

Research Analysts

[Japan index products](#)

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Index rulebook

Another high-dividend strategy index

The Nomura Japan Equity High Dividend 70, Total Dividend Weighted ("the index" hereafter) is an index designed to enable investors to realize a high dividend strategy through passive investment, as with the Nomura Japan Equity High Dividend 70. It has been designed so that the concept for the Nomura Japan Equity High Dividend 70 can easily be achieved when managing assets on a larger scale.

Weights of constituent stocks determined using total dividends

The weights of constituent stocks in the index are based on a weighted-average methodology using total dividends (average total dividend of a component stock as a percentage of the total), and it is not a market cap-based index. The index is thus designed so that the trading impact at the time of index reconfigurations is smaller than with the Nomura Japan Equity High Dividend 70, which is an equally weighted index. At the same time, the weight of a constituent stock can be no greater than 5%, thus avoiding a rise in the turnover ratio on the date of the periodic reconfiguration that arises when there is excessive exposure to certain stocks. Rebalancing at different times than the Nomura Japan Equity High Dividend 70 also avoids periodic reconfiguration trading being concentrated at one time.

DOE screening used

The quality and stability of dividends is taken into account by screening for dividend on equity (DOE; total dividends divided by shareholders' equity). An increase in total dividends or a decline in shareholders' equity resulting from share buybacks both raise DOE, and it is possible to evaluate shareholder returns from the standpoint of both dividend policy and share buybacks. We use the average of the current-FY forecast and the most recent actual figure as the dividend-related indicator, and think this will curb abrupt index reconfigurations and reduce the turnover ratio.

Fig. 1: Comparison of Nomura Japan Equity High Dividend 70 and Nomura Japan Equity High Dividend 70, Total Dividend Weighted

	Nomura Japan Equity High Dividend 70	Nomura Japan Equity High Dividend 70, Total Dividend Weighted
No. of stocks	70	70
Weighting method	Equally weighted	Total dividend average (5% limit)
DOE screening	None	Top two-thirds in average DOE
Periodic reconfiguration	Every December	Every February
Rebalancing band	Yes	Yes
Deletion for skipping dividend	Yes	No

Source: Nomura

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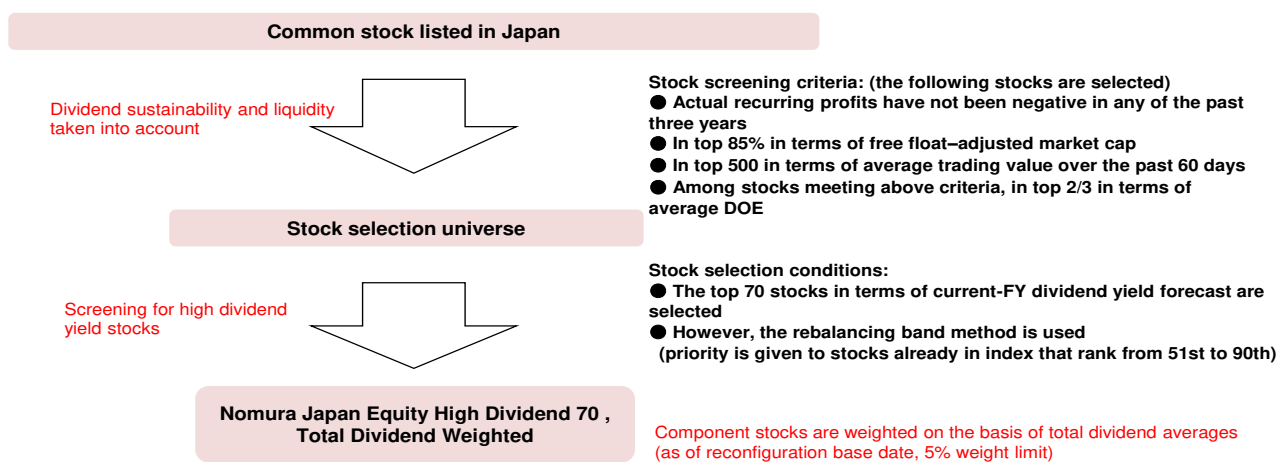
1. Overview of index

The Nomura Japan Equity High Dividend 70, Total Dividend Weighted ("the index" hereafter) is an index designed to enable investors to realize a high dividend strategy through passive investment, as with the Nomura Japan Equity High Dividend 70. It has been designed so that the weighting concept can easily be achieved when managing assets on a larger scale.

