Instinet, LLC, Equity Research
Americas Mortgage Finance

24 February 2020

# Treasury/FHFA GSE Plan Response Letter Supports GO IT ALONE Thesis

## We Believe Consent Decree Likely in 2020

### Sanders Nomination Increases Chances Conservatorship Ending & PSPA Amended Prior to Election

**Research Analysts**

**Americas Mortgage Finance**

**Matthew Howlett - ILLC**
matthew.howlett@instinet.com
+1 212 310 5404

**Kiesean Riddick - ILLC**
kiesean.riddick@instinet.com
+ 1 212 310 5413

**The FHFA/Treasury Responds to Senate Democrats:** On Friday, the US Treasury and FHFA issued a joint response to Senator Elizabeth Warren and a number of Democrats on the Senate Banking Committee relating to a Dec. 17 letter regarding specific details on plans to reform the GSEs. The FHFA/Treasury responded to all 21 questions. Our key takeaways are the following: 1) the FHFA/Treasury are ready to act outside of Congress and remove the GSEs from Conservatorship via a regulatory order (consent decree) once the GSEs achieve some min level of capital, and 2) the Treasury is open to amending the PSPA, which would enable the GSEs to raise outside capital but without disrupting the MBS market. Both actions appear to be “months” away and support the timeline which we outlined with our investment thesis. We reiterate our Buy recommendations on both FNMA and FMCC.

**Sanders Nomination Should Increase Urgency to Act**: It may sound counterintuitive, but we believe Bernie Sanders (who is coming off a strong showing Saturday and continues to increase his lead in the polls), as the Democratic nominee for President, greatly increases the chances the GSEs will be released from Conservatorship prior to any potential change at the White House in Jan 2021. It’s of our personal opinion that a Sanders nomination would motivate the current administration to act more with a sense of urgency and therefore complete the necessary tasks that effectively “throws the pen away” and prevents a new administration from reversing. While Senator Sanders has not put forth a proposal on the GSEs, we believe it’s not too big of a stretch to assume he would be against a recap and release and in favor of some form of nationalization or status quo. Recent polling has Sanders with a strong lead in the Democratic race for the nomination (11+ points on the most recent polling) and this could gain further momentum following this week’s Super Tuesday results. Our recommendation to clients is to buy these stocks ahead of the official nomination as we see this as a catalyst for action.

**Exchange Listing Another Potential Catalyst:** We view a listing on a nationally recognized exchange as another positive catalyst for the stocks. A re-listing on an exchange would increase price transparency, thereby providing the companies with better information ahead of their respective capital raise. In addition, such an event would likely send a strong signal to the market that GSEs are serious about raising capital. In our opinion, this should be among the first moves that financial advisors of Fannie/Freddie will recommend when they come on board, which we expect to be relatively shortly. Overall, our investment thesis remains that Fannie Mae will issue 3.2bn shares at an offering price of $5 and Freddie will issue 2.0bn shares at an offering price of $4.50 as part of a total $60bn raise. We continue to forecast the raise to occur in April ‘21.

**More Financial Transparency Needed:** One key item where we thought the Treasury/FHFA response underwhelmed is tied to the financial analysis to support a recap/release scenario. We expect the soon to be re-proposal of the capital rule to shed new light, but we continue to request that more financial details of the plan be disclosed.

Production Complete: 2020-02-24 06:31 UTC

# Executive Summary

On Friday, the US Treasury and FHFA issued a joint response to Senator Elizabeth Warren and a number of Democrats on the Senate banking committee regarding a Dec. 17 letter relating to specific details on GSE reform. When we initially saw the questions, we thought they were relevant given the degree of ambiguity that remains on how and when the FHFA/Treasury plan on releasing Fannie/Freddie. The FHFA/Treasury responded to all 21 questions, and we note there was overlap with the line of questioning. Overall, the Treasury prefers to work with Congress on comprehensive GSE reform and continues to indicate the use of "administration" actions as it relates to removing the GSEs from Conservatorship and amending the PSPA to allow for outside capital. We refer to this as a "go it alone" strategy that should put the GSEs on a path to becoming full private companies before there is any potential change at the White House in Jan. 2021.

On that note, political risk is the question/concern we hear most from investors. Our investment thesis remains that this risk is mitigated by the current administration's ability to act before there is a potential change at the White House. While the Treasury/FHFA currently state they are not working under a timetable for GSE reform, we believe this could change as the election draws near. It's our personal view that the motivation to act sooner (rather than later) will emerge if Bernie Sanders becomes the nominee for the Democratic party. According to the most recent polling data from RealClear Politics (which compiles the aggregate of major polls) Bernie Sanders has an 11.4 point lead for the Democratic nomination for President over the next closest opponent.

