

TSE Index Guidebook (JPX Prime 150 Index)

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JPX Market Innovation & Research, Inc.

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Contents

Record of Changes 3

Introduction 4

I. Outline of Index 4

II. Index Calculation 4

1. Outline 4

2. Index Type 4

3. Inclusion or Removal of Constituents 5

III. Other 10

1. Publication/Dissemination of Index Data 10

2. Licensing 10

3. Contact 10

Record of Changes

| DATE | Changes |
|-----------|--|
| 2023/5/26 | • Launch |
| 2024/1/31 | • "Securities on Alert" was renamed to "Securities on Special Alert" |

Introduction

- JPX Market Innovation & Research, Inc. (hereinafter “JPXI”) calculates and publishes the JPX Prime 150 Index in accordance with the methods described in this document. If an event not specified in this document occurs, or if JPXI determines that it is difficult to use the methods described in this document, JPXI may use an alternative method of index calculation as it deems appropriate.
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I. Outline of Index

- The JPX Prime 150 Index is a market capitalization weighted index composed of leading Japanese companies listed on TSE Prime Market that are estimated to create value based on two measures: “equity spread” and “PBRs.”
- The base date is May 26, 2023. The base value is 1000.

II. Index Calculation

1. Outline

- The JPX Prime 150 Index is calculated using market capitalization weighting.
- The calculation formula and method for adjustments of base market value, etc. are in accordance with the Index Calculation Guidebook.
- For the cap-adjustment ratio, stocks are given the same value as for the TSE Prime Market Index.

2. Index Type

- JPXI calculates both price and total return versions of JPX Prime 150 Index.
- The method of reflecting dividends in index values is in accordance with the Index

3. Inclusion or Removal of Constituents

(1) Initial Selection

a. Constituent selection

- The base date for the initial selection (hereinafter the "Initial Selection Base Date") will be the May 16, 2023.
- The selection process shall be conducted as follows:

Universe Selection

- Stocks selected as constituents of TSE Prime Market Index. However, stocks that fall under the following as of the Initial Selection Base Date are excluded:
 - Stocks that do not meet the continued listing criteria
 - Stocks designated as Securities to Be Delisted
 - Stocks designated as Securities on Special Alert
 - Stocks for which a segment transfer has been announced
- In principle, issues will also be excluded from the constituent universe if they are found to fall under the criteria for exclusion between the Initial Selection Base Date and the announcement of the results.

Screening by Market Capitalization

- The top 500 stocks in the universe by full market capitalization as of the Initial Selection Base Date shall be eligible (hereinafter the "Initial Selection Eligible Issues").

Selection of Stocks by Equity Spread Criteria

- Issues whose equity spread of the current period (the recent fiscal year ended by the end of March in the year in which the base date falls. The same applies hereinafter.) and the previous period are both positive values (limited to cases where the ROE is over 8%) shall be selected (hereinafter the "Initial Selection Eligible Issues for Equity Spread Criteria").
- The top 75 companies in terms of estimated equity spreads will be selected from the Initial Selection Eligible Issues for Equity Spread Criteria.
- In cases of issues with the same estimated equity spreads of the current period, preference shall be given to the issue with the higher estimated equity spreads of the previous period.

Selection of Stocks by PBR Criteria

- Issues whose PBRs of the current period and average of two periods (the previous period and the current period) PBRs are both over 1x shall be selected (hereinafter the "Initial Selection Eligible Issues for PBR Criteria").
- The top 75 companies in terms of full market capitalization will be selected from the Initial Selection Eligible Issues for PBR Criteria.
- In cases of issues with the same full market capitalization of the current period, preference shall be given to the issue with the higher PBRs of the current period.
- If, as a result of the selection process above, the 150 constituents contain issues that will be delisted due to stock transfer, etc., adjustments for the final constituents may be conducted where deemed necessary. Additionally, in cases where the JPXI deems a selected issue significantly inappropriate as a constituent of the JPX Prime 150 Index, said issue may not be added.

b. Other

- The number of constituents as of the launch date can be lower than 150, due to, for example, non-periodic removal of issues which are designated as Securities to Be Delisted after the periodic review announcement date, etc.

(2) August periodic review (applicable from August, 2024)

a. Constituent selection

- A periodic review of constituents will be conducted once a year (on the last business day of August).
- The base date for the periodic review (hereinafter the "Rebalance Base Date") will be the last business day of June. The list of inclusions/removals will be published on the JPX website on the fifth business day prior to the last business day of August.
- The selection process shall be conducted as follows:

Universe Selection

- Stocks selected as constituents of TSE Prime Market Index. However, stocks that fall under the following as of the Rebalance Base Date are excluded:
 - Stocks that do not meet the continued listing criteria
 - Stocks designated as Securities to Be Delisted
 - Stocks designated as Securities on Special Alert
 - Stocks for which a segment transfer has been announced

- In principle, issues will also be excluded from the constituent universe if they are found to fall under the criteria for exclusion between the Rebalance Base Date and the announcement of the results.

Screening by Market Capitalization

- The top 500 stocks in the universe by market capitalization as of the Rebalance Base Date shall be eligible (hereinafter the "Eligible Issues").

Selection of Stocks by Equity Spread Criteria

- Issues whose equity spread of the current period and the previous period are both positive values (limited to cases where the ROE is over 8%) shall be selected (hereinafter the "Eligible Issues for Equity Spread Criteria").
- Select top 25 companies in terms of estimated equity spreads from Eligible Issues for Equity Spread Criteria.
- Select constituents as of Rebalance Base Date ranking higher than 125 from Eligible Issues for Equity Spread Criteria until the fixed count of 75 is achieved.
- In cases where the fixed count is not achieved after the above steps, select stocks in terms of estimated equity spreads from Eligible Issues for Equity Spread Criteria until the fixed count of 75 is achieved.

