

Nikkei Asia300 Investable Index Index Guidebook

Nikkei Inc.

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(December 11, 2017 version)

1: Concept

The Nikkei Asia300 Investable Index is an equity index comprised of 300 Asian listed companies and it is designed to be used as the underlying index for financial products such as investment trusts. The 300 constituents of the index for investments are chosen using the quantitative data which are selected to reflect the concept of the Asia300 companies picked by Nikkei as companies to watch in Asia, which is a base of the Nikkei Asia300 Index, an index for reporting. The new index is aimed at meeting the needs to invest in the growing major Asian companies as a basket. The index is calculated by S&P Dow Jones Indices LLC (hereinafter referred to as the “S&P DJI”) under the commission by Nikkei.

2: Index Names

(Japanese)

Official : 日経アジア 300 インベスタブル指数

Abbreviation : 日経アジア 300i

(English)

Official : Nikkei Asia300 Investable Index

Abbreviation : Nikkei Asia300i

3: Constituents Management

(1) General Rule

- The Nikkei Asia300 Investable Index covers stocks of the following countries and regions (hereinafter referred to as the “Country” or “Countries”).
China, Hong Kong, Taiwan, South Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand and India
- The coverage for the Country would be expanded considering the market size and its liquidity etc. in the future.
- The Country each stock belongs to is defined as the place where the headquarter of the company is located.
- China A-shares and ADRs are not included in the coverage for the time being.
- REITs and investment funds and similar instruments are not included in the coverage.

(2) Periodic Review

The Periodic Review of the index constituents shall be done at the beginning of June every year (effective from the beginning of June). The candidates of the new

300 constituents are selected based on the rank orders compiled by the following steps and the stocks to be added and removed will be determined finally after applying “Buffer rule”(demonstrated in (2-5) below).

(2-1) Universe

Stocks with market capitalizations (not considering free-float shares, hereinafter referred to as the “Market Cap”) within top 150 places in consecutive three years for each Country are eligible as the universe for the constituent selection.

To avoid concentration to the financial sector, upper limit to the number of financial stocks shall be set at 6 for each Country and only 3 stocks can be selected from the same “Industry” under the finance sector.(*)

- * To curb the impact of trading for the constituent changes, stocks in the financial sector eligible in the above process but are not in the universe of the previous Periodic Review shall not be included in the universe unless the 3-year average Market Caps of this year are more than 10 percent larger than that of the financial stock which was in the previous year’s universe.
- * Sectors and Industries are based on the GICS (Global Industry Classification Standard). The financial sector consists of seven industries: Banks, Thrifts & Mortgage Finance, Diversified Financial Services, Consumer Finance, Capital Markets, Mortgage Real Estate Investment Trusts (REITs) and Insurance.

Stocks meeting the following threshold shall be removed from the universe.

- Annual average trading value is less than 0.5 million US dollars in the past one year
- Free-float ratio is less than 10 percent
- Liabilities in excess of assets in previous fiscal period

(2-2) Measure for selection

The measure for selecting the constituents shall be the each rank order as calculated below.

- ① Rank the stocks in the universe (2-1) above by 3-year average Market Cap in the descending order.
- ② Adjust the rank orders moving up by 30 places for stocks whose 5-year average sales growth rates are 10 or more percent.
- ③ Overall rank orders after reflecting ① and ② will be used for the selection process onwards.

(2-3) Constituent selection

To balance the composition of the each Country, the constituents are selected in the following method.

- ① Select top 20 ranked stocks for each Country (resulting in selecting 200 stocks in total for 10 Countries).
- ② From the remaining stocks, select top 100 ranked stocks regardless of the Countries (resulting in 300 stocks in total). For regional diversification, set an upper limit of 45 (70 for China and Hong Kong together) as the number of stocks for each Country.

(2-4) Exceptional treatment

Any stock categorized into the following will not be selected and the stock with the next rank order in the same Country will be selected.

- ① Both parent and subsidiary listed stocks
Parent company will be selected when both of the parent and subsidiary companies become candidates above. A company is defined as “Parent” when a listed company owns 50 or more percent of shares of another company in the same Country (China and Hong Kong are recognized in the same Country).
- ② Stocks hardly tradable
Stocks which are hardly traded will not be selected, e.g. stocks under the trading halt in the significant length of time, under the severe foreign ownership control.

(2-5) Buffer rule

To control the number of constituents to change, following “buffer rule” shall be applied in the selection process, which is based on the differences of the rank orders. Of the 300 stocks selected in the above process, those which are not in the current constituents are “Candidates to Add”, while the current constituents not selected as the 300 stocks are “Candidates to Remove”. Comparing the both Candidates, the constituent changes will be conducted only if the differences of the rank orders are 50 places or more.

To satisfy the lower limit of 20 stocks for each Country (such country is hereinafter referred to as the “Lower Limit Country”) and the upper limit of 45 stocks for a Country and 70 stocks for China and Hong Kong together (such country is hereinafter referred to as the “Upper Limit Country”), each Candidate is evaluated as follows.

- ① If a Candidate to Remove belongs to a Lower Limit Country, compare the overall rank order of such Candidate with the highest ranked Candidate to Add in the Country. The constituents are changed if the difference in the rank

order is 50 or more.

