

Nikkei High Yield REIT Index

Index Guidebook

Nikkei Inc.

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(July 20, 2020 version)

1: Introduction

“Nikkei High Yield REIT Index” is a REIT index comprised of high yield REITs calculated by “Market Cap multiplied by Yield Weight” Methodology.

2: Name

(Japanese)

Official : 日経高利回り REIT 指数

(English)

Official : Nikkei High Yield REIT Index

3: Constituents Management

(1) Basic Point

The number of constituents of the Nikkei High Yield REIT Index is 35 in principle. The Periodic Review is conducted at the end of May every year. The index may be calculated with less than 35 constituents due to Extraordinary Removals during the year. New constituents will not be added unless they become below 30. The number will be back to 35 at the Periodic Review.

(2) Universe

The index constituents are selected from the REITs listed on the Tokyo Stock Exchange (TSE). The REITs that have been listed for less than 2 months or are assigned to “Security to be delisted” are not included in the universe.

(3) Periodic Review

- The Base Date of the Periodic Review shall be the final business day of April of each year. After 2021, the 35 constituents shall be selected by the process described below and the constituent change shall be effective on the final business day of May. The constituent change on the Periodic Review will be announced with sufficient advance notice period before the effective date.
- The Periodic Review shall be conducted by the following procedure.
 - ① As of the base date, the REITs in the universe are ranked by the liquidity (average daily trading values for one year) in descending order, and those ranked below 50 are excluded. However, current constituent ranked below 50 will not be excluded if its trading value is more than 50% of the average trading value of the 50th REIT.

- ② After liquidity exclusion above, if the number of the constituents is less than 35, the non-constituent REIT with highest Expected Dividend Yield (based on the Nikkei's forecasts, adjusted to 12-month basis) shall be added sequentially so that the number becomes 35.
- ③ If the difference of expected yields between a constituent with the lowest Expected Dividend Yield and a non-constituent with the highest Expected Dividend Yield is more than 0.5 percent points, such constituent shall be replaced by high yield non-constituent.
- ④ Repeat step ③ until no REIT meets the criteria.

However, in the step ② to ④, Nikkei will not adopt REITs which Expected Dividend Yield become high due to extraordinary reasons such as sharp drop in their market prices. Also, those scheduled to be delisted are not adopted. When the REITs have the same Expected Dividend Yield, the REIT with higher liquidity (average daily trading values for one year) will become chosen.

(4) Extraordinary Removal/Replacement

- In case that constituent REIT is designated as "Securities to be delisted", such constituent will be deleted after five business days from the designated date.
- In case that constituent REIT is delisted due to merger, etc., such constituent is deleted on the delisting date.
- On the final business day of each month (except April), level of Expected Dividend Yield of constituent REITs is accessed. If there is a constituent with Expected Dividend Yield less than half of the simple average of all listed REITs, such constituent will be removed on the 7th business day of the following month.
- Unless the Extraordinary Removals result in less-than 30 constituents, new constituent will not be added.
- If it becomes apparent that the number of the constituents becomes less than 30, new constituents shall be added so that the number becomes 30. New constituent is determined based on the ranking of Expected Dividend Yield with the final business day of the last month as the Base Date. In case that REITs have the same Expected Dividend Yield, the one with higher liquidity (average daily trading values for one year) will be chosen.
- Additions will be announced with a sufficient advance notice period before the effective date.

(5) Constituents in the past and on the launch date

- With regards to the constituents used for the retroactive index calculations (see 4-(7) below), for the years before 2020, Nikkei chose 35 constituents with highest Expected Dividend Yields out of the 50 most liquid REITs (in terms of average

daily trading value for the past year) on the Base Date. Constituents were changed on the final business day of the following month. In case that REITs have the same Expected Dividend Yield, the REIT with higher liquidity (average daily trading values for one year) was added. The rule of the Extraordinary Replacements described in the above (4) was applied.

