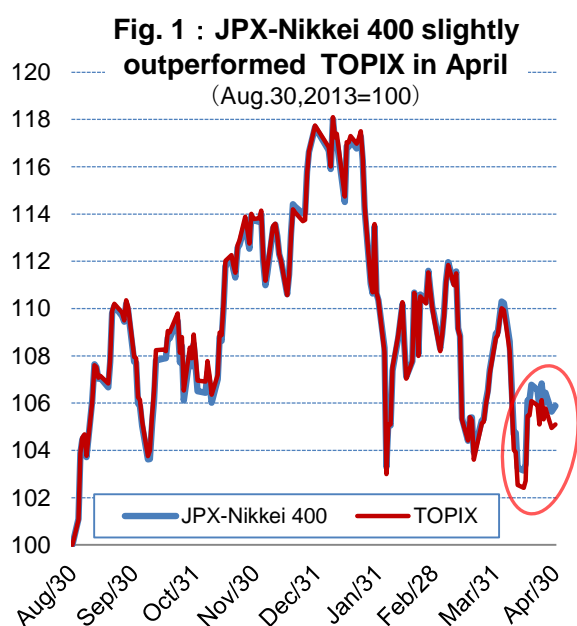


Nikkei 225 in April

As of the end of April, the Nikkei Stock Average (Nikkei 225) stood at 14304.11 down 523.72 points, or 3.53%, from the end of March, which fell for the four months in a row. Disappointment over expectation of additional monetary easing by the BOJ accelerated the downward trend the Tokyo stock market, and the index fell below the 14000 on 11th for the first time in six months.

This month's Topic : Relatively stable JPX-Nikkei 400 in a bear market

The [JPX-Nikkei Index 400](#) has gradually begun to show a relative stability. Although, the index had moved in almost the same ways as the TOPIX (Tokyo Stock Price Index published by the Tokyo Stock Exchange) since its start of publication since January 2014, it slightly outperformed the TOPIX in April. The index has original characteristics in that the selection rule includes measurements of corporate performances such as return on equities (ROE) and operating profits, unlike other major equity indices in Japan. Which characteristics of the JPX-Nikkei 400 could produce the stability?



The inception value of the JPX-Nikkei 400 was 10,000 points on August 30, 2013 (calculation base date). Figure 1 shows a relative comparison of the JPX-Nikkei 400 with the TOPIX, converting the both indices into 100 points on the day. On the most of days until March 2013, the gap ratio between the values converted from two indices had been within 0.2 percentage points, which is an indication of tracking error for passive equity funds. However, the JPX-Nikkei 400's value has continued to exceed that of the TOPIX by 0.5 percentage points this April. The gap ratio reached 0.82 percentage points on 10th and ended at 0.78 percentage points in the month.

What are backgrounds of the gap? According to several market participants, one possible reason was that April was the first month of the fiscal year of 2014. A Japanese equity strategist pointed out that many intuitional investors could start to provide their new moneys into selected blue-ship shares. Also, a determination for Government Pension Investment Fund (GPIF), the largest pension fund in Japan to adopt the JPX-Nikkei 400 as one of new benchmarks for Japanese equity passive funds could lead to an

expectation that the index component stocks would be relatively stable according to the above strategist. Actually, investment trusts linked to the JPX-Nikkei 400 has been recently launched in succession.

Based on contribution ratio of each component stock to an increase or a decrease of the index, Nikkei has aggregated the averaged ROEs for positive contributors and negative contributors. The result shows the ROE for the positive was 11.10%, slightly larger than the ROE for the negative, 10.65%, which indicate a possibility that higher ROE could be a reason to support some price movements. The contribution ratios have been compiled by using the data provided in a subscription-based web data service, "[Premium Data Package for JPX-Nikkei 400](#)", debuted on April 23rd 2014.

However, a technical factor could also be a significant reason for the stability. A cap ratio of 1.5% has been introduced into the each component to set an upper limit for an individual stock weight. The cap system could result in less impact by price movements of the relevant stocks. In the capped 11 issues, 8 were losers and 3 were winner, i.e. decrease and increase in prices in April respectively. Especially, all of issues with significant impacts on the TOPIX, such as 3 megabanks like Mitsubishi UFJ Financial Group (8306) and Toyota Motor (7203) were losers in the month. A characteristic that the index is not less affected by specific issues seems to produce a positive effect in bear market. It would be worthwhile to notice whether such an advantage of the JPX-Nikkei 400 could continue in the uncertain Japanese stock market.

Performance Summary of April 2014

○Nikkei 225 and its derived indices

(Data as of end of April)

Name of Index	Index Value	Monthly Return	Avg Return	Volatility	Yealy High	The Date	Yearly Low	The Date
Nikkei 225	14304.11	-3.53%	0.03%	1.69%	16121.45	8-Jan	13910.16	14-Apr
Nikkei 225 TR	20861.66	-3.53%	0.03%	1.69%	23327.25	8-Jan	20271.52	4-Feb
Nikkei 225 VI (Volatility)	22.51	-6.98%	0.11%	5.92%	33.21	4-Feb	21.40	23-Jan
Nikkei 225 VI Futures	74382.52	-10.72%	0.05%	2.93%	97741.36	4-Feb	74382.52	30-Apr
Nikkei 225 Covered Call	12742.90	-3.08%	0.02%	1.42%	14030.41	8-Jan	12348.19	4-Feb
Nikkei 225 Risk Control	15126.51	-1.64%	0.01%	0.78%	16161.58	8-Jan	14898.08	14-Apr
Nikkei 225 Leveraged	8738.77	-7.22%	0.05%	3.38%	11295.91	8-Jan	8275.01	14-Apr
Nikkei 225 Inverse	3537.52	3.34%	-0.03%	1.69%	3651.06	4-Feb	3193.30	8-Jan

Name of Index	Index Value	Change	Hist. High	The year	Hist. Low	The year
Nikkei 225 DP	6.99	8.37%	6.99	2014	0.52	2004

○Benchmark and other indices

Name of Index	Index Value	Monthly Return	Avg Return	Volatility	Yealy High	The Date	Yearly Low	The Date
JPX-Nikkei Index 400	10588.03	-2.81%	0.01%	1.49%	11800.26	8-Jan	10314.83	14-Apr
Nikkei 300	235.86	-3.20%	0.01%	1.50%	265.90	8-Jan	229.49	14-Apr
Nikkei China Related 50	1250.04	-2.92%	0.02%	1.52%	1399.88	8-Jan	1220.64	4-Feb
Nikkei 500 Average	1225.49	-3.45%	0.02%	1.47%	1348.15	8-Jan	1191.33	4-Feb
Nikkei Japan 1000	1371.38	-3.35%	0.01%	1.51%	1541.51	8-Jan	1335.72	14-Apr
Nikkei JASDAQ Average	1954.08	-2.52%	0.00%	1.18%	2187.50	22-Jan	1947.87	11-Apr

Note: Avg Return and Volatility are calculated on the daily return for the past 1 year.

"Change" in the Nikkei 225 Dividend Point Index (Nikkei 225 DP) indicates a comparison with the value at the end of April 2013.

Historical High and Low in the dividend index were based on the values in the same month since 1998.

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