## Key Points

- Key "administrative actions" by the Treasury point to an amendment to the PSPA, while the FHFA mentioned putting Fannie/Freddie on a "capital restoration plan" before they reach full capital levels. This is in line with our view that the most likely administrative actions to occur this year will be: 1) full write-down of the Treasury's Senior Preferred Stock, and 2) a FHFA approval of a capital "restoration path" coinciding with a release from Conservatorship using a consent decree after the GSE's reach a minimum level of capital.
- When the Senate Democrats pressed on the willingness of the FHFA/Treasury to release the GSEs prior to "full reform," the FHFA/Treasury jointly answered that the FHFA will execute upon its power as "Conservator" and will act in conjunction with that power. Moreover, when asked about the willingness to use a consent decree and how it would work, the FHFA/Treasury provided an example: "*For instance, under a consent order, FHFA would have the authority to permit an Enterprise that has reached a certain capital level below the required minimum to operate outside of conservatorship subject to a capital restoration plan.*"
- In terms of additional amendments to the PSPA, both the Treasury and FHFA were clear that they are open to additional amendments and would provide a backstop to the MBS market post reform. When asked if they were considering changing the "repayment requirement of the existing PSPA," the Treasury/FHFA stated that no decision has been currently made but the PSPA (as a contract between the FHFA as conservator and the Treasury) can be amended upon an agreement. We maintain our view that the next amendment to the PSPA will be a full extinguishment of the Treasury's liquidation preference and a coinciding rotation to a "catastrophic" guaranty position (with an estimated 5bp commitment fee on UPB of guaranty amount). Interestingly, in response to later questions, the FHFA/Treasury said an amendment is "months" away.
- Both the Treasury and FHFA stated they are not working under a specific time frame for GSE reform. The Treasury said it is still working on a roadmap, while the FHFA said it's up to Fannie/Freddie to reach certain milestones. On that note, following their 4Q19 results, we believe Fannie/Freddie are making solid progress with: 1) building capital and 2) tightening underwriting guidelines. On a combined basis, the companies are on track, by our estimates, to exceed their "statutory capital levels" of $40bn by 3Q20. We expect Fannie/Freddie to report 3Q20 results in early November, and this could trigger the event we outlined in our thesis.
- The Treasury/FHFA said it's "likely" that at an "appropriate" time the GSEs will raise

external capital. They also noted the GSEs have tripled their capital levels through retained earnings since the last modification to the PSPA on September 27, 2019. We reiterate our view that not a single dollar of new capital can be raised at the GSEs until the Treasury's Senior Preferred Stock is written down to $0.

- As it relates to the GSEs footprint and future role in the market, the Treasury was clear it does not want to disrupt the mortgage market in the form of higher rates to the borrower, while the FHFA wants to specifically define the role of the GSEs. However, as of yet, the FHFA has not formulated any models which design this. For what it is worth, the FHFA stated that it remains committed to affordability targets which increases the likelihood that some level of cross subsidization with g-fee will remain.
- Throughout the letter, the Treasury stated that its envisioned reform process will not result in higher borrowing rates. However, the letter, combined with the original White House reform proposal, provides little financial modeling/details to support this. We think that a logical reason for this is that the capital rule is expected to be re-proposed any day now and, by our forecast, become final by mid-year. That said, the Treasury Department must have some degree of confidence the capital rule will not be particularly onerous, as this would likely result in a higher g-fee and ultimately higher mortgage rates (hence they would not have made the statement). With our initiation (Back to the Future), we concluded the g-fee does not have to rise meaningfully from current levels based on our estimated regulatory requirement ($179bn which includes a 10% buffer), projected capital structure, and earnings projections (more on this below). Moreover, our modeling forecasts that both companies will earn a 13% ROE, a level required to pay a 7% dividend yield and grow at 4-5% annually. We expect both companies to achieve their regulatory capital target by 4Q23 and declare their first dividend on Oct 1, 2023. Embedded in our April 1, 2021 capital raise is the issuance of common stock (3.2bn shares for Fannie at $5 and 2.0bn shares for Freddie at $4.50) which is derived from a 7% requirement based on a 4Q23 estimated dividend which is then discounted back using a high-teens rate.
- As it relates to specifics around our modeling, Fannie/Freddie do not currently earn their cost of capital on the single-family segment, but this improves in our model over the next several years as: 1) the companies begin to recoup a 10bp TCCA fee which is flowing to the Treasury, 2) lower legacy business runs off, 3) higher g-fees in certain non - core products, and 4) scale from growth. The last piece of our model is that returns from multi-family segment, which we estimate comprise 30% of estimated capital, pull up the combined ROEs of the companies.
- Interestingly, Senate Democrats did ask about the future of commitments to the Housing Trust Fund and Capital Magnet fund. Both the FHFA and Treasury said that future commitments will depend on earnings of the GSEs as well as capital levels. We have left this expense in our model and view it as part of the political chip that will likely be used to appease Democrats (the other being affordability targets).

