

# “Everything has changed / Nothing has changed”

**Nomura Quant Conference 2009**

**Yasuyuki Kato**

([katou-0d0j@jp.nomura.com](mailto:katou-0d0j@jp.nomura.com))

Senior Executive Officer  
Global Quantitative Research  
Nomura Securities Co., Ltd.

Visiting Professor, Kyoto University

16 June 2009

Please read the  
disclosures and  
disclaimers on pp. 6-8. gl

# Everything Has Changed

## Who Said Global Diversification?

Performance of Typical Japanese Institutional Investors  
(Aug 08-Mar 09)

	Fund Total	Japan Eq (25%)	Japan FI (35%)	Non-Japan Eq (15%)	Non-Japan FI (10%)	Hedge F (5%)	Cash (10%)
Return (%)	-17.23	-37.00	1.37	-45.86	-4.78	-22.95	0.47

Source: Nomura

# US Markets Have Become Recognized as a Big Systematic Risk

Diversification meant go to US and US dollars

Performance of Typical Japanese Institutional Investors  
(Aug 08-Mar 09)

	Fund Total	Japan Eq (25%)	Japan FI (35%)	Non-Japan Eq (15%)	Non-Japan FI (10%)	Hedge F (5%)	Cash (10%)
Return (%)	-17.23	-37.00	1.37	-45.86	-4.78	-22.95	0.47

Japanese Companies  
Dependency on  
Export to US

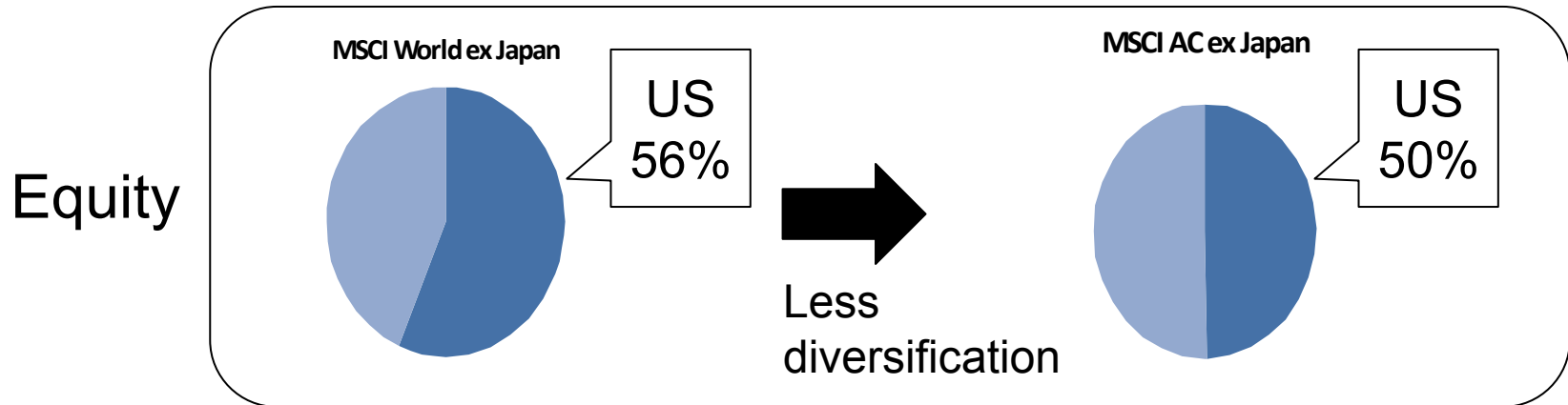
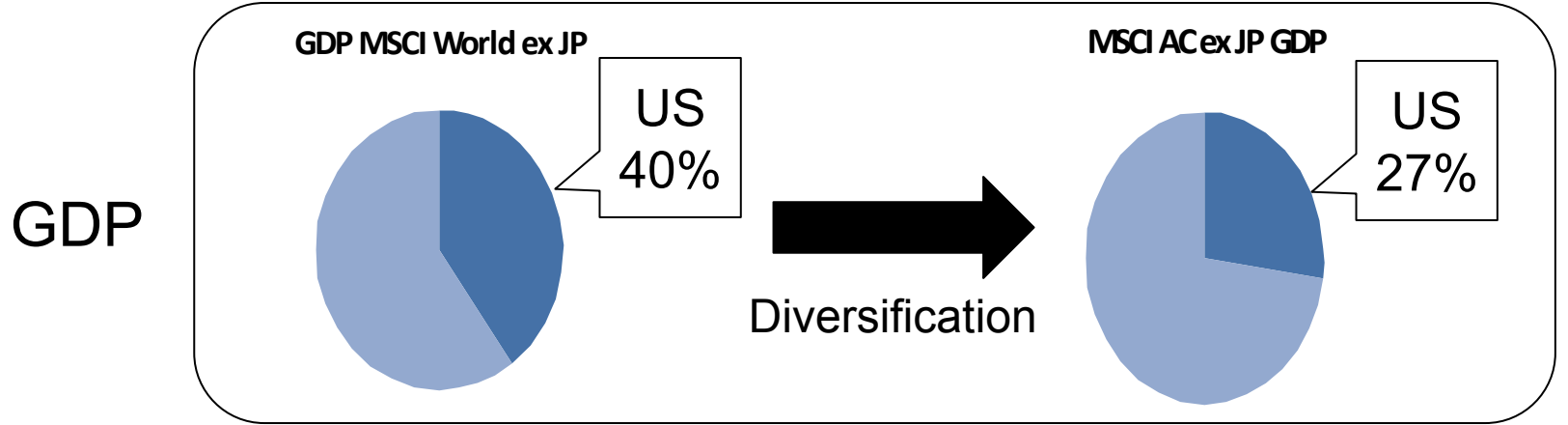
**US Equity  
share  
56%**

