Consolidated Financial Results for the 2nd Qtr of the FY2014 (Apr. 2014 – Sep. 2014)

November 7, 2014

SPARX Group Co., Ltd.
http://www.sparxgroup.com/

Financial Results for the 2nd Qtr of the FY2014

FY 2014 Results for Q2 Overview

Operating revenue: Management fees edged up slightly, but performance fees declined significantly.

¥2,840 MM *(FY 2013 Q2 :¥3,475 MM, down 18.3%)*

Operating profit declined

¥337 MM *(FY 2013 Q2 :¥605 MM, down 44.2%)*

⇒(Simplified)operating cash flow : +¥774 MM *(FY 2013 Q2 :+¥1,203 MM, down 35.7%)*

•Net income slightly increased.

¥481MM *(FY 2013 Q2 :¥467 MM., up 3.1%)*

⇒ Accounted for deferred tax assets to be reversed in one year within the scope of possible future taxable income.

(Note 1) : "(Simplified) operating cash flow" is computed by adding back "amortization of goodwill" to "operating income".

FY 2014 Results for Q2(P/L)(1)

AUM:

AUM at end of Q2 : ¥799.5 bn.(at end of March 2013:¥683.1 bn., up 17.0%)
Average AUM for Q2 (3 months): ¥778.8 bn.(Q1 of FY 2014(3 months):¥714.3 bn., up 9.0%)

Japan : ¥355.3 bn.(end of 2014/3) ⇒ ¥424.4 bn.(end of 2014/9)(up 19.4%)
South Korea :¥314.6 bn.(end of 2014/3) ⇒ ¥361.9 bn.(end of 2014/9)(up 15.0%)
Entire Asia : ¥13.1 bn.(end of 2014/3) ⇒ ¥13.0 bn. (end of 2014/9)(down 0.2%)

[AUM in Stocks]

・Japanese stocks:increase in appraisal gain due to continuing favorable investment performance, and net inflows due to relatively large establishment of funds in almost strategies.
・South Korean stocks: increase in appraisal gain due to improved performance and the yen's depreciation against the won in addition to continued net increase in establishment of funds.

[AUM in Real Assets]

・Increase in AUM for Renewable Energy Investment Strategy due to new establishment of funds by overseas investors.
・Decrease in AUM due to redemption of a real estate investment fund managed by SATM.

Note 1: "Average AUM for Q2 (3 months)," "Average AUM for Q1 (3 months)" are computed by dividing the total AUM of end of respective month of the relevant Quarter with the respective number of months.
Note 2: AUM indicates total figures of all asset management subsidiaries in scope of consolidation and 100% of AUM regardless of the Company's equity interest in respective subsidiaries. AUM at the end of September is preliminary figures. The same applies hereinafter in this document.

FY 2014 Results for Q2(P/L)(2)

Operating Revenue: ¥2,840 MM. Down 18.3% year-on-year ⇒P.7

・Although management fee increased, performance fee dropped substantially.

Management fee	:	**¥2,264 MM**	*(Q2 of FY 2013 : ¥2,165 MM, up 4.6%)*
Performance fee	:	**¥ 253 MM**	*(Q2 of FY 2013 : ¥837MM, down 69.8%)*
Other operating revenue	:	**¥321 MM**	*(Q2 of FY 2013 : ¥471 MM, down 31.7%)*

Operating Expenses and General & Administrative Expenses : ¥2,502 MM Down 12.8% year-on-year ⇒P.11

[Increase attributable to]

・Expansion of the business base for positive development of business (partial increase of expenses accompanying with business expansion incl. acquisition of SATM)

[Decrease attributable to]

・Stopped, at the end of the previous year, the investment strategy of paying part of management fees to certain staff
・Decrease in provision for bonuses linked to performance
・Decrease in amortization of goodwill starting from the previous Q3

(Simplified) operating CF	:	**¥774 MM**	*(Q2 of FY 2013 : ¥1,203MM, down 35.7%)*
Operating profit	:	**¥337 MM**	*(Q2 of FY 2013 : ¥605 MM, down 44.2%)*

Note 1: (Simplified) Operating CF is computed by adding back “amortization of goodwill” to “operating profit” by applying a simple way.
Note 2: Performance fees for 2Q of FY2014 include on-off administrative fees the Company Group received from funds for real estate sales and purchases.

