

# RUSSELL/NOMURA Prime Index

## Japanese equity index for passive investment developed

Nomura Securities Financial & Economic Research Center and Russell Investment Group have newly developed the RUSSELL/NOMURA Prime Index. The Prime Index is an addition to the RUSSELL/NOMURA Japan Equity Index series and is designed to serve as a benchmark for passive investment. The Prime Index has the following characteristics.

1. It represents Japan's top 1,000 stocks, determined by float-adjusted market capitalisation and has broad market coverage.
2. It includes stocks from a broad universe of Japan equities, including those listed on JASDAQ, and does not limit membership to the first section of Tokyo Stock Exchange.
3. It adjusts index membership for float, or those shares that are available for trading.
4. It employs "banding" methods when membership is rebalanced at the annual reconfiguration in order to control the frequent replacement caused by small fluctuations of market capitalisation. Also, a "negative-list" method is used to manage the inclusion of stocks of especially low liquidity.
5. It continuously includes stocks that are tentatively unlisted due to mergers or equity transfers and revises the float ratio in the event of private placements (revisions will be made only for private placements occurring after December 2004).

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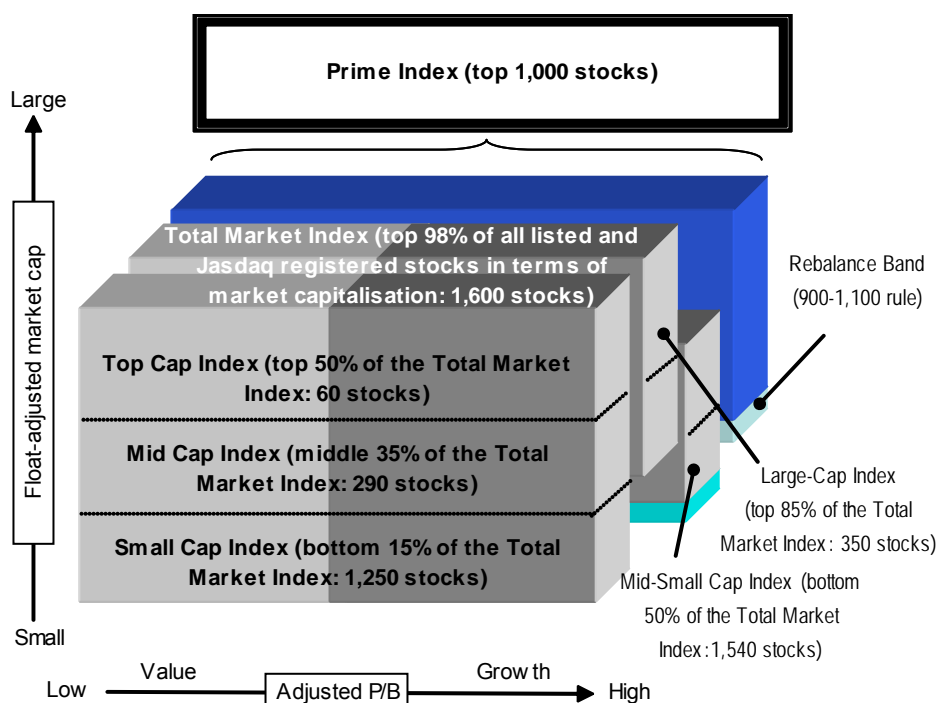
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**Please read the important disclosures on the back page of this report.**

### RUSSELL/NOMURA Japan Equity Indexes



Note: Number of stocks as of 1 December 2003.

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## ■ Outline of the Prime Index

1. *Name*                      RUSSELL/NOMURA Prime Index
  
2. *Characteristics*            The RUSSELL/NOMURA Prime Index is a benchmark index suited for passive investment strategies, has broad market coverage, and takes into account liquidity.  
  
                                       It is a subindex of the RUSSELL/NOMURA Japanese Equity Index based on market cap adjusted for float.  
  
                                       Stocks listed on all markets, including JASDAQ, are eligible for inclusion in the index. Stocks are not only chosen from the first section of the Tokyo Stock Exchange.
  
3. *Starting point for the index*      Data for the index have been backdated to 30 December 1996.
  