**US FI  
share  
52%**

**US HF  
share  
40%**

# Nothing Has Changed

No Way Out:  
Gap Between Development of Real Economy and Markets



Developed

Developed + Emerging

# What We Can Do Now

## New Approach to Global Diversification

- Try to increase diversification anyway
  - MSCI All Country may provide more in the future
  - Other asset classes? New types of hedge funds?
  
- Lowering correlation
  - Reduction in correlation among world equity markets
  - Ex. Use non-market cap weighting for developed markets  
Factor diversification among world markets
  
- Currency hedging to eliminate risk

## Online availability of research and additional conflict-of-interest disclosures

Nomura Japanese Equity Research is available electronically for clients in the US on NOMURA.COM, REUTERS, BLOOMBERG and THOMSON ONE ANALYTICS. For clients in Europe, Japan and elsewhere in Asia it is available on NOMURA.COM, REUTERS and BLOOMBERG.

Important disclosures may be accessed through the left hand side of the Nomura Disclosure web page <http://www.nomura.com/research> or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email [researchchannelsupport@nomura.co.uk](mailto:researchchannelsupport@nomura.co.uk) for technical assistance.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities.

## MSCI indices

Regarding reference to or use of its data, MSCI requires disclosure that: The MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates.

## DISCLAIMERS

This publication contains material that has been prepared by the Nomura entity identified on the banner at the top or the bottom of page 1 herein and, if applicable, with the contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or elsewhere identified in the publication. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the "Nomura Group"), include: Nomura Securities Co., Ltd. ("NSC") Tokyo, Japan; Nomura International plc, United Kingdom; Nomura Securities International, Inc. ("NSI"), New York, NY; Nomura International (Hong Kong) Ltd., Hong Kong; Nomura Singapore Ltd., Singapore; Nomura Australia Ltd., Australia; P.T. Nomura Indonesia, Indonesia; Nomura Malaysia Sdn. Bhd., Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch, Taiwan; Nomura International (Hong Kong) Ltd., Seoul Branch, Korea; Nomura Financial Advisory and Securities (India) Private Limited, Mumbai, India (Registered Address: 2nd Floor, Ballard House, Adi Marzban Path, Ballard Pier, Fort, Mumbai, 400 001; SEBI Registration No:- BSE INB011299030, NSE INB231299034, INF231299034).