P/L Summary

		FY2013		FY2014	
		Apr -Sep 2013	Full Year	Apr -Sep 2014	YoY change
Average AUM	(100MM JPY)	6,752	6,829	7,465	10.6%
Operating Revenue	(MMJPY)	3,475	7,752	2,840	▲18.3%
Operating General& Administrative Expenses	(MMJPY)	2,869	5,903	2,502	▲12.8%
Operating Profit	(MMJPY)	605	1,848	337	▲44.2%
Ordinary Profit	(MMJPY)	716	2,059	461	▲35.5%
Net Profit	(MMJPY)	467	1,637	481	3.1%
Number of Employees (period-end)		127	132	130	2.4%
TOPIX(quarter-end・period-end)		1,194	1,202	1,326	11.1%
NIKKEI stock average (quarter-end・period-end)	(JPY)	14,455	14,827	16,173	11.9%
KOSPI(quarter-end・period-end)		1,996	1,985	2,020	1.2%

(Note 1) The figures above, excluding “YoY change” are truncated. “YoY change” is rounded to the nearest tenth of a percent.

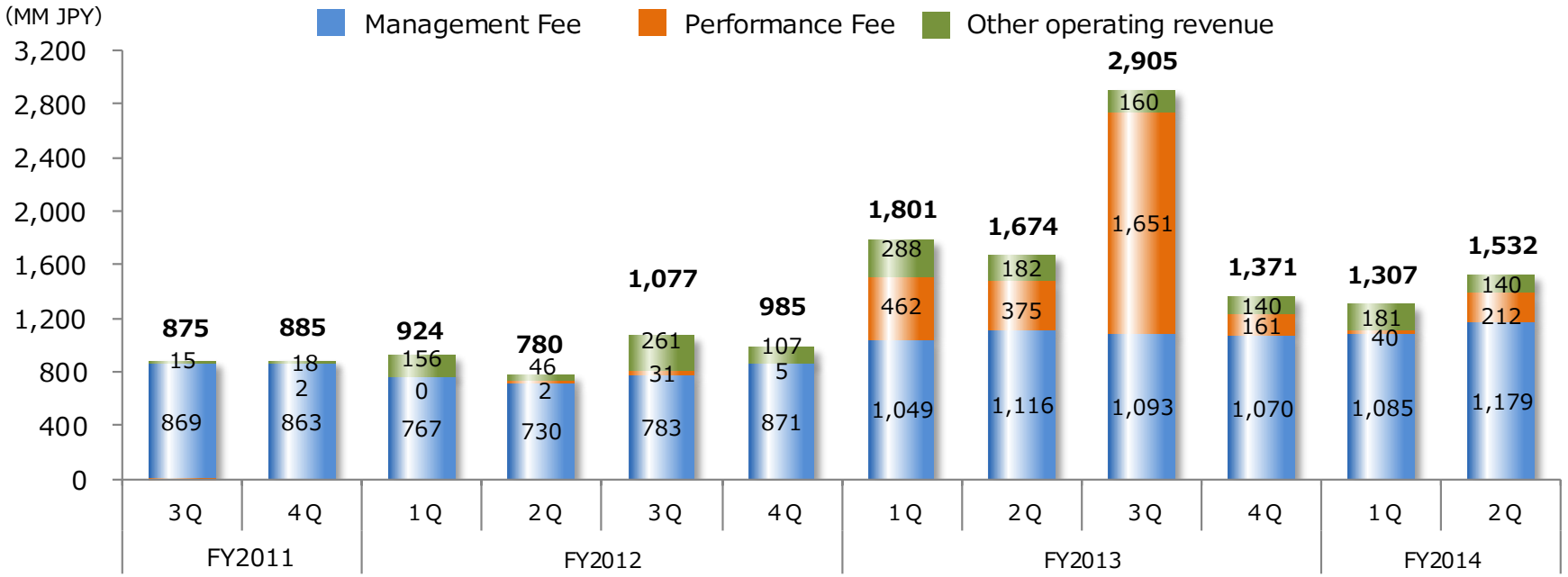
(Note 2) Number of employees (period-end) shows the figure that does not include the number of “directors and corporate auditors”. The total headcount as of 2Q end is 154.

