

# The Japan Update

## August 2014

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### JPX-Nikkei Index 400

#### - Composition to Change for First Time since Index Launch –

The Japan Exchange Group, which runs the Tokyo Stock Exchange (TSE), announced on 7 August that the composition of the JPX-Nikkei Index 400 will change for the first time since the index was created in January of this year. Of the 400 stocks that comprise the index, 31 will be replaced. Names suffering from declining profitability, such as Sony and Watami, will be removed, while new constituents, such as Panasonic and Calbee, will be added.

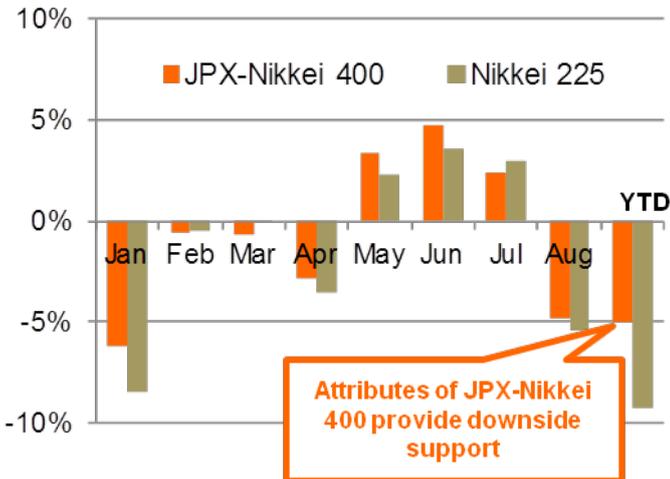
The JPX-Nikkei 400 is a stock price index comprised of 400 names selected from about 3,400 stocks listed on the TSE, including those listed on the markets for start-ups. These 400 component stocks are subject to a review every year in August. In contrast to the Tokyo Stock Price Index (known as the TOPIX), which reflects the movements of the broad stock market, or the Nikkei 225, whose components are selected largely based on their market capitalization and liquidity, the companies in the JPX-Nikkei 400 are selected based on ROE, which measures how efficiently shareholder capital is being used, and on an evaluation of their corporate governance frameworks. In other words, JPX-Nikkei 400 index constituents are selected according to criteria considered important by global investors.

As such, the JPX-Nikkei 400 is comprised of stocks which are viewed highly by the market in terms of earnings and management quality, and the index is now being used as the investment benchmark for Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund. Exchange traded funds linked to the index are also expected to grow. From a point of view of future supply and demand, the reshuffling of JPX-Nikkei 400 stocks will not only be of great interest to investors, but also to companies who may be subject to inclusion. If awareness of inclusion in the index becomes more widespread (both among companies already in the index and those aspiring to join), companies will take greater care in how they allocate their resources and will adopt a more positive stance on shareholder return - for example by implementing share buybacks and increasing dividends. As a result, it is thought that the index will help enhance the corporate value of Japanese firms in general, not just those included in the index.



## JPX-Nikkei 400: Relatively Stable Performance

Monthly and YTD Change in  
JPX-Nikkei 400 and Nikkei 225  
(End-Dec 2013 to Aug 8, 2014)



\*August data up to 8 August.

Sources: Nikkei, Inc.; Tokyo Stock Exchange, Inc.; Nikko AM.

Any mention of individual stocks does not constitute a recommendation to buy or sell. The mention of individual stocks also does not suggest that these names are currently incorporated into Nikko AM funds or that they will be in the future.

The charts above are based on past data and do not guarantee future outcomes.

## Quantitative and qualitative factors considered upon JPX-Nikkei 400 component selection

### Stock Selection Process





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