4. *Other*                        The index is calculated on a daily basis. A real-time calculation of the index is under consideration.  
  
                                       The index has a version where dividend payouts are included and one where they are not.  
  
                                       The release of the daily equity index is scheduled to begin at the end of July.  
  
                                       The listing of the index as a futures product is under consideration.

## ■ Selection rules for the Prime Index

### (1) 1,000 largest stocks in terms of float-adjusted market capitalisation

The Prime Index is made up of the largest stocks in terms of market capitalisation adjusted for float. In particular, the index is made up of the 1,000 largest stocks in terms of float-adjusted market capitalisation of the RUSSELL/NOMURA Total Market Index, which are determined by a regular reconfiguration of the RUSSELL/NOMURA Japan Equity Index <sup>1</sup>. A “banding” method is used to limit replacements resulting from small changes in market capitalisation and a “negative list” is used to manage the inclusion of stocks with low liquidity. The “negative list” takes precedence over “banding” <sup>2</sup>.

### (2) Negative list (exclusion of low-liquidity stocks)

This rule is meant to restrict the inclusion of stocks with exceptionally low liquidity. Stocks ranked 2,001st or lower <sup>3</sup> in terms of average monthly trading value in the year to the end of the month prior to the previous month of the regular reconfiguration are not included.

### (3) Banding method (900-1,100 rule)

This rule is meant to limit the frequent replacement of stocks owing to small changes in market capitalisation. Stocks ranked 900 or higher in terms of float-adjusted market capitalisation are included, regardless of whether or not they were included in the index prior to the rebalancing. Stocks ranked 901 to 1,100 are included in the index only if they were included in the index prior to the rebalancing, until 1,000 stocks have been selected. If 1,000 stocks are not selected after going through the 1,100 stocks in this way, stocks ranked between 901 and 1,100 that were not included in the index prior to the rebalancing are selected.

### (4) Other rules

The other rules for the Prime Index are the same as those for the RUSSELL/NOMURA Japan Equity Index. The following are the main characteristics.

- (1) The index is reconfigured once a year (the first trading day of December every year <sup>4</sup>).
- (2) Newly listed stocks that are large-caps are included every quarter (refer to section 1 of the appendix).
- (3) The index is adjusted for float (refer to section 2 of the appendix).
- (4) Stocks that are tentatively unlisted due to mergers or equity transfers are continuously included (refer to section 3 of the appendix).

For details, refer to RUSSELL/NOMURA Japan Equity Indexes (2004 version) issued on 9 June 2004. The following rule changes are under consideration.

Note: (1) Stocks are selected on the basis of market capitalisation as of the end of the month prior to the previous month of the regular reconfiguration. In the case of the regular reconfiguration of 1 December 2003, market capitalisations for end-October 2003 were used. After the regular reconfiguration, the number of stocks in the index may decrease owing to mergers or increase owing to the quarterly inclusion of newly listed stocks.

(2) The negative list and banding rules are applied only to the Prime Index, and not to the other subindexes of the RUSSELL/NOMURA Japan Equity Index.

(3) The ranking is based on the sample of stocks eligible for inclusion in the event of a regular reconfiguration of the RUSSELL/NOMURA Japan Equity Index.

(4) Prior to 2002, regular reconfigurations were carried out on the first trading day of January, and in 2002 the regular reconfiguration was carried out on the first trading day of February. As a rule, index changes are posted on the Nomura Securities home page at <http://www.nomura.co.jp/QR/FRCNRI> about two weeks before the changes take effect.

## **(5) Scheduled rule changes**

As reported in “Regarding revision of stable shareholding ratio in the event of a private placement and change to method of calculating stable shareholding ratio for the RUSSELL/NOMURA Japan Equity Indexes,” which was issued on 18 June 2004, we plan to make the following changes to the index rules regarding stable shareholding ratios. The changes affect the overall RUSSELL/NOMURA Japan Equity Index and not just the Prime Index.

### **A. Changes**

#### **a. Revision of stable shareholding ratio in the event of a private placement**

We will revise the stable shareholding ratio five business days after the date of a private placement issue of new shares, which is when the number of shares outstanding changes<sup>5</sup>.