Breakdown of Operating Revenue

Breakdown of Operating Revenue		FY2013		FY2014	
		Apr -Sep 2013	Full Year	Apr -Sep 2014	YoY change (%)
Management fees	(MM JPY)	2,165	4,329	2,264	4.6%
Net management fee rat	(%)	0.57%	0.55%	0.52%	-0.05
Performance fees	(MM JPY)	837	2,650	253	-69.8%
Percentage of AUM eligible to earn performance fees	(%)	48.9%	54.4%	50.2%	1.3
Other operating revenue	(MM JPY)	471	772	321	-31.7%
Total operating revenue	(MM JPY)	3,475	7,752	2,840	-18.3%

(Note1) The figure stated above are truncated excluding “YoY change,” “Net management fee rate (%)” and “Percentage of AUM eligible to earn performance fees (%).” “YoY change” is rounded to the nearest tenth of a percent. “YoY change” of “Net management fee rate (%)” and “percentage of AUM eligible to earn performance fee (%)” shows the amount of decrease/increase instead of percentage of change.
(Note 2) Net management fee rate = (Management fee – Related commissions and charges) / Average AUM
(Note 3) Performance fees for 2Q of FY2014 include on-off administrative fees the Company Group received from funds for real estate sales and purchases.
(Note 4) “Percentage of AUM eligible to earn performance fees (%) “ = full-year/quarterly AUM eligible to earn performance fees ÷ full-year/ quarterly AUM

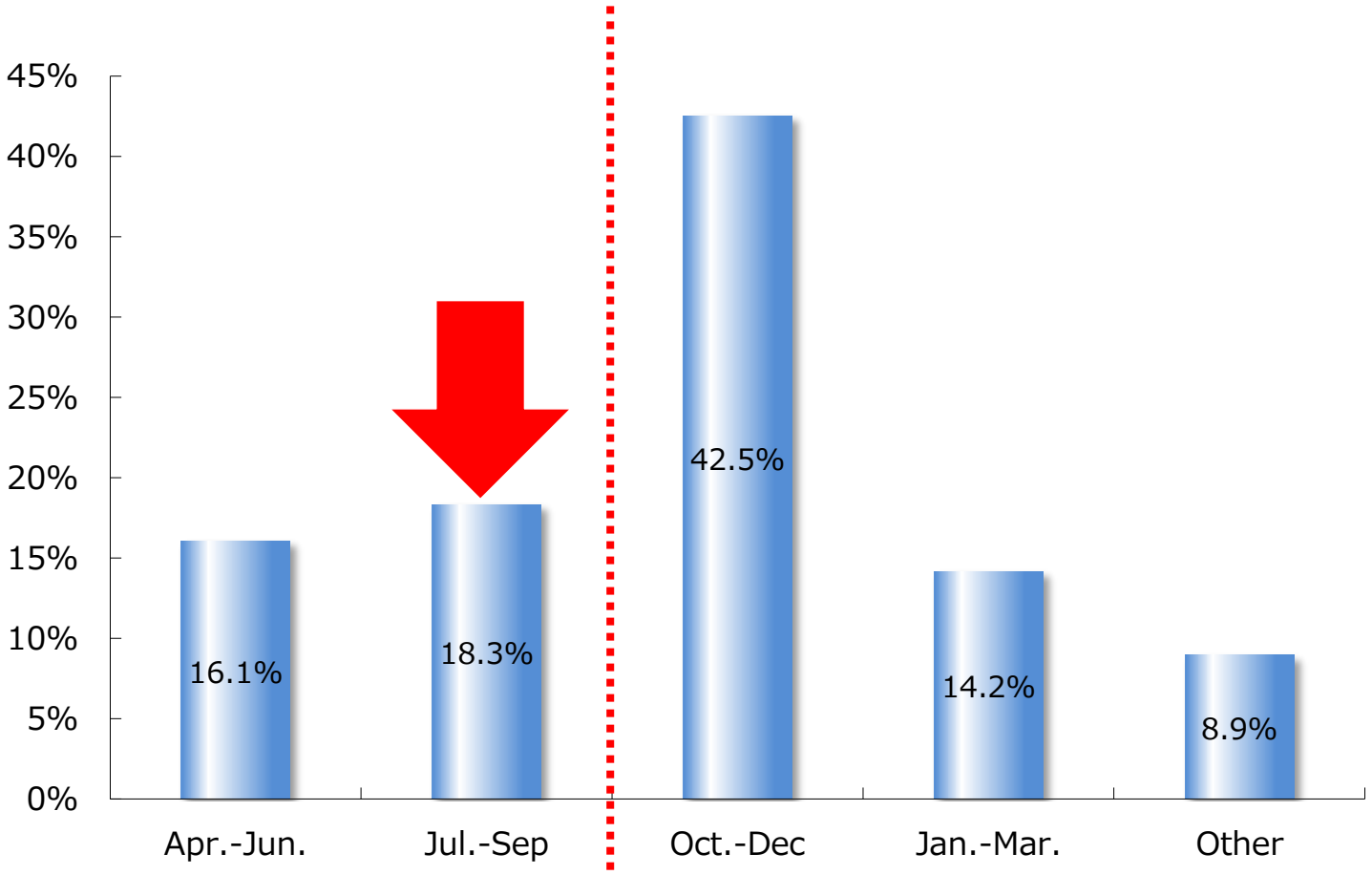
＜Reference＞Quarterly trends of operating revenue