Characteristics of index

- Enables investors to realize a high dividend strategy through passive investment, as with the Nomura Japan Equity High Dividend 70
- Index design considers stronger focus on investability, giving consideration to managing assets on a larger scale
- Focuses on total returns for long-term investors

Fig. 2: Composition of Nomura Japan Equity High Dividend 70, Total Dividend Weighted



Source: Nomura

2. Stock selection

2.1. Stock selection universe

The universe of stocks eligible for inclusion in the index is all listed stocks¹⁾ as of 15 October (or the business day before this if 15 October is a non-business day; this is called the stock selection universe fixing date) in the year before the periodic reconfiguration date discussed later (see 3.1). However, the following stocks are excluded.

- Equities other than common stock

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

- Stocks assigned for delisting

Stocks designated as securities to be delisted are not included in the stock selection universe.

- Stocks under supervision

Stocks designated as securities under supervision are not included in the stock selection universe.

- TOB target companies

Stocks that are the targets of tender offers (TOB) may be excluded from the universe of stock selection if and only if all of the following requirements are met:

-the offer close date falls between the stock selection universe fixing date and the periodic reconfiguration date;

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

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

- Listed investment trusts/REITs
- Foreign stocks

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

- Other exceptions

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

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

2.2. Stock selection method^[2]

Stocks are selected for the index as defined in Section 2.1 above. A total of 70 stocks with a high current-FY dividend yield^[3] are selected after taking into account the stock screening criteria and rebalancing band, as set out below^[4].

Stock screening criteria

These are rules aimed at limiting inclusion in the index of stocks for which there are doubts about dividend sustainability and low-liquidity stocks such as those with a low free float-adjusted market cap. Stocks that meet all of the following criteria on the periodic reconfiguration base date (see Section 3.2 below) are eligible for inclusion in the index.

- Actual recurring profits have not been negative in any of the past three years^[5].
- In the top 85% in terms of free float-adjusted market capitalization^[6].
- In the top 500 in terms of average trading value over the past 60 days.
- Stocks are chosen from those that meet the above three criteria and that also rank in the top two-thirds in terms of average DOE^[7].

