Nomura Japan Equity High Dividend 70 Market Neutral Index

EQUITY QUANTITATIVE RESEARCH

Can be used as an alternative to bond investment

Global Markets Research

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Japan quantitative research

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Aims for high performance through a high-dividend investment strategy hedged against market risk

We have developed the Nomura Japan Equity High Dividend 70 Market Neutral Index to reflect the performance of a market-neutral strategy involving a combination of long positions in the Nomura Japan Equity High Dividend 70, Total Dividend Weighted with short positions in TOPIX futures.

Index values are calculated from the difference between the return on the Nomura Japan Equity High Dividend 70, Total Dividend Weighted (the "underlying index") and the beta-adjusted return on TOPIX futures. The index is meant to extract only the excess return versus the market for a high-dividend stock investment strategy (known as one example of a smart beta strategy), and aims to reap high dividend yields and stable returns regardless of market direction.

The underlying index, which corresponds to the long side of the new index, comprises 70 large cap high-liquidity Japanese stocks selected for high forecast dividend yield. Stocks are screened for DOE (total dividends/shareholders' equity) to take quality and stability of dividends into account, and the index is designed for easier management on a large asset scale by weighting the stocks by total dividend value. On the short side of the new index, the hedge ratio used for hedging with TOPIX futures is adjusted on a daily basis to reflect the beta of the underlying index versus the TOPIX. This allows for precise hedging of short-term market fluctuations.

This market-neutral index shows high performance from the perspective of risk-adjusted returns, with average annual returns of 3.25% between February 2002 and October 2017, with annualized risk of 5.35% and a return-risk ratio of 0.61 (Figure 1). As a result of this hedging of market risk, the index has a risk-return profile somewhere between bonds and stocks, and could thus be characterized as middle-risk, middle-return. Forecast dividend yield for the underlying index has been stably higher than that of the TOPIX (Figure 2). The most recent data (at the beginning of November 2017) shows forecast dividend yield for the underlying index 1ppt higher than for the TOPIX, suggesting that stable income gains from dividends can be expected.

Since the BOJ's introduction of NIRP, demand has risen sharply for alternatives to bond investment that have relatively low risk but that offer stable performance and income gains. It is our hope that this index can be useful in addressing these needs.

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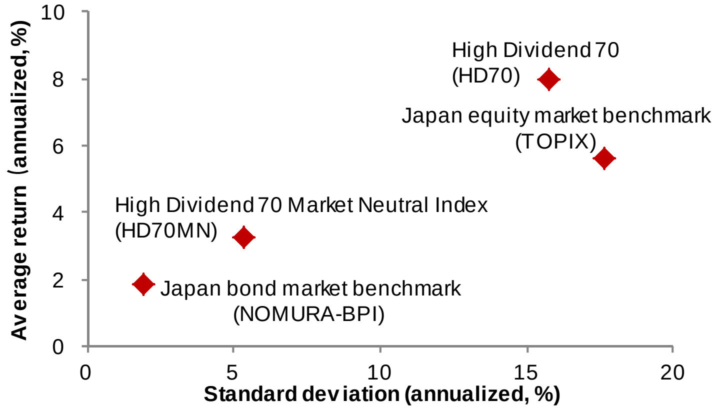
Fig. 1: Performance summary

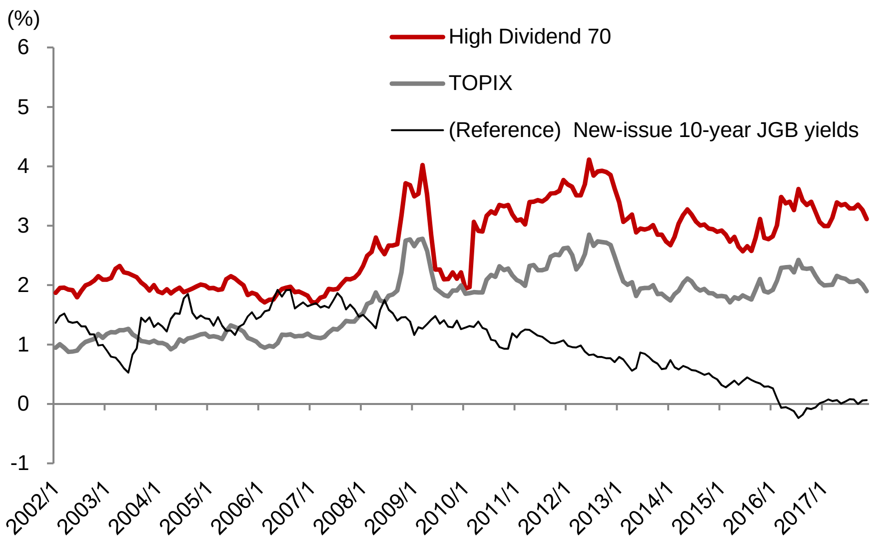


	HD70MN	HD70	TOPIX	NOMURA-BPI
Geometric mean return (annualized, %)	3.25	7.98	5.65	1.84
Standard deviation (annualized, %)	5.35	15.75	17.61	1.93
Return/risk	0.61	0.51	0.32	0.96

Note: Index returns including dividends from February 2002 through October 2017. Risk-return profile calculated from monthly returns. Transaction costs are not included. Analysis is based on past performance and does not guarantee future performance.

Source: Nomura

Fig. 2: Forecast dividend yield



Note: Dividend yield forecasts are calculated based on the weighted average of current fiscal year dividend yield forecasts for constituent stocks as of the start of each month and each stock's weighting in the index as of the end of the previous month. New-issue 10-year JGB yields use yields as of the end of the previous month as the starting values for each month.

Source: Nomura

*For details on the underlying index and this market neutral index, see our securities market index website (Japanese only: http://qr.nomura.co.jp/jp/index.html)

Appendix A-1

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