(MM JPY)	FY2011		FY2012				FY2013				FY2014	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Management Fee	869	863	767	730	783	871	1,049	1,116	1,093	1,070	1,085	1,179
Performance Fee	-9	2	0	2	31	5	462	375	1,651	161	40	212
Other operating revenue	15	18	156	46	261	107	288	182	160	140	181	140
Operating Revenue	**875**	**885**	**924**	**780**	**1,077**	**985**	**1,801**	**1,674**	**2,905**	**1,371**	**1,307**	**1,532**
(Reference)												
Average AUM (100MM JPY) (3months average)	5,136	5,281	4,799	4,642	5,369	6,232	6,763	6,742	7,038	6,778	7,143	7,788
Net management fee rate (3months average) (after the deduction of commission fee)	0.60%	0.58%	0.57%	0.55%	0.52%	0.50%	0.55%	0.58%	0.54%	0.53%	0.52%	0.53%
Percentage of AUM eligible to earn performance fees	56.1%	55.7%	54.0%	51.9%	46.3%	48.9%	46.9%	48.9%	51.3%	54.4%	50.6%	50.2%

(Note) Performance fees for 2Q of FY2014 include on-off administrative fees the Company Group received from funds for real estate sales and purchases.

（SAM）Funds with Performance Fees – Distribution of Closing Date for Calculation (by Quarter)