-
2. The stock selection criteria may be revised at Nomura's discretion in response to changes in the economic situation, for example. In such a case, however, a revised rulebook would be published at least two weeks before the periodic reconfiguration date.
 3. The current-FY dividend yield forecast for each stock is calculated by dividing the expected dividend per share (or the lowest expected dividend per share if a forecast range is given) for the accounting period that is furthest away within 12 months after the month following the periodic reconfiguration base date by the closing value of its Nomura composite share price on the reconfiguration base date. A stock's Nomura composite share price is its price on its primary exchange (the exchange that is judged to have the most accurate price for the stock, based on the percentage of days traded and trading volume over the previous 60 business days; as a general rule the primary exchange is selected on a daily basis). The share price is selected according to the following order of precedence.
Contract price on selected exchange (see note) > standard price on selected exchange > Nomura composite share price on previous business day.
Note: Priority is given to the special quotation price or continuous confirmed quotation price on the selected exchange if these are available.
 4. When the forecast dividend for the current fiscal year is confirmed as zero for a stock the business day before the periodic reconfiguration announcement date but after the reconfiguration base date, the stock is not included in the index and a replacement stock is used.
 5. Actual recurring profits over the previous three years are calculated from full-year financial data up to the end of the month that is four months before the periodic reconfiguration base date. In terms of the financial data used, priority is given to the latest IFRS accounts, followed in order by the latest Japanese GAAP consolidated accounts, the latest US GAAP accounts, and the latest Japanese GAAP parent accounts. Net profits before tax are used for recurring profits in the case of accounts based on IFRS and net profits before adjustment for taxes, etc are used for recurring profits in the case of accounts based on US GAAP.
 6. In order to reflect the number of shares that investors can actually invest in, we calculate the free float-adjusted market capitalization as follows: Nomura composite share price × (shares outstanding for index calculation purposes - stable shareholding). We estimate the stable shareholding as the number of shares considered to be held on a stable basis, based on major shareholder data, declarations of marketable securities holdings included in securities reports, and data published by stock exchanges and companies (such as stock exchange releases and company prospectuses). Changes in the number of shares are reflected in shares outstanding for index calculation purposes according to the timing of changes in the capital structure of a component stock, shown in Figure 3.
 7. DOE (dividend on equity) is total dividends divided by shareholders' equity and, together with dividend payout ratio, is one yardstick used to assess shareholder returns. The average DOE used here is calculated as follows: (forecast total dividends for current fiscal year ÷ actual shareholders' equity for previous fiscal year + actual total dividends for previous fiscal year ÷ actual shareholders' equity for previous fiscal year + actual total dividends for two fiscal years ago ÷ actual shareholders' equity for two fiscal years ago) ÷ 3. Share buybacks, one way to boost shareholder returns, can be used to raise average DOE by lowering shareholders' equity. In terms of the financial data used, priority is given to the latest IFRS accounts, followed in order by the latest Japanese GAAP consolidated accounts, the latest US GAAP accounts, and the latest Japanese GAAP parent accounts. Where no data is available, we use a value of zero. Where shareholders' equity is zero, we treat that fiscal year as having no data available.

Rebalancing band

This rule is aimed at limiting frequent stock replacements caused by very small differences in current-FY dividend yield forecasts. Stocks that meet the stock screening criteria are selected for the index using the procedure set out below.

(1) The top 50 stocks in terms of current-FY dividend yield forecast on the reconfiguration base date are selected unconditionally.

(2) Stocks that rank from 51st to 90th in terms of current-FY dividend yield forecast (the rebalancing band) and are already included in the index are then selected until a total of 70 stocks has been selected.

(3) If the total number of stocks selected in (1) and (2) above is less than 70, the shortfall is made up by selecting stocks ranked from 51st onward in terms of the current-FY dividend yield forecast that are not currently included in the index, in order of ranking⁸.

8. When two or more stocks have the same current-FY dividend yield forecast, priority is given to the stock with the larger free float-adjusted market cap.

3. Periodic reconfigurations of index

3.1. Periodic reconfiguration date

Periodic reconfigurations take place once a year, on 10 February (i.e., after the close of trading on the previous business day). When 10 February falls on a holiday, the periodic reconfiguration takes place on the next business day.

3.2. Periodic reconfiguration base date

The periodic reconfiguration base date is 15 January of each year. Component stocks and the number of shares in each component stock to be included in the index following the periodic reconfiguration are determined on the basis of calculations using data as of the periodic reconfiguration base date. When 15 January falls on a holiday, the periodic reconfiguration base date shall be the previous business day.

3.3. Number of shares included in index for each component stock

A component stock is defined as one of the 70 stocks selected in accordance with Section 2.2 as of the periodic reconfiguration base date defined in Section 3.2.

3.3.1. Total dividend weight

Total dividend weight is defined as average total dividend of a component stock as a percentage of the total. Average total dividend is calculated as follows:

Average total dividend = (this year's forecast total dividend + last year's total dividend + year before last's total dividend) / 3

In the absence of dividend data, we assume that the dividend is zero.

3.3.2. Component stock weight and weight limits

The weight of a component stock can be no greater than 5%. Component stock weight is determined by allocating the difference between 1 and the total of total dividend weights of stocks with weights greater than 5% to other stocks in proportion to total dividend weight.

3.3.3. Number of shares included in the index

The number of shares included in the index for each component stock is calculated so that the weight of each of the 70 stocks selected as component stocks in 2.2 as of the periodic reconfiguration base date stipulated in 3.2 is equal to the component stock weight calculated in 3.3.2. That is, the number of shares included in the index for each component stock as of the periodic reconfiguration base date is calculated by dividing the product of the component stock weight and a constant value⁹⁾ by the Nomura composite share price at the close of trading on the periodic reconfiguration base date. See 5.3 for details about adjustments to the number of shares included in the index for component stocks.