4 : Index Calculation

(1) Basic Point

- The index is calculated by Market Capitalization × Yield weight methodology.
- The index level on May 30 2014, the Inception Date, is 1,000.
- The unit of the index is “points”. 3rd digit under the decimal is rounded to make the index have 2 digits under the decimal point.
- Calculated on an end-of-day basis, using the prices of the Tokyo Stock Exchange.

(2) Calculation Formula

- The daily index value shall be calculated by the following formula.

$$\text{Index value} = \Sigma \{ \text{Share price} \times \text{Weight Factor} \} / \text{Divisor}$$

(3) Share price

- Prices used for the calculation are selected in the following order of priority.
① Special Quote or sequential trade quote、② Closing price、③ Base price
(The base price is obtained based on the priority order of ex-rights theoretical price, the last special quote price or sequential trade quote price on the previous day, and the closing price on the previous day.)

(4) Weight Factor

- The Weight Factor shall be determined on the Base Date of the Periodic Review by the following formula. It is an integer number, truncating under the decimal point.

$$\text{Weight Factor} = \text{Number of issued shares} \times \text{Expected Dividend Yield} \times 100$$

① Expected Dividend Yield (%)

The Expected Dividend Yield shall be calculated by dividing the expected dividend (for stocks with 6-month settlement, use 6-month dividend multiplied by two) per share on the Base Date by the share price on the same day. The dividend yield for the index calculation is capped at 5%, which means that the yield exceeding 5% is changed to 5%. The unit of the figures is percent (%) and it is rounded down at two places under the decimal, truncating after the third decimal points.

② Weight Cap

At the timing of the Periodic Review, in determining the Weight Factor by the above method, if the weight of a constituent exceeds 5%, the Weight Factor shall be adjusted so that the weight is within 5%.

③ Split or reverse split of a constituent

After the Weight Factors are assigned, if a constituent goes a stock split or reverse split, the Weight Factor shall be adjusted corresponding to the ratio of the split or reverse split on the ex-date.

- In case that the number of the constituents is known to become below 30 and a new constituent will be added, the Weight Factor of a new constituent shall be determined by the data on the Base Date used for the selection process while the Weight Factors of the other constituents, i.e. those which continue to be constituents, remain unchanged.

(5) Divisor

- The Divisor on May 30th 2014, the Inception Date is determined by the following formula.

$$\text{Divisor} = \sum \{ \text{Share prices} \times \text{Weight Factor on the Inception Date} \} / 1000$$

- After the Inception Date, the Divisor will be changed every time when the index constituents are changed by using the following formula.

$$\begin{aligned} \text{Divisor tomorrow} &= \text{Divisor today} \\ &\times (\sum \{ \text{base prices next day of the index constituents for the next day} \\ &\quad \times \text{Weight Factor for the next day} \}) \\ &/ (\sum \{ \text{base prices today of the today's constituents} \\ &\quad \times \text{today's Weight Factor} \}) \end{aligned}$$

- 4th digit is rounded to make the Divisor have 3 digits under the decimal point.

(6) Modification of the index value

- If an event which necessitates modification of the index value becomes known, such event will be reflected in the first calculation of the index after such event is known. Past index value is not modified in principle.

(7) Retroactive calculation in the past

- The index is retroactively calculated to the Inception Date (May 30th 2014=1,000) on an end-of-day basis.
- The constituents used for the retroactive calculation are determined as described in 3-(5).

5: Others

(1) Total Return Index calculation

Nikkei calculates “Nikkei High Yield REIT Index (Total Return)” and “Nikkei High Yield REIT Index (Net Total Return)” as the related indexes of the “Nikkei High Yield REIT Index” by adding the dividends and the net dividends excluding taxes respectively. These indexes are calculated on an end-of-day basis.

The basic points for the total return calculation such as the method to incorporate dividends conform to the Nikkei 225 Total Return Index and the Nikkei 225 Net Total Return Index.

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