This material is: (i) for your private information, and we are not soliciting any action based upon it; (ii) not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal; and (iii) based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

Opinions expressed are current opinions as of the original publication date appearing on this material only and the information, including the opinions contained herein, are subject to change without notice. If and as applicable, NSI's investment banking relationships, investment banking and non-investment banking compensation and securities ownership (identified in this report as "Disclosures Required in the United States"), if any, are specified in disclaimers and related disclosures in this report. In addition, other members of the Nomura Group may from time to time perform investment banking or other services (including acting as advisor, manager or lender) for, or solicit investment banking or other business from, companies mentioned herein. Further, the Nomura Group, and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of this material may, to the extent permitted by applicable law and/or regulation, have long or short positions in, and buy or sell, the securities (including ownership by NSI, referenced above), or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives. In addition, the Nomura Group, excluding NSI, may act as a market maker and principal, willing to buy and sell certain of the securities of companies mentioned herein. Further, the Nomura Group may buy and sell certain of the securities of companies mentioned herein, as agent for its clients.

Investors should consider this report as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision.

NSC and other non-US members of the Nomura Group (i.e., excluding NSI), their officers, directors and employees may, to the extent it relates to non-US issuers and is permitted by applicable law, have acted upon or used this material prior to, or immediately following, its publication.

Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk.

The securities described herein may not have been registered under the U.S. Securities Act of 1933, and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements of such Act. Unless governing law permits otherwise, you must contact a Nomura entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.

This publication has been approved for distribution in the United Kingdom and European Union as investment research by Nomura International plc ("NIPlc"), which is authorised and regulated by the U.K. Financial Services Authority ("FSA") and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are "eligible counterparties" or "professional clients" as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This publication may be distributed in Germany via Nomura Bank (Deutschland) GmbH, which is authorised and regulated in Germany by the Federal Financial Supervisory Authority ("BaFin"). This publication has been approved by Nomura International (Hong Kong) Ltd. ("NIHK"), which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. Neither NIPlc nor NIHK hold an Australian financial services licence as both are exempt from the requirement to hold this license in respect of the financial services either provides. This publication has also been approved for distribution in Malaysia by Nomura Malaysia Sdn. Bhd. In Singapore, this publication has been distributed by Nomura Singapore Limited ("NSL"). NSL accepts legal responsibility for the content of this publication, where it concerns securities, futures and foreign exchange, issued by its foreign affiliate in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this publication may contact NSL in respect of matters arising from, or in connection with, this publication. NSI accepts responsibility for the contents of this material when distributed in the United States.

No part of this material may be (i) copied, photocopied, or duplicated in any form, by any means, or (ii) redistributed without the prior written consent of the Nomura Group member identified in the banner on page 1 of this report. Further information on any of the securities mentioned herein may be obtained upon request. If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

#### **Disclaimers required in Japan**

Investors in the financial products offered by Nomura Securities may incur fees and commissions specific to those products (for example, transactions involving Japanese equities are subject to a sales commission of up to 1.365% (tax included) of the transaction amount or a commission of ¥2,730 (tax included) for transactions of ¥200,000 or less, while transactions involving investment trusts are subject to various fees, such as sales commissions and trust fees, specific to each investment trust). In addition, all products carry the risk of losses owing to price fluctuations or other factors. Fees and risks vary by product. Please thoroughly read the written materials provided, such as documents delivered before making a contract, listed securities documents, or prospectuses.

Transactions involving Japanese equities (including Japanese REITs and Japanese ETFs) are subject to a sales commission of up to 1.365% (tax included) of the transaction amount (or a commission of ¥2,730 (tax included) for transactions of ¥200,000 or less). When Japanese equities are purchased via subscriptions or other offerings, only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Japanese equities carry the risk of losses owing to price fluctuations. Japanese REITs carry the risk of losses owing to fluctuations in price and/or earnings of underlying real estate. Japanese ETFs carry the risk of losses owing to fluctuations in equity indexes or other benchmarks.