- ② If a Candidate to Remove belongs to an Upper Limit Country, compare the overall rank order of such Candidate with the highest ranked Candidate to Add in the Country or Non-Upper Limit Country. The constituents are changed if the difference in the rank order is 50 or more.
- ③ If a Candidate to Remove belongs neither to Lower Limit Country nor Upper Limit Country, compare the overall rank order of such Candidate with highest ranked Candidate to Add in the Non- Upper Limit Country. The constituents are changed if the difference in the rank order is 50 or more.

For the stocks removed from the index between the Periodic Reviews and the current constituents not selected in the universe, the lowest overall rank order is assigned in the process above.

(2-6) Definitions and the base date of the indicators in the Measure

- ① 3-year average Market Cap uses the average of Market Caps at the end of March in the last three years
- ② Daily average trading value uses US dollar based daily average of trading values from April in the last year to March in the current year
- ③ Free float ratio uses Investable Weight Factor provided by S&P DJI
- ④ Liabilities in excess of assets determine based on the figures in the previous fiscal period
- ⑤ 5-year average growth rate of sales is the sales in the accounting period ending in the previous calendar year divided by that in five years earlier

(3) Extraordinary removals

If a constituent becomes practically non-tradable, e.g. delisting or the trading halt for an extended length of time, such constituents will be removed from the index after the announcement. Replacement will not be done for such a removal in principle, and the number of the constituents will be back to 300 at the following Periodic Review.

4: Index Calculation

(1) Basic Points

- The indices are calculated based on the free-float adjusted market value method.
- The indices are calculated every 15 seconds during the trading hours of the markets on which the constituents are listed.
- The indices denominated in the US dollar and the Japanese yen are calculated.

- The Reuters' spot FX rates at the time of calculation are used for the currency conversions.
- If the stock prices are not available due to trading halt or zero trading volume, the prices used to calculate the previous day closing indices are used. If the stock goes ex-right during the period, the prices are ex-right adjusted.
- Same as above when one or more exchanges do not trade due to holiday or otherwise.
- For China stocks, the prices of H-share are used in principle.
- The commencement date of the calculation is December 11th 2017. The base date is December 1, 2015 and the base value is 1,000.

(2) Calculation Calendar

In principle, the indices are calculated from Monday to Friday except on January 1. However, the indices will not be calculated when all of the relevant exchanges are closed.

(3) Formula

- An index at a time of t is calculated with the following formula.

$$Index_t = \frac{\text{Sum of Free Float Market Cap of Constituents}_t}{\text{Divisor}_t} \times 1,000$$

$$\text{Sum of Free Float Market Cap of Constituents}_t = \sum_i^N (P_{i,t} \times S_{i,t} \times F_{i,t} \times E_{i,t})$$

$P_{i,t}$: Stock Price of constituent $_i$ at time of t (on local currency)

$S_{i,t}$: Number of shares of constituent $_i$ at time of t

$F_{i,t}$: Free float ratio for constituent $_i$ at time of t

$E_{i,t}$: Spot currency rate for constituent $_i$ at time of t (*)

N : Number of constituents in the index

(*) Exchange rate of the trading currency vs calculation currency. For example, the rate for a stock traded in HKD in the USD based index is an inverse number of USD/HKD (1 USD=HKD).

- Divisors are adjusted in accordance with S&P DJI's methodology ("Equity Indices Policies & Practices Methodology" and "Index Mathematics Methodology"). Divisors will be adjusted for the various actions in the index (e.g. constituents change, changes in the number of shares and Free float ratio for the

constituents, capital increase/decrease etc.) to keep the index level between pre and after the event unchanged.

(4) Price, Number of shares and Free float ratio

- Prices, number of shares, and the free float ratios are basically managed in accordance with the S&P DJI methodology.
- If a company is listed on two or more markets, the stock price on the primary market determined by Nikkei will be used.
- Number of shares and the free float ratios are reviewed annually at the beginning of June in accordance with the periodic review described in (2).

(5) Total Return Index calculation

The total return version and net total return version of the indices are also calculated on End-of-day basis. They are calculated both in the US dollar and the Japanese yen.

Treatment of the dividends is in accordance with S&P DJI's methodology.

5: Index Value

(1) Historical index value

- The index is calculated retroactively to December 3, 2012 on the end-of-day basis.
- The constituents for the retroactive calculation from June 1, 2015 to December 8, 2017 are selected applying with the Periodic Review rule described in (2) as on June 2015, June 2016, and June 2017. Before May 2015, the constituents selected as on June 2015 are used for the retroactive calculation.
- Neither buffer rule (2-5) nor workaround for concentration to the financial sector (2-1) are applied to those selections.
- Parent/Subsidiary companies are determined based on the shareholder information at the inception (2017).

(2) Index Restatement

Indices may be revised retroactively in accordance with S&P DJI's methodology.

6: Others

(1) Licensing

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Appendix: Change history of Index Guidebook

November 10, 2017	Initial version
December 11, 2017	<ul style="list-style-type: none">• Calculation start date added• Abbreviations added to “2: Index Names”• “(2-6) Definitions and the base date of the indicators in the Measure” added to “3:Constituents Management”• Additions to the “(2) Disclaimer” in “6:Others”