of investment and number of days of impact when starting a passive fund that tracks each index based on the full replication approach.

Minimum unit of investment is calculated as shown below. As it is calculated by dividing the minimum investment amount for the constituent stocks by the weighting of the constituent stocks, the smaller the minimum investment amount for the constituent stocks, or the larger the weighting of the constituent stocks, the smaller the minimum unit of investment will be.

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

The calculation of number of days of impact is the same as in section 5.2.

Fig. 17: Number of days of impact and minimum unit of investment when starting a fund

Index	No. of days of impact Maximum (days)	Minimum unit of investment (¥bn)	Index market cap (¥trn)	Number of stocks
Total Market	2	30.7	300	1,400
Value	4	32.9	150	1,043
Growth	2	117.2	150	686
Large	1	1.5	253	300
Large Value	1	2.7	120	194
Large Growth	1	2.9	133	197
Top	1	0.2	154	60
Top Value	1	0.2	68	38
Top Growth	1	0.4	86	44
Mid	2	0.6	99	240
Mid Value	2	1.2	52	156
Mid Growth	2	1.0	47	153
Mid-Small	4	14.9	146	1,340
Mid-Small Value	7	17.9	82	1,005
Mid-Small Growth	4	49.9	64	642
Small	11	4.8	46	1,100
Small Value	17	6.6	30	849
Small Growth	14	12.7	16	489
Small Core	4	0.7	31	350
Small Core Value	5	2.1	19	258
Small Core Growth	8	1.0	12	188
Micro	32	1.6	16	750
Micro Value	44	2.5	11	591
Micro Growth	49	3.5	4	301
Prime	1	30.1	294	1,000
Prime Value	2	32.1	146	741
Prime Growth	1	115.9	148	522

Note: Based on constituents' data at the regular reconfiguration of Dec 2013. Number of days of impact is estimated on the basis of average turnover for the year to 15 Oct 2013, assuming investment with a ¥100bn passive fund (tracking) in mind. Market cap data as of end-Nov 2013.

Source: Nomura

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Data for the Russell/Nomura Japan Equity Indexes can be obtained via the following channels.

- Index values are published in the following media:
 - * Bloomberg (RNJI)
 - * Jiji (SQ21, SQ22, SQ23, SQ24)
 - * QUICK (NRIJ500–503, 510–517)
 - * Reuters (FRCNRI01, FRCNRI02, FRCNRI03, FRCNRI04)
 - * Our website (<http://qr.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>)
 - * Jiji (RT14 or RNPF/2)
 - * QUICK (140)
 - * Reuters (.JRN)
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 - * Bloomberg (RNSCC <INDEX>)
 - * Jiji (RT14 or RNSCC/NOMURA)
 - * QUICK (130)
 - * Reuters (.JRNSC)

- More detailed data

More detailed data on index values and individual stock information can be obtained through Nomura Research Institute services Aurora, e-Aurora, and IDS.

For information, contact:

Nomura Research Institute

Investment Information Systems Business Department

+81-45-277-9260

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

- Other reports:

Rulebook:

Russell/Nomura Japan Equity Indexes rulebook

Monthly report:

Russell/Nomura Japan Equity Indexes performance summary

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For further information on the indexes

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Index Products Group

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Appendix A-1

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

Transactions involving foreign equities are subject to a domestic sales commission of up to 1.026% of the transaction amount (which equals the local transaction amount plus local fees and taxes in the case of a purchase or the local transaction amount minus local fees and taxes in the case of a sale) (for transaction amounts of ¥750,000 and below, maximum domestic sales commission is ¥7,668). Local fees and taxes in

foreign financial instruments markets vary by country/territory. When foreign equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Foreign equities carry the risk of losses owing to factors such as price fluctuations and foreign exchange rate fluctuations.

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

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

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

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

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

Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract.

In interest rate swap transactions and USD/JPY basis swap transactions ("interest rate swap transactions, etc."), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

No account fee will be charged for marketable securities or monies deposited. Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,800 per issue transferred depending on volume.

Nomura Securities Co., Ltd.

Financial instruments firm registered with the Kanto Local Finance Bureau (registration No. 142)

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