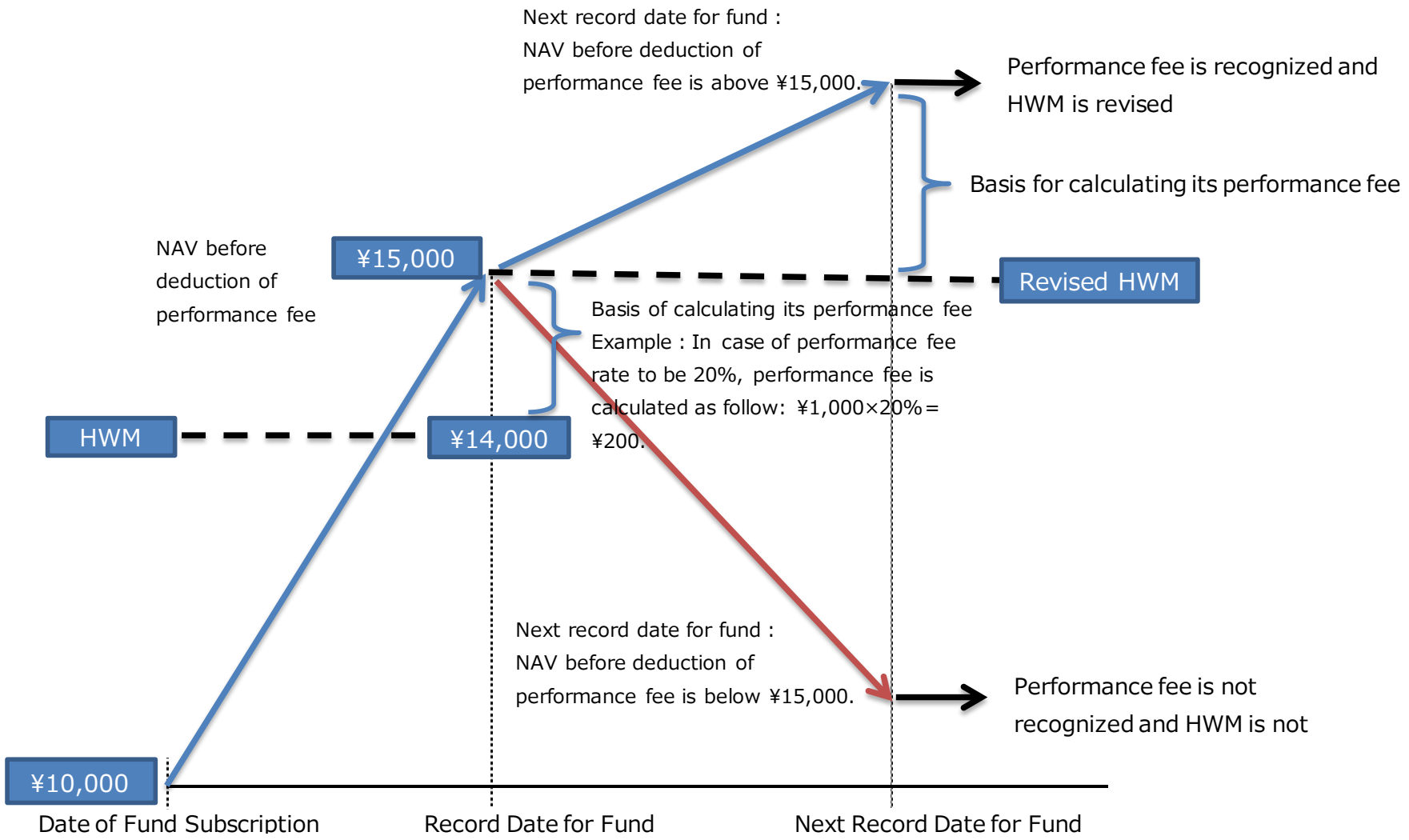


(Note 1) All funds managed by SPARX Asset Management Co., Ltd. (investment trusts and discretionary investment accounts) as of September 30, 2014 are classified by the performance fee value date in the graph above. Among these, performance fee is recorded only if it has met the requirements specified in the contract in each calculation value date. Please note that it is not intended to demonstrate how definite performance fee to occur in the future.

(Note 2) In calculating these percentages, the following adjustments are made: For funds with multiple payment periods, the equally divided values of the funds are allocated to the amount in the month of each value date and for funds with no regular payment periods are classified as “others”.

(Note 3) The figures above % are rounded to the nearest tenth of a percent. In addition, the figures are estimated based on in-house calculation.

＜Reference＞Performance Fee Structure ：



（Note 1）The structure described above is only informational purpose on performance fee structure. It is not intended to explain exactly how the performance fee is calculated based on fund's NAV.

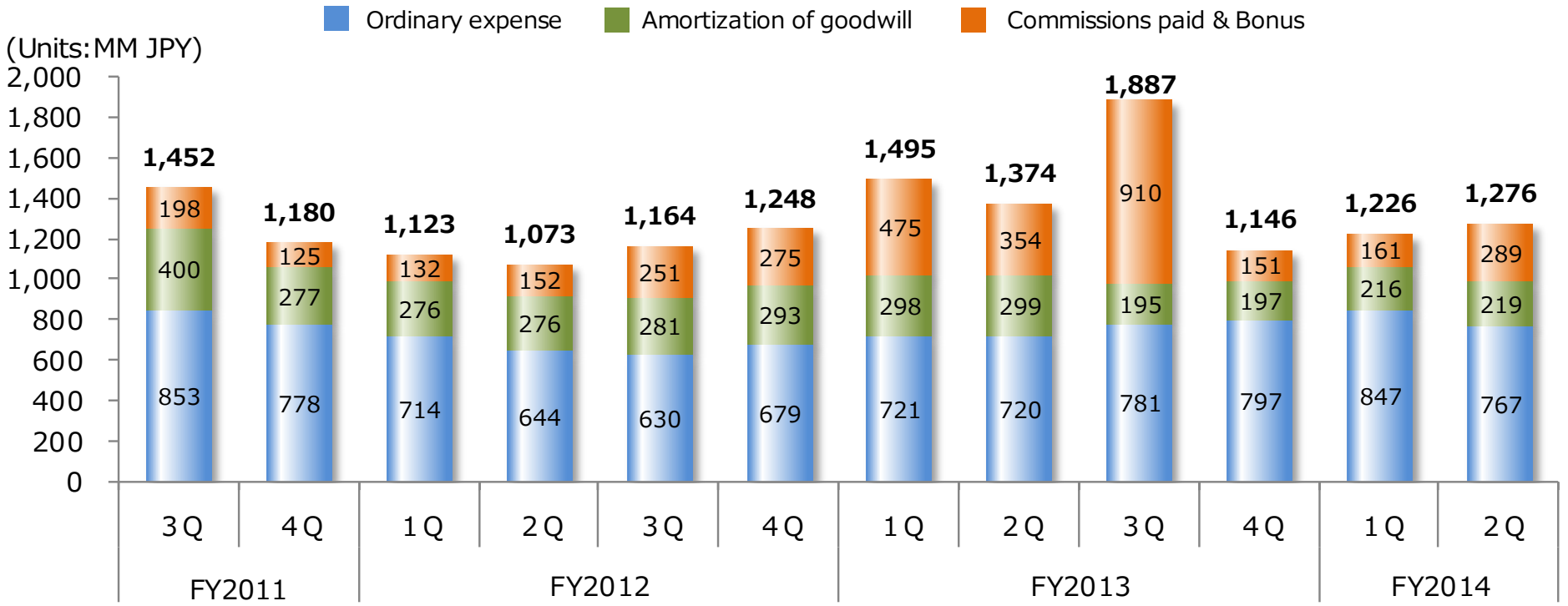
（Note 2）Above uses performance fee rate of 20% for informational purpose only. In addition,「HWM」is an abbreviation of High-Water Mark.