3.4. Announcement of periodic reconfigurations

As a general rule, the announcement of a periodic reconfiguration will appear on our website around 16:00 (JST) 10 business days before the periodic reconfiguration date, except in the event of unforeseen circumstances or when information cannot be confirmed.

9. The constant value in the case of this index is ¥1trn.

4. Unscheduled reconfigurations of index

4.1. Response to stock swaps, stock transfers, etc

Reconfigurations will be carried out to reflect actual conditions in view of the diversification of forms of corporate realignment. A response will be taken after considering the situation after realignment for each event as it happens. The aim is to avoid temporary exclusions from the index and maintain the consistency of index constituents.

- Stock swaps and mergers

When a stock is delisted because it is about to become a wholly owned subsidiary or be merged into another company, it will continue to be included in the index after its delisting but removed from the index on the merger date. Following its delisting, the 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 parent company or surviving company included in the index is changed taking into account the exchange or merger ratio, so that it becomes "the number of shares in the merged company included in the index multiplied by the merger ratio".

- Stock transfers

When an unlisted parent company assumes the operations of another company and becomes listed after a short period of time, the wholly owned subsidiary is removed from the index on the parent company's new listing date. The price used for the delisted wholly owned subsidiary is the price on the day before its delisting. The price used for the parent company is the price on its new listing date. The number of shares included for newly listed stocks is "number of shares included for constituent stock prior to share transfer x exchange ratio".

4.2. Removal of stocks

- Designation as securities to be delisted

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

- Delisting

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

- Marked loss of eligibility for inclusion in stock selection universe

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

4.3. Method of announcing unscheduled reconfiguration

As a general rule, an announcement of an unscheduled reconfiguration will appear on our website at least five business days prior to it taking place, except in the case of unforeseen circumstances or when information cannot be confirmed.

5. Index calculation

5.1. Calculation of index values

To prevent the index from being affected by changes in market capitalization or share prices that are not related to market fluctuations, index values are calculated based on base market capitalization that has been adjusted as set out below^[10].

5.1.1. Index base date, base value, announcement date

The base date for the index is 29 December 2000 (= 10,000 (base value)).

The index announcement date was 30 October 2014.

Index values prior to the index announcement date are calculated for reference purposes using the rules at the time.

5.1.2. Index excluding dividends

Base market cap(t) = market cap($t - 1$) + adjusted market cap(t)

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

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

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

5.1.3. Index including dividends

Base market cap(t) = market cap($t - 1$) + adjusted market cap(t) – adjusted total dividends(t)

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

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

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

Method for reflecting dividends

For the index value 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 dividend is reflected in the index according to the following procedures.

First, the forecast dividend on the ex-dividend date is used^[11]. In the event of a difference between the dividend forecast and the actual dividend, the base market cap is readjusted on the last business day of the month of the earnings announcement, except that announcements made on the last day of the month are reflected at the end of the following month.

10. In 5.1.2 and 5.1.3, adjusted market capitalization is calculated as the change in market capitalization resulting from a change in capital structure at an index constituent or a change in market capitalization resulting from a change in index constituent stocks. Adjusted total dividends are calculated as the difference between forecast dividends and actual dividends if there is a difference between these two values.

11. These rules are in effect from the period ending end-December 2011 onward. For periods before this, we used actual dividends as of ex-rights day.

5.2. Adjustment of base market cap

The base market capitalization is adjusted in cases as indicated below (Figure 3).

- When a change in capital structure at index constituents results in a change in market cap not related to market fluctuations
- When market cap changes because of a change in index constituent stocks

However, base market capitalization is not adjusted to reflect changes in capital structure that do not involve payment, such as stock splits and reverse stock splits, as these do not affect market capitalization.