# Appendix A-1

## Analyst Certification

I, Matthew Howlett, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Issuer Specific Regulatory Disclosures

The terms "Nomura" and "Nomura Group" used herein refers to Nomura Holdings, Inc. and its affiliates and subsidiaries, including Nomura Securities International, Inc. ('NSI') and Instinet, LLC('ILLC'), U. S. registered broker dealers and members of SIPC.

### Materially mentioned issuers

| Issuer | Ticker | Price | Price date | Stock rating | Sector rating | Disclosures |
|---|---|---|---|---|---|---|
| Freddie Mac | FMCC US | USD 3.14 | 21-Feb-2020 | Buy | N/A | A4,A5,A6,A7 |
| Fannie Mae | FNMA US | USD 3.46 | 21-Feb-2020 | Buy | N/A | A11 |

A4 The Nomura Group has had an investment banking services client relationship with the subject company during the past 12 months.

A5 The Nomura Group has received compensation for investment banking services from the subject company in the past 12 months.

A6 The Nomura Group expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.

A7 The Nomura Group has managed or co-managed a public or private offering of the subject company's securities in the past 12 months.

A11 The Nomura Group beneficially owns 1% or more of a class of common equity securities of the subject company.

**Freddie Mac (FMCC US)** **USD 3.14 (21-Feb-2020)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)

| Date | Rating | Target price | Closing price |
|---|---|---|---|
| 07-Jan-20 | Buy | | 3.16 |
| 07-Jan-20 | | 4.50 | 3.16 |

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our $4.50 target price for Freddie Mac (FMCC) shares is derived from 6.0x our normalized 2021 earnings estimate and a 7% yield off of our projected 4Q23 dividend. The benchmark for this stock is the S&P Real Estate Investment Trusts Industry index.

**Risks that may impede the achievement of the target price** Key risks to our investment thesis include political risk, execution risk of the capital raise and a post reform operating model with lower-than-expected economic earnings power.

**Fannie Mae (FNMA US)** **USD 3.46 (21-Feb-2020)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)

| Date | Rating | Target price | Closing price |
|---|---|---|---|
| 07-Jan-20 | Buy | | 3.44 |
| 07-Jan-20 | | 5.00 | 3.44 |

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our $5 target price for Fannie Mae (FNMA) is derived from 6.6x our normalized 2021 earnings estimate and a 7% yield off of our projected 4Q23 dividend. The benchmark for Fannie Mae is the S&P Real Estate Investment Trusts Industry Index.

**Risks that may impede the achievement of the target price** Key risks to our investment thesis include political risk, execution risk of the capital raise and a post-reform operating model with lower-than-expected economic earnings power.

## Important Disclosures

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

Nomura Group research is available on www.nomuranow.com/research , Bloomberg, Capital IQ, Factset, Reuters and ThomsonOne. Important disclosures may be read at http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx or requested from Nomura Securities International, Inc., or Instinet, LLC on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport@nomura.com for help.

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. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA rules, may not be associated persons of NSI or ILLC, and may not be subject to FINRA Rule 2241 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Nomura Global Financial Products Inc. (“NGFP”) Nomura Derivative Products Inc. (“NDPI”) and Nomura International plc. (“NIplc”) are registered with the Commodities Futures Trading Commission and the National Futures Association (NFA) as swap dealers. NGFP, NDPI, and NIplc are generally engaged in the trading of swaps and other derivative products, any of which may be the subject of this report.

### Distribution of ratings (Nomura Group)

The distribution of all ratings published by Nomura Group Global Equity Research is as follows:

51% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 44% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services** by the Nomura Group.

45% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 56% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group

4% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 18% of companies with this rating are investment banking clients of the Nomura Group*. 0% of companies (which are admitted to trading on a regulated market in the EEA) with this rating were supplied material services by the Nomura Group.

As at 31 December 2019.