Selection of Stocks by PBR Criteria

- Issues whose PBRs of the current period and average of two periods (the previous period and the current period) PBRs are both over 1x shall be selected (hereinafter the "Eligible Issues for PBR Criteria").
- Select top 25 companies by market capitalization from Eligible Issues for PBR Criteria.
- Select as of Rebalance Base Date ranking higher than 125 from Eligible Issues for PBR Criteria until the fixed count of 75 is achieved.
- In cases where the fixed count is not achieved after the above steps, select stocks by market capitalization from Eligible Issues for PBR Criteria until the fixed count of 75 is achieved.

- If, as a result of the selection process above, the 150 constituents contain issues that will be delisted due to stock transfer, etc., adjustments for the final constituents may be conducted where deemed necessary. Additionally, in cases where the JPXI deems a selected issue significantly inappropriate as a constituent of the JPX Prime 150 Index, said issue may not be added.

b. Other

- The number of constituents as of the announcement date can be lower than 150, due to, for example, non-periodic removal of issues which are designated as Securities to Be Delisted after the periodic review announcement date, etc.

(3) Non-periodic removal

- Constituents that are delisted, designated as Securities to be Delisted, designated as Securities on Special Alert, or have announced a segment transfer shall be removed.
- Additionally, in cases where the JPXI deems the continued inclusion of a constituent to be significantly inappropriate, said issue shall be removed.

(4) Non-periodic inclusion

- In the event a constituent of JPX Prime 150 Index is delisted due to a stock transfer, stock swap, merger for creating a new company or demerger, and the newly created, surviving, or succeeding company undergoing such a stock transfer, etc. is listed on TSE Prime Market without delay, JPXI will add the new company to the JPX Prime 150 Index.

(5) Treatment of data for selection

- The full market capitalization used in constituent selection is the number of shares of each issue used for calculation of the TSE Prime Market Index as of the Rebalance Base Date, multiplied by the stock price used for calculation.
- The equity spread used in constituent selection is as follows:

| Item | Contents |
|--|---|
| Estimated Equity Spread (%) | • ROE (%) – Cost Of Equity Capital (%) |
| ROE (%) | • Use companies' disclosure information. |
| Cost Of Equity Capital (%) | • 10-year JGB Interest Rate (%) + Beta × (Market Return (%) – 10-year JGB Interest Rate (%)) |
| 10-year Japanese Government Bond (JGB) Interest Rate (%) | • Use JGB Interest Rate information published by the Ministry of Finance. • 10-year JGB Interest Rate on the Rebalance Base Date. |
| Market Return (%) | • Annualized return of TOPIX (*) from January 4, 1968 (100 points) to the Rebalance Base Date. * During the period when TOPIX TR is calculated, the value of TOPIX TR is used, and during the period when TOPIX TR is not calculated, the value of TOPIX PR is used. |
| Beta | • Covariance of the return of each stock and the return of TOPIX TR ÷ variance of the return of TOPIX TR • The calculation uses the monthly returns including dividends for each company and TOPIX total returns for the most recent 60 months from the month of the Rebalance Base Date (March 2023 for the initial |

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|--|--|
| | selection). No adjustments will be made due to rights offerings. <ul style="list-style-type: none"> • Issues exceeding 2.0 will be 2.0. • Issues below 0.5 will be 0.5. • Issues with monthly returns of less than 30 months are 1.0. |
|--|--|

- The PBR used in constituent selection is as follows:

| Item | Contents |
|-------|--|
| PBR | • Price ÷ BPS |
| Price | • Closing price on Rebalance Base Date |
| BPS | • Use companies' disclosure information. |

(6) Dates of constituent inclusion and removal

| | Event Requiring Adjustment | | Adjustment Date |
|-----------|--|---|--|
| Inclusion | New listing of a newly formed company resulting from a stock transfer, etc. (*1) that results in a JPX Prime 150 Index constituent being delisted and the new company being included in the JPX Prime 150 Index. | | New listing date (*2) |
| | Periodic Review | | Last business day of October |
| Removal | Delisting | New listing of a newly formed company resulting from a stock transfer, etc. (*1) that results in a JPX Prime 150 Index constituent being delisted and the newly formed company being included in the JPX Prime 150 Index. | Listing date of the newly formed company (normally two business days following the delisting date) |
| | | Delisting other than those stated above (e.g. mergers/stock swaps between two TSE Mothers Index constituents with the surviving company remaining as a TSE Mothers Index constituent, etc.) | Delisting date |
| | Periodic Review | | Last business day of October |
| | Market segment transfer from Prime Market | | Transfer date |
| | Designation as Securities to Be Delisted or designation as a Security on Special Alert | | Four business days after designation (*3) |

*1: Stock transfer, stock swap, merger for creating a new company, or demerger.

*2: Next business day when the new listing date falls on a holiday.

*3: Next business day when the designation date falls on a holiday.

III. Other

1. Publication/Dissemination of Index Data

1) Index Values

- JPX Prime 150 Index price index values are disseminated in real-time through the Market Information System to securities companies, news media, and other institutions all over the country. The price index is disseminated every 1 second.
- The Total Return Index is calculated daily at market close.

2) Index Data

- Index data relating to the JPX Prime 150 Index (base market value, etc.) is provided for a fee through the Index Data Service.

2. Licensing

- JPXI and/or its affiliates reserve all calculation, publication and other rights pertaining to the JPX Prime 150 Index. As such, commercial use of such indices in the composition and/or sale of financial products such as funds or linked bonds (including using the index as the basis for options, swaps, warrants, or other OTC derivatives) or provision of index data requires a license from JPXI.

3. Contact

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