Breakdown for Operating Expenses and General & Admin Expenses:

(Units: MM JPY)	FY2013		FY2014	
	Apr -Sep 2013	Full Year	Apr -Sep 2014	YoY change
Commissions paid	320	1,017	325	1.5%
Personnel exp.	1,217	2,287	936	-23.1%
Entrusted fund admin fees	8	16	9	5.0%
Travel exp.	88	175	78	-11.8%
Property rent	118	242	132	11.7%
Entrusted business expenses	104	261	118	13.9%
Depreciation on fixed assets	24	57	27	14.0%
Other expenses	389	853	438	12.6%
Amortization of goodwill	598	990	436	-27.0%
Total: Operating and general administrative expenses	2,869	5,903	2,502	-12.8%
Ordinary expense	1,442	3,021	1,615	12.0%
YoY basis	2,884	3,021	3,230	12.0%

(Note1) The figures above, excluding "YoY change," are truncated. "YoY change" is rounded to the nearest tenth of a percent.
(Note2) The "Personnel Expenses" data includes payments for temporary staff, etc.
(Note3) The "Ordinary expenses" is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses, and legal welfare expenses related to bonuses), (3) Severances package for key members and (4) Amortization of goodwill, from total operating and general administrative expenses. "Legal welfare expenses related to bonuses" are excluded from ordinary expenses retroactively from the previous 3Q (therefore, 2Q of FY2013 figures are partially different from those at the time of disclosure.)

＜Reference＞Quarterly Trends of Operating Expenses and General & Admin Expenses：



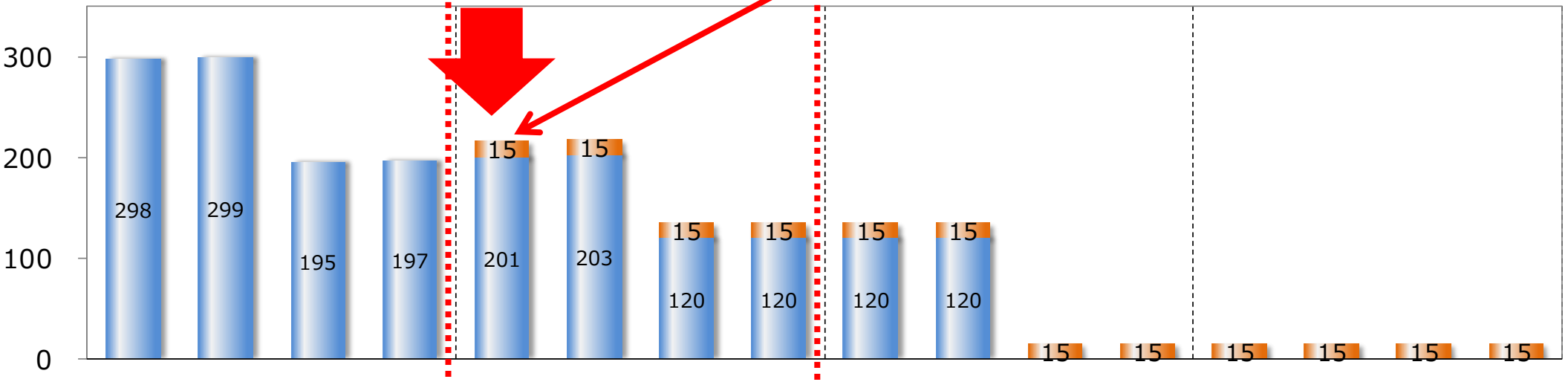
(Units : MM JPY)	FY2011		FY2012				FY2013				FY2014	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Ordinary expense	853	778	714	644	630	679	721	720	781	797	847	767
Amortization of goodwill	400	277	276	276	281	293	298	299	195	197	216	219
Commissions paid & Bonus	198	125	132	152	251	275	475	354	910	151	161	289
Operating and general administrative expenses	**1,452**	**1,180**	**1,123**	**1,073**	**1,164**	**1,248**	**1,495**	**1,374**	**1,887**	**1,146**	**1,226**	**1,276**

(Note) The “Ordinary expenses” is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses, and legal welfare expenses related to bonuses), (3) Severances package for key members and (4) Amortization of goodwill, from total operating and general administrative expenses. “Legal welfare expenses related to bonuses” are excluded from ordinary expenses retroactively from the previous 3Q (therefore, 2Q of FY2013 figures are partially different from those at the time of disclosure.)