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

	Change in capital structure	Adjustment date	Share price used
Stock replacement	Stock transfer, stock swap, merger	Date of listing change	Previous day's price
	Corporate divestiture (company/division spinoff)	Ex-rights date	Not used ^[12]
	Stock replacement	Replacement date	Previous day's price
Capital increase	Rights offering	Ex-rights date	Issue price
	Gratis allocation of stock acquisition rights	Ex-rights date	Exercise price
	Gratis allocation of treasury stock	Ex-rights date	Previous day's price
	Public offering	Business day following payment date (listing date of new shares when settlement is on issuance date)	Previous day's price
	Capital increase via third-party placement	Five business days after date of listing change	Previous day's price
	Conversion of preferred stock	Last business day of month in which number of converted shares becomes known	Previous day's price
	Conversion of CBs	Last business day of month in which number of new shares for which rights were exercised becomes known	Previous day's price
Capital reduction	Exercise of stock acquisition rights		
	Corporate divestiture (new stock in continuing company)	Date of listing change	Previous day's price
	Retirement of treasury stock	Last business day of month following month of treasury stock retirement	Previous day's price
Other	Rights offering refusal	Last business day of month in which rights offering refusal is announced (or last business day of following month if announcement is within five business days of month-end)	Previous day's price
	Capital reduction with compensation	Effective date	Previous day's price
Other	Other adjustments	Other adjustments to base market capitalization, if required, are made on the last business day of the month of the disclosure of the relevant information (or the last business day of the following month if the disclosure is made within five business days of the month-end)	Previous day's price

Source: Nomura

12. In the case of a corporate divestiture (company/division spinoff), the base market capitalization is adjusted for the reduction in capital. Definitions of reductions in capital are as follows:
 (1) when the company does not announce the value of the divested division or of the shares of the divested company: capital reduction = amount by which shareholders' equity is expected to be reduced; and (2) when the company does announce the value of the divested division or of the shares of the divested company: capital reduction = value of divested division or value of divested company's shares × total number of shares

5.3. Index maintenance

We change constituent stocks and the number of shares in stocks that are included in the index based on the methodology noted in this rulebook. Constituent stocks are replaced in periodic and unscheduled reconstitutions and also when necessary for other reasons.

In addition, 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 in the stock that are included in the index does not change.

- Capital increase via third-party placement
- Retirement of treasury stock
- Exercise of CBs with stock acquisition rights, CBs, conversion of preferred stock into common stock, exercise of stock acquisition rights
- Stock transfer, stock swap, merger^[13]
- Rights offering, public offering, rights offering refusal
- Rights issue
- Corporate divestiture (new shares in continuing company)
- Other adjustments
- Meanwhile, in the case of stock splits and reverse stock splits, number of shares of stock included in index is changed so that number of shares is the number of shares prior to change in capital structure multiplied by the split ratio or reverse split ratio.

13. If a wholly owned subsidiary (merged company) is an index constituent, the number of shares of the parent company (surviving company in a merger) included in the index changes based on the exchange or merger ratio.

6. Data publication services

Nomura Japan Equity High Dividend 70, Total Dividend Weighted access points^[14]

Information on the Nomura Japan Equity High Dividend 70, Total Dividend Weighted is available on the following media:

Nomura website: <http://qr.nomuraholdings.com/en/nhdivd/index.html>

*Data on constituent stocks of the index are provided for a fee to subscribers of index data services.

The Nomura Japan Equity High Dividend 70, Total Dividend Weighted is released by Nomura Securities Co., Ltd. ("Nomura") and its intellectual and all other rights belong to Nomura. Nomura does not guarantee the accuracy, completeness, reliability, usefulness, marketability, merchantability, or fitness of the index, and does not take any responsibility for business activities or services that any index user and/or its affiliates undertakes with the use of the index.

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

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

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

14. Published data are all for reference only.

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

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

See the following link for details:

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

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

Appendix A-1

Analyst Certification

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

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Distribution of ratings (Nomura Group)

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

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

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

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

As at 31 March 2022.

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

** As defined by the EU Market Abuse Regulation

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

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

STOCKS

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

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SECTORS

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

Target Price

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