Transactions involving foreign equities are subject to a domestic sales commission of up to 0.9975% (tax included) of the transaction amount (which equals the local transaction amount plus local fees and taxes in the case of a purchase or the local transaction amount minus local fees and taxes in the case of a sale). Local fees and taxes in foreign financial markets vary by country/territory. When foreign equities are purchased via OTC transactions (including offerings), only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Foreign equities carry the risk of losses owing to factors such as price fluctuations and foreign exchange rate fluctuations.

Transactions involving convertible bonds are subject to a sales commission of up to 1.05% (tax included) of the transaction amount (or a commission of ¥4,200 (tax included) if this would be less than ¥4,200). When convertible bonds are purchased via offerings, only the purchase price shall be paid, with no sales commission charged. However, Nomura Securities may charge a separate fee for OTC transactions, as agreed with the customer. Convertible bonds carry the risk of losses owing to factors such as interest rate fluctuations and price fluctuations in the underlying stock. In addition, convertible bonds denominated in foreign currencies also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When bonds are purchased via offerings, distributions, or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Bonds carry the risk of losses, as prices fluctuate in line with changes in market interest rates. In addition, foreign currency-denominated bonds also carry the risk of losses owing to factors such as foreign exchange rate fluctuations.

When Japanese government bonds (JGBs) for individual investors are purchased via offerings, only the purchase price shall be paid, with no sales commission charged. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.8; for 5-year fixed rate bonds, an amount equal to the four preceding coupon payments (before tax) x 0.8.

Purchases of investment trusts (and sales of some investment trusts) are subject to a fee of up to 5.25% (tax included). Also, a direct cost that may be incurred when selling investment trusts is a redemption fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, a trust fee of up to 5.25% (tax included, annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation. Investment trusts invest mainly in securities such as Japanese and foreign equities and bonds, whose prices fluctuate. Investment trust unit prices fluctuate owing to price fluctuations in the underlying assets and to foreign exchange rate fluctuations. As such, investment trusts carry the risk of losses. Fees and risks vary by investment trust. Maximum applicable fees are subject to change; please thoroughly read the written materials provided, such as prospectuses or documents delivered before making a contract (as of 25 March 2008.)

An annual account maintenance fee of ¥1,575 (tax included) is charged for any account held with Nomura Securities containing equities or other securities. An additional annual account maintenance fee of ¥3,150 (tax included) is charged for any account containing foreign securities. Some discounts may apply depending on the details of your agreement with Nomura Securities.

No account fee will be charged for other marketable securities or monies deposited.

Transfers of equities to another securities company via the Japan Securities Depository Center are subject to a transfer fee of up to ¥10,500 (tax included) depending on the volume of securities transferred.

Margin transactions are subject to a sales commission of up to 1.365% (tax included) of the transaction amount (or a commission of ¥2,730 (tax included) for transactions of ¥200,000 or less), as well as management fees and rights handling fees. In addition, long margin transactions are subject to interest on the purchase amount, while short margin transactions are subject to fees for the lending of the shares borrowed. A margin equal to at least 30% of the transaction amount and at least ¥300,000 is required. With margin transactions, an amount up to roughly 3.3x the margin may be traded. Margin transactions therefore carry the risk of losses in excess of the margin owing to share price fluctuations. For details, please thoroughly read the written materials provided, such as listed securities documents or documents delivered before making a contract.

#### **Nomura Securities Co., Ltd.**

Financial instruments firm registered with the Kanto Local Finance Bureau (registration No. 142)

Member associations: Japan Securities Dealers Association; Japan Securities Investment Advisers Association; and The Financial Futures Association of Japan.

#### **Additional information available upon request.**

NIPIC and other Nomura Group entities manage conflicts identified through the following: their Chinese Wall, confidentiality and independence policies, maintenance of a Stop List and a Watch List, personal account dealing rules, policies and procedures for managing conflicts of interest arising from the allocation and pricing of securities and impartial investment research and disclosure to clients via client documentation.

**Disclosure information is available at the Nomura Disclosure web page:**

<http://www.nomura.com/research>

**NOMURA**