Schedule for Goodwill Amortization：Goodwill has risen due to purchase of SATM, but amortization cost has declined/will decline in stages.

（Unit：MM JPY）

Since FY 2014, Goodwill amortization has arisen relating to acquisition of all shares of SATM in April 2014



FY2013				FY2014				FY2015				FY2016			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
298	299	195	197	216	219	135	135	135	135	15	15	15	15	15	15
990				707				302				61			

（Note 1） Goodwill of Korean won base are included, it will be affected by the exchange rate fluctuation (Goodwill amortization expenses in this slide onwards are calculated by using the exchange rate of 1 KRW = 0.1003 yen).
（Note 2） Goodwill amortization relating to SATM is ¥61 MM annually and is amortized over 5 years.

Base Earnings：Increase in Ordinary Expenses owning to Expansion of Business Base Have Slightly Contracted Base Earnings

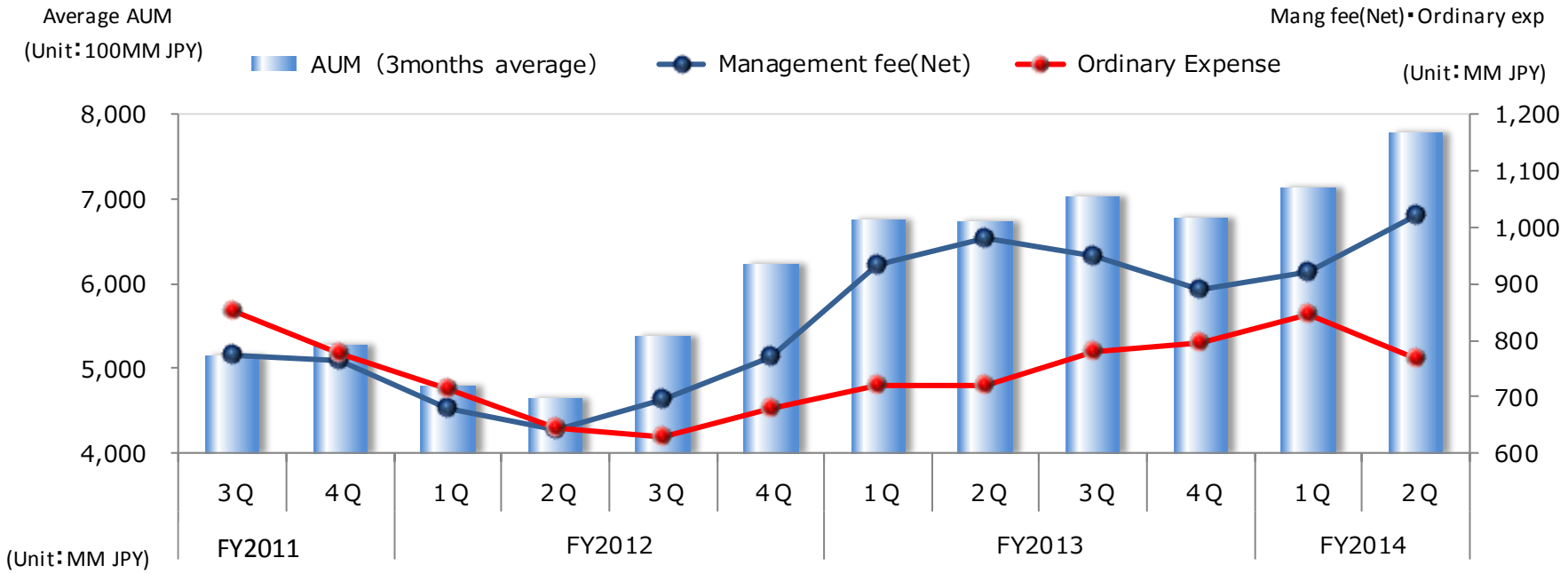
		FY2013 Full Year	FY2014 (Annualized)
Average AUM	(100MM JPY)	6,829	7,465
Net management fee (After the deduction of commissions paid)	(%)	0.55	0.52
Annualized net management fee revenue (After the deduction of commission paid)	(MM JPY)	3,755	3,890
Annualized ordinary expenses	(MM JPY)	3,021	3,230
Annualized "Base Earnings"	(MM JPY)	**+734**	**+660**