Stable shareholding ratio after revisions

$$= (\text{stable shareholding ratio before revisions} \times \text{number of shares outstanding used in the calculation of indexes prior to the private placement} + \text{change in number of shares outstanding resulting from private placement}) / (\text{number of shares outstanding used in the calculation of indexes prior to the private placement} + \text{change in number of shares outstanding resulting from private placement})$$

#### **b. Change to method of calculating stable shareholding ratio**

We have changed the method of calculating the stable shareholding ratio, which is recalculated for every regular reconfiguration of the indexes.

Before change: Three-year moving average of single-year stable shareholding ratios.

After change: Two-year moving average of single-year stable shareholding ratios.

### **B. Effective date of rule changes**

#### **a. Revision of stable shareholding ratio in the event of a private placement**

Following the next regular reconfiguration (scheduled for 1 December 2004), the revision will become effective when a company changes the number of shares listed on the market through a private placement.

#### **b. Change to method of calculating stable shareholding ratio**

The change will become effective when we make our next regular reconfiguration of the indexes (scheduled for 1 December 2004).

Note: (5) New shares issued in a private placement can be viewed as stable shareholdings. The new rule ensures that the number of shares included after adjusting indexes for stable shareholdings does not change in the event of a private placement.

## ■ Features of the Prime Index

### (1) Summary of RUSSELL/NOMURA Japan equity indexes

#### 1. Comparison of market cap and number of stocks

	Number of stocks	As % of total market cap
Total	1,598	100.0
Value	1,231	52.9
Growth	677	47.1
Large	350	84.3
Value	227	42.0
Growth	222	42.3
Top	60	48.7
Value	34	23.2
Growth	46	25.5
Mid	290	35.6
Value	193	18.8
Growth	176	16.8
Small	1,248	15.7
Value	1,004	10.9
Growth	455	4.8
Mid-Small	1,538	51.3
Value	1,197	29.7
Growth	631	21.7
<b>Prime</b>	<b>998</b>	<b>96.8</b>

Note: Data as of end-March 2004. Market cap weighting denotes the weighting versus the Total Market Index. The number of stocks in the Prime Index decreased by two to 998 after two companies, which were included in the index following the annual index reconstitution, notified investors of their plans to delist (post of liquidation).

Source: Nomura

## (2) Market coverage

Since the Prime Index includes listed stocks that do not belong to the first section of the Tokyo Stock Exchange (TSE1), there are fewer stocks in the Prime Index than in TOPIX, but the ratio of the Prime Index's market cap to the total market cap is approximately the same as that of TOPIX.

### 2. Comparison of market cap and number of stocks

	Total market	RUSSELL/NOMURA Prime	TOPIX	TOPIX 1000
Market cap (¥ trn)	382	347	353	333
As % of total market	-	91	92	87
No. of stocks	3,649	998	1,548	991
of which, non-TSE1 stocks	2,093	61	0	0

Note: Data as of end-March 2004. Market cap figures are not adjusted for float (stable shareholdings that are not available for investment are excluded from float-adjusted market cap figures).

Source: Nomura

## (3) Constituent stocks by stock exchange

The Prime Index includes 61 stocks not included on the first section of the Tokyo Stock Exchange as of end-March 2004.

### 3. Prime Index's constituent stocks by stock exchange

Tokyo Stock Exchange			Osaka Stock Exchange		Nagoya Stock Exchange		Fukuoka Stock Exchange	JASDAQ	OSE-H	Total
1	2	Mothers	1	2	1	2	1			
937	18	5	2	2	1	0	1	29	3	998

Note: As of end-March 2004.

Source: Nomura

#### (4) Sector weighting

The market cap weightings of the pharmaceutical and electric appliances sectors in the Prime Index are larger than those in TOPIX. The market cap weightings of the transport equipment, communications, and banking sectors are smaller than those of TOPIX.