**The Nomura Group as defined in the Disclaimer section at the end of this report.*

** As defined by the EU Market Abuse Regulation

#### Distribution of ratings (Instinet, LLC)

The distribution of all ratings published by Instinet, LLC Equity Research is as follows:

57% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; Instinet LLC has provided investment banking services to 0% of companies with this rating within the previous 12 months.

39% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; Instinet LLC has provided investment banking services to 0% of companies with this rating within the previous 12 months.

4% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; Instinet LLC has provided investment banking services to 0% of companies with this rating within the previous 12 months.

### Definition of Nomura Group's equity research rating system and sectors

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock,

subject to limited management discretion. An analyst's target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

### STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx ; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

### SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

### Target Price

A Target Price, if discussed, indicates the analyst's forecast for the share price with a 12-month time horizon, reflecting in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

## Disclaimers

This publication contains material that has been prepared by the Nomura Group entity identified on page 1 and, if applicable, with the contributions of one or more Nomura Group entities whose employees and their respective affiliations are specified on page 1 or identified elsewhere in the publication. The term "Nomura Group" used herein refers to Nomura Holdings, Inc. and its affiliates and subsidiaries including: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura Financial Products Europe GmbH ('NFPE'), Germany; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Instinet, LLC ('ILLC'); Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; PT Nomura Sekuritas Indonesia ('PTNSI'); Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; NIHK, Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; CIN No: U74140MH2007PTC169116, SEBI Registration No. for Stock Broking activities : INZ000255633; SEBI Registration No. for Merchant Banking : INM000011419; SEBI Registration No. for Research: INH000001014. 'CNS Thailand' next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited ('CNS') to provide research assistance services to NSL under an agreement between CNS and NSL. 'NSFSPL' next to an employee's name on the front page of a research report indicates that the individual is employed by Nomura Structured Finance Services Private Limited to provide assistance to certain Nomura entities under inter-company agreements. The "BDO-NS" (which stands for "BDO Nomura Securities, Inc.") placed next to an analyst's name on the front page of a research report indicates that the analyst is employed by BDO Unibank Inc. ("BDO Unibank") who has been seconded to BDO-NS, to provide research assistance services to NSL under an agreement between BDO Unibank, NSL and BDO-NS. BDO-NS is a Philippines securities dealer, which is a joint venture between BDO Unibank and the Nomura Group.

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) OTHER THAN DISCLOSURES RELATING TO THE NOMURA GROUP, BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Other than disclosures relating to the Nomura Group, the Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by the Nomura Group are hereby excluded and the Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. The Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The Nomura Group does not provide tax advice.

The Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. The Nomura Group companies may also act as market maker or liquidity provider (within the meaning of applicable regulations in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements

of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.
Any MSCI sourced information in this document is the exclusive property of MSCI Inc. (‘MSCI’). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-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 and the MSCI indexes are services marks of MSCI and its affiliates.
The intellectual property rights and any other rights, in Russell/Nomura Japan Equity Index belong to Nomura Securities Co., Ltd. ("Nomura") and Frank Russell Company ("Russell"). Nomura and Russell do not guarantee accuracy, completeness, reliability, usefulness, marketability, merchantability or fitness of the Index, and do not account for business activities or services that any index user and/or its affiliates undertakes with the use of the Index.
Investors should consider this document 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. Nomura Group produces a number of different types of research product including, among others, fundamental analysis and quantitative analysis; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. The Nomura Group publishes research product in a number of different ways including the posting of product on the Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements.
Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns. Any figure, strategy or index created and published for illustrative purposes within this document is not intended for “use” as a “benchmark” as defined by the European Benchmark Regulation.
Certain 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.
With respect to Fixed Income Research: Recommendations fall into two categories: tactical, which typically last up to three months; or strategic, which typically last from 6-12 months. However, trade recommendations may be reviewed at any time as circumstances change. ‘Stop loss’ levels for trades are also provided; which, if hit, closes the trade recommendation automatically. Prices and yields shown in recommendations are taken at the time of submission for publication and are based on either indicative Bloomberg, Reuters or Nomura prices and yields at that time. The prices and yields shown are not necessarily those at which the trade recommendation can be implemented.
The securities described herein may not have been registered under the US Securities Act of 1933 (the ‘1933 Act’), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.
This document has been approved for distribution in the UK as investment research by NIplc. NIplc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. NIplc is a member of the London Stock Exchange. This document does not constitute a personal recommendation within the meaning of applicable regulations in the UK, or take into account the particular investment objectives, financial situations, or needs of individual investors. This document is intended only for investors who are 'eligible counterparties' or 'professional clients' for the purposes of applicable regulations in the UK, and may not, therefore, be redistributed to persons who are 'retail clients' for such purposes. This document has been approved for distribution in the European Economic Area as investment research by Nomura Financial Products Europe GmbH (“NFPE”). NFPE is a company organized as a limited liability company under German law registered in the Commercial Register of the Court of Frankfurt/Main under HRB 110223. NFPE is authorized and regulated by the German Federal Financial Supervisory Authority (BaFin).
This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates 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 document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934. The entity that prepared this document permits its separately operated affiliates within the Nomura Group to make copies of such documents available to their clients.
This document has not been approved for distribution to persons other than ‘Authorised Persons’, ‘Exempt Persons’ or ‘Institutions’ (as defined by the Capital Markets Authority) in the Kingdom of Saudi Arabia (‘Saudi Arabia’) or a ’Market Counterparty’ or a 'Professional Client' (as defined by the Dubai Financial Services Authority) in the United Arab Emirates (‘UAE’) or a ‘Market Counterparty’ or a ‘Business Customer’ (as defined by the Qatar Financial Centre Regulatory Authority) in the State of Qatar (‘Qatar’) by Nomura Saudi Arabia, NIplc or any other member of the Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or in Qatar or to any person other than ‘Authorised Persons’, ‘Exempt Persons’ or ‘Institutions’ located in Saudi Arabia or a ’Market Counterparty’ or a 'Professional Client' in the UAE or a ‘Market Counterparty’ or a ‘Business Customer’ in Qatar. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia or Qatar.
For Canadian Investors: This research report was approved for distribution to Canadian investors by Instinet Canada Limited ("ICL"), member of the Investment Industry Regulatory Organization of Canada ("IIROC") and member of the Canadian Investor Protection Fund. An affiliate of ICL prepared the research report (an "Affiliate Research Report") in accordance with the regulatory requirements applicable to research in the affiliate's local jurisdiction, which include conflict of interest disclosure. ICL reviewed this Affiliate Research Report for the purpose of ensuring Canadian disclosures required by IIROC are included. ICL does not receive compensation in respect of the distribution of Affiliate Research Reports. Pursuant to ICL's policies and procedures regarding the dissemination of research, ICL makes available Affiliate Research Reports to ICL clients and prospective clients only, in electronic and/or in printed form. ICL endeavours to make available and/or distribute Affiliate Research Reports to all intended recipients at the same time. This Affiliate Research Report is not a recommendation and does not take into account the investment objectives, financial situation or particular needs of any particular account.
For report with reference of TAIWAN public companies or authored by Taiwan based research analyst:
THIS DOCUMENT IS SOLELY FOR REFERENCE ONLY. You should independently evaluate the investment risks and are solely responsible for your investment decisions. NO PORTION OF THE REPORT MAY BE REPRODUCED OR QUOTED BY THE PRESS OR ANY OTHER PERSON WITHOUT WRITTEN AUTHORIZATION FROM NOMURA GROUP. Pursuant to Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers and/or other applicable laws or regulations in Taiwan, you are prohibited to provide the reports to others (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities in connection with the reports which may involve conflicts of interests. INFORMATION ON SECURITIES / INSTRUMENTS NOT EXECUTABLE BY NOMURA INTERNATIONAL (HONG KONG) LTD., TAIPEI BRANCH IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT BE CONSTRUED AS A RECOMMENDATION OR A SOLICITATION TO TRADE IN SUCH SECURITIES / INSTRUMENTS.

This document is prepared by Nomura group or its subsidiary or affiliate (collectively, “Offshore Issuers”) incorporated outside the People’s

Republic of China ("PRC", excluding Hong Kong, Macau and Taiwan, for the purpose of this document) and it is not approved or intended to be circulated in the PRC. The Offshore Issuers are not licensed, supervised or regulated in the PRC to carry out financial services including securities investment consultancy services. The recipient should not use this document or otherwise rely on any of the information contained in this report in making investment decisions and Offshore Issuers take no responsibility in this regard.

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 A MEMBER OF THE NOMURA GROUP. If this document 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 document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

The Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese Walls and employee training.
**Additional information regarding the methodologies or models used in the production of any investment recommendations contained within this document is available upon request by contacting the Research Analysts listed on the front page. Disclosures information is available upon request and disclosure information is available at the Nomura Disclosure web page:**
http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx
Copyright © 2020 Instinet Incorporated and/or its affiliates. All rights reserved.