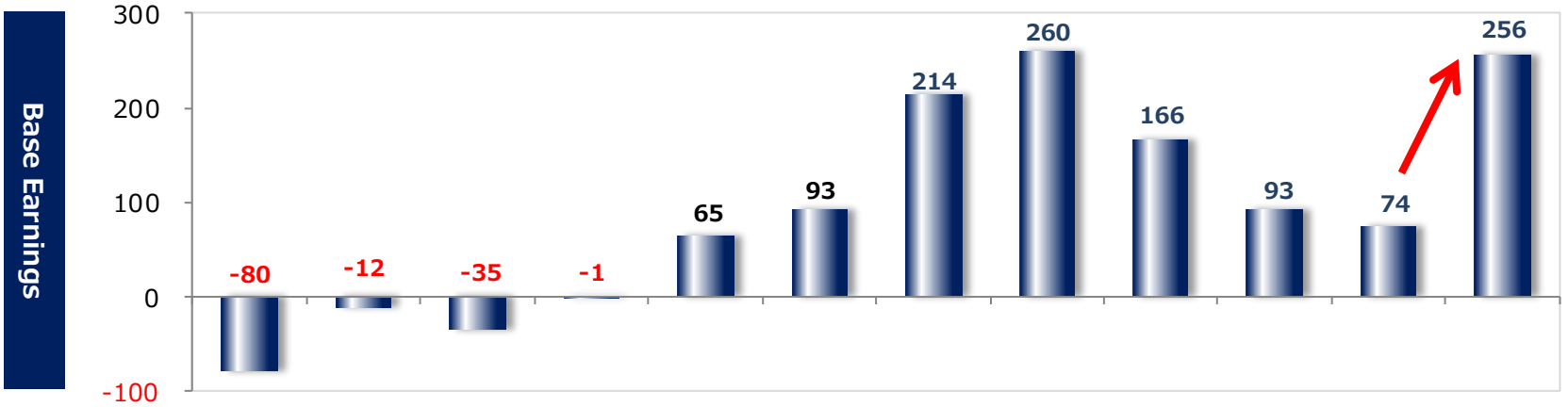
※ Base Earnings are calculated by subtracting ordinary expenses from net management fee as one of indicators for earning power and stability of its business

Although ordinary expenses are expected to increase for some items, the Company will expand the business base, which is necessary for proactive business development while continuing to place expenses under stringent control.

(Note 1) The "Ordinary expenses" is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses, and legal welfare expenses related to bonuses), (3) Severances package for key members and (4) Amortization of goodwill, from total operating and general administrative expenses. Please note that "Legal welfare expenses related to bonuses" has been excluded from ordinary expense and adjusted retrospectively. (therefore, 2Q of FY2013 figures are partially different from those at the time of disclosure.)
(Note 2) The figures above are truncated.

Quarterly Base Earnings Trend





(Note1)The figures above are truncated. As preliminary figures, the「Annualized net management fee revenue」is calculated by multiplying the net management fee rate and the average AUM for the period.

(Note2) The “Ordinary expenses” is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses, and legal welfare expenses related to bonuses), (3) Severances package for key members and (4) Amortization of goodwill, from total operating and general administrative expenses. Please note that “Legal welfare expenses related to bonuses” has been excluded from ordinary expense and adjusted retrospectively.

FY 2014 Results for Q2（B/S）

Sufficient liquidity on hand viewed from both stock and flow

・Debt with interest: ¥3,000 MM + accounts payable-other, etc.: ¥530 MM ＝ approx. ¥3,500 MM, while cash and deposits: ¥10,500 MM.＋ securities: ¥300 MM + accounts due, etc.: ¥1,310 MM. ＝ approx. ¥12,100 MM; “Stock” is maintaining sufficient level.

・Furthermore, (Simplified) operating cash flow is also plus (¥774 MM for Q2).

・Carried out long-term borrowing of ¥1,500 MM for seed money investment in new businesses at the end of June.

Equity capital maintaining high stability

・For the purpose of securing flexibility and the mobility of future capital policies, as well as eliminating deficits and establishing a sound financial position at an early stage, the Company has executed a capital reduction of part of the capital (¥4,000 MM) and others.

（FYR） http://www.sparxgroup.jp/press