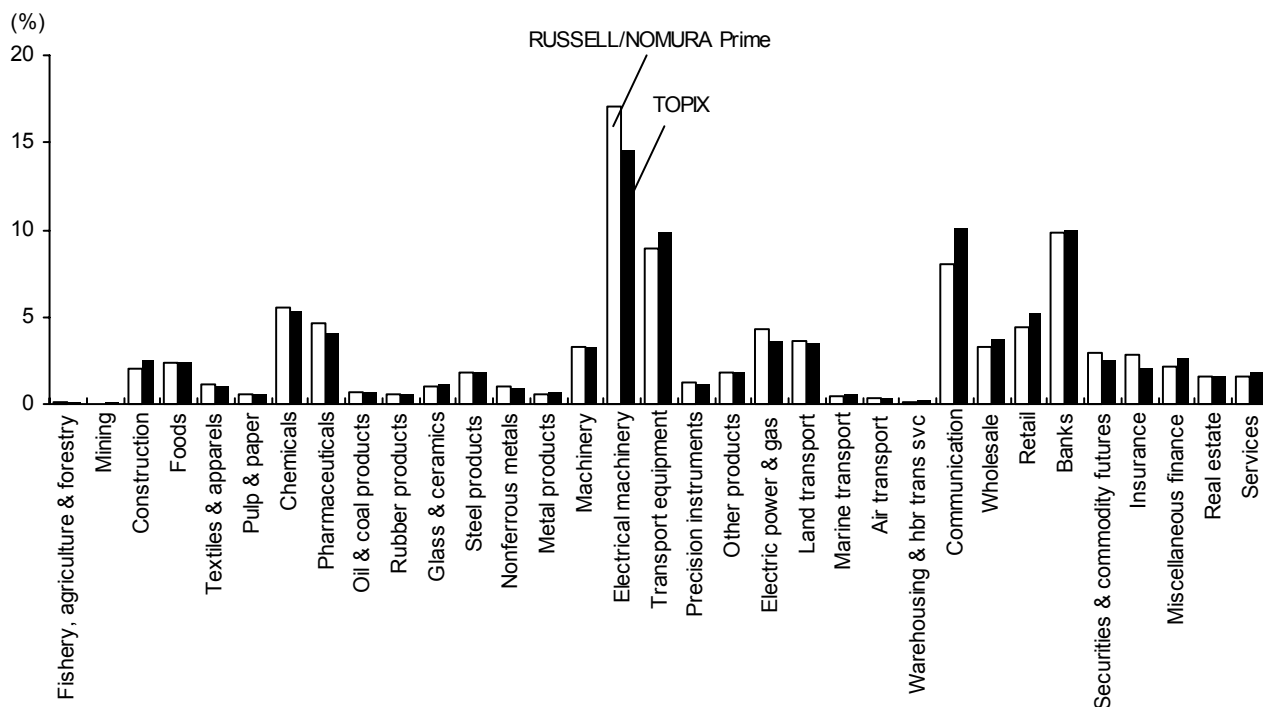
#### 4. Sector weight comparison: Prime Index versus TOPIX

	RUSSELL/ NOMURA Prime a %	TOPIX b %	Difference (a-b) x 100 bps		RUSSELL/ NOMURA Prime a %	TOPIX b %	Difference (a-b) x 100 bps
Fishery, agriculture & forestry	0.08	0.07	1.25	Precision instruments	1.22	1.15	7.16
Mining	0.06	0.14	-8.80	Other products	1.84	1.86	-2.10
Construction	2.04	2.50	-45.97	Electric power & gas	4.35	3.63	71.38
Foods	2.35	2.42	-7.08	Land transport	3.57	3.46	11.31
Textiles & apparels	1.08	1.05	3.17	Marine transport	0.46	0.51	-4.83
Pulp & paper	0.56	0.55	0.92	Air transport	0.39	0.37	2.34
Chemicals	5.54	5.32	21.81	Warehousing & hbr trans svc	0.16	0.20	-4.24
Pharmaceuticals	4.59	4.04	54.66	Communication	8.07	10.00	-193.12
Oil & coal products	0.70	0.69	0.27	Wholesale	3.31	3.77	-46.13
Rubber products	0.61	0.59	2.19	Retail	4.45	5.15	-70.01
Glass & ceramics	1.04	1.08	-3.42	Banks	9.79	9.97	-18.53
Steel products	1.86	1.78	8.48	Securities & commodity futures	2.91	2.53	37.84
Nonferrous metals	1.02	0.87	15.68	Insurance	2.83	2.03	79.74
Metal products	0.58	0.69	-10.81	Miscellaneous finance	2.16	2.57	-40.66
Machinery	3.24	3.33	-8.69	Real estate	1.60	1.56	4.73
Electrical machinery	17.02	14.54	247.25	Services	1.59	1.76	-16.15
Transport equipment	8.93	9.82	-89.62				
				Total	100.00	100.00	

Note: Data as of end-March 2004. The Prime Index's market cap figures are float adjusted, but those for TOPIX are not.

Source: Nomura

#### 5. Sector weight comparison: Prime Index versus TOPIX



Note: Data as of end-March 2004. The Prime Index's market cap figures are float adjusted, but those for TOPIX are not.

Source: Nomura



**(5) Ratio of stable shareholdings**

<b>6. Ratio of stable shareholdings by sector in Prime Index</b>				(%)
Fishery, agriculture & forestry	38.94	Precision instruments		37.59
Mining	45.93	Other products		41.40
Construction	47.41	Electric power & gas		30.77
Foods	47.27	Land transport		41.36
Textiles & apparels	34.41	Marine transport		41.97
Pulp & paper	37.62	Air transport		36.38
Chemicals	37.86	Warehousing & harbor transport services		46.90
Pharmaceuticals	34.70	Communication		59.71
Oil & coal products	41.36	Wholesale		46.72
Rubber products	40.08	Retail		49.42
Glass & ceramics	42.74	Banks		43.15
Steel products	36.76	Securities & commodity futures		35.44
Nonferrous metals	31.06	Insurance		29.09
Metal products	44.04	Miscellaneous finance		51.56
Machinery	42.04	Real estate		39.98
Electrical machinery	32.69	Services		54.10
Transport equipment	47.24			
		Total		42.87

Note: Ratio of stable shareholdings is the market cap of stable shareholdings divided by the total market cap unadjusted for free float. Data as of end-March 2004.

Source: Nomura

**(6) Annual reconfiguration of stock constituency**

<b>7. Prime Index's annual reconstitution and turnover ratio</b>				
Time of annual reconstitution	No. of stocks			Turnover ratio %
	Post reconstitution	Out	In	
Jan 1998	1,000	57	63	1.44
Jan 1999	1,000	33	39	3.02
Jan 2000	1,000	117	123	3.46
Jan 2001	1,000	56	62	2.72
Feb 2002	1,000	63	69	2.39
Dec 2002	1,000	32	38	2.17
Dec 2003	1,000	53	59	2.11

Note: Turnover ratio is  $[\Sigma | \text{market cap weighting before the reconfiguration} - \text{market cap weighting after the reconfiguration} | / 2]$ , and based on the share prices at the end of each month. In other words, the figures indicate the 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 involve turnover of 100%.

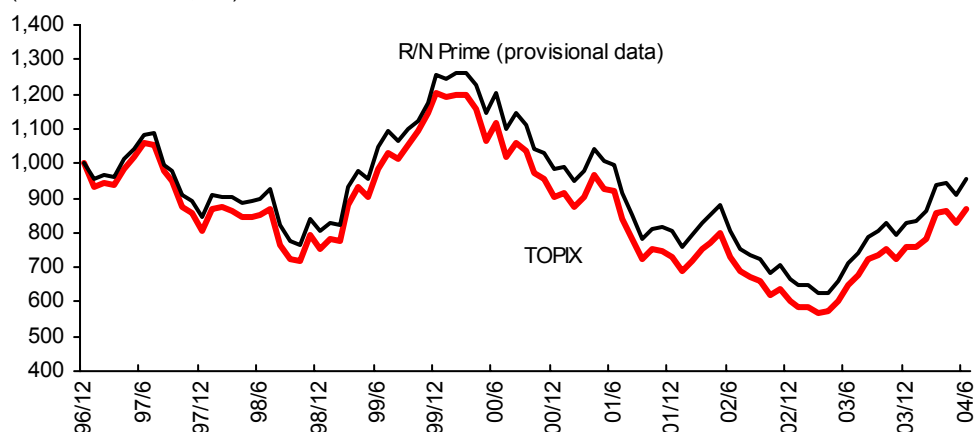
Source: Nomura

## (7) Historical performance (provisional estimates<sup>6</sup>)

Since the Prime Index is a float-adjusted index and its composition differs from that of TOPIX, its performance diverges to some extent from that of TOPIX. Yet, the correlation coefficient between the Prime Index (provisional figures) and TOPIX is high at 0.99 (calculated based on monthly returns, including dividends).

### 8. Index trends (TOPIX comparison from Dec. 1996 to June 2004)

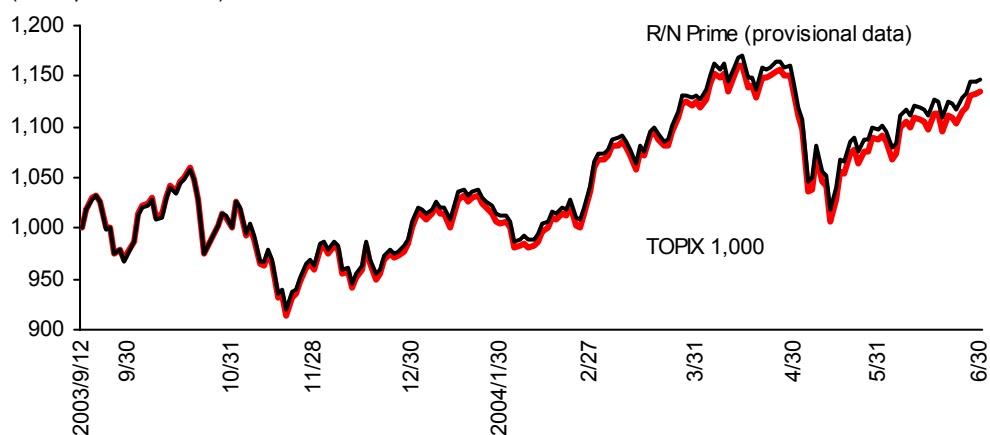
(End-Dec 1996 = 1,000)



Note: Returns for the Prime Index (provisional data) TOPIX are both calculated inclusive of dividends. The graph above plots end-month index values. The Prime Index is a float-adjusted index, but TOPIX is not. Source: Nomura, from Tokyo Stock Exchange, etc.

### 9. Index trends (TOPIX1000 comparison from 12 Sept. 2003 to 30 June 2004)

(12 Sep 2003 = 1,000)



Note: Returns for the Prime Index (provisional data) and TOPIX1000 are both calculated exclusive of dividends. Since TOPIX1000 could be obtained from 12 Sept. 2003, we used figures from 12 Sept. 2003 for the comparison in the above graph. The Prime Index is a float-adjusted index, but TOPIX1000 is not. Source: Nomura, from Tokyo Stock Exchange, etc.

Note: (6) The Prime Index figures are based on provisional estimates; the index compilers plan to announce final figures for past periods until daily index figures are announced.

## ■ Data publication service

The RUSSELL/NOMURA Japan equity indexes can be obtained via the following. We plan to make daily data for the Prime Index publicly available from end-July 2004 via the same channels.

- Monthly reports (RUSSELL/NOMURA, NOMURA 400 Japan Equity Performance Index)
- Daily index values are published in the following media:
  - Reuters (FRCNRI)
  - QUICK (NRIJ500)
  - Our Web site (<http://www.nomura.co.jp/QR/FRCNRI>)
  - Bloomberg (RNJI)
- More detailed data

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

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## ■ Appendix

### (1) Treatment of newly listed stocks <sup>7</sup>

Newly listed stocks for each quarter are considered for inclusion at the end of the following month, and if they are in the Large Cap Index in terms of float-adjusted market capitalisation (the number of stocks included in December is determined by the number of stocks in the index at the completion of the regular reconfiguration), then they are included in the index as of the first business day of the second following month.

Listing date	Determination date	Inclusion date
January – March	end of April	First business day in June
April – June	end of July	First business day in September
July – September	end of October	First business day in December (including regular reconfiguration)
October – December	end of January	First business day in March

### (2) Stable shareholdings adjustment

We calculate the stable shareholdings using the following data.

- 1) Toyo Keizai's major shareholder data
- 2) Declarations of marketable securities holdings contained in company financial filings

The data used is the latest data available as of the regular reconfiguration date. However, we exclude from stable shareholdings shares believed to be actively traded<sup>8</sup>. The stable shareholding ratios used in selecting stocks and weightings to be included in the index have employed a three-year historical moving average of the single-year stable shareholding ratios<sup>9</sup>.

### (3) Stock swaps, stock transfers, and mergers <sup>10</sup>

Based on the following rules, changes to stocks in the indexes are made in a timely manner in the event of stock swaps and stock transfers, taking into consideration the numerous forms of corporate restructuring. We make changes to stocks in the index in the event of corporate restructurings after looking at each case individually and the company's post-restructuring state. The objective is to maintain the inclusion of the constituent stocks and avoid temporary exclusions from the indexes.

- Stock swaps, mergers

When a stock is delisted because of a merger or stock swap, it is excluded on the day of the merger. Following delisting, and until exclusion, the company's valuation will be based on the market value of the parent or surviving company multiplied by the merger or exchange ratio. Based on the merger ratio, the stable shareholding ratios of the surviving parent company and the merged company change.

- Stock transfers

In the case of an unlisted parent company that assumes the operations of another company and becomes listed in a short period of time, the stock of the subsidiary is removed from the indexes on the date of the parent company's listing. The price of the delisted subsidiary used is the price on the day before the delisting. The stock of the parent company is included in the indexes on the date of the listing.

Note: (7) These rules were adopted for the stocks added in June 2002 and thereafter.

(8) Actively traded funds include funds managed by domestic trust banks and life insurers (ie, pension funds, investment trusts), foreign banks, venture capital, etc.

(9) As mentioned on page 5, this will be determined on the basis of a two-year moving average from the next regular reconfiguration on 1 December 2004.

(10) Effective from changes occurring since April 2002.

## ■ Reference

RUSSELL/NOMURA Japan Equity Indexes (2004 version), Financial & Economic Research Center, Nomura Securities, 9 June 2004.

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**Price targets:**

Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimate.

**The Nomura rating system:**

- A rating of "1", or "**Strong buy**," indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
- A rating of "2", or "**Buy**," indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "3", or "**Neutral**," indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**," indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "5", or "**Sell**," indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
- Stocks labelled "Not rated" or shown as "No rating" are not in Nomura's regular research coverage.

**Nomura sector opinions:**

A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan:** TOPIX; **United States:** S&P 500; **Asia**, by region and class of stock—*Australia:* ASX All Ordinaries Index; *China:* Hang Seng Index; *Hong Kong:* Hang Seng Index, Hang Seng China Affiliated Corp Index, Hang Seng China Enterprises Index, HK Growth Enterprises Index; *Indonesia:* Jakarta Composite Index; *Korea:* Korea Composite Index, Kosdaq Composite Index; *Malaysia:* Kuala Lumpur Comp Index, Kuala Lumpur 2nd Board; *Singapore:* STI Index; *Taiwan:* Weighted Index, Taiwan Gre Tai Securities Market Index; *Thailand:* Stock Exchange of Thailand; **Europe**, by sector - *Biotech:* FTSE Techmark Mediscience; *Pharma:* FTSE W Europe Pharm & Biotech; *Software:* FTSE W Europe Software & CPU Services; *Hardware/Semiconductors:* FTSE W Europe IT Hardware; *Telecoms:* FTSE W Europe Telecom Services; *Transport & Logistics:* FTSE W Europe Transport (FTSE W US Cyclical SVS for UPS & FedEx); *Auto & Components:* FTSE AW Europe Auto & Parts; *Communications equipment:* FTSE W Europe IT Hardware.

**For three-year daily stock-price and rating history charts:**

For three-year daily stock-price and rating history charts of NSI-rated US and European large-cap pharmaceutical stocks recommended in this report, current as of the last calendar quarter and showing a distribution of investment ratings on all such US and European large-cap pharmaceutical stocks by rating category and investment banking relationship, please request the latest issue of Nomura publication "Three-year stock price charts and rating distribution." To request this publication, please contact H. Omiya, US Equity Sales Desk, Nomura Securities International, Inc., 2 World Financial Center, Building B, New York, New York 10281, Telephone: 212-667-9210, E-mail: homiya@us.nomura.com.

**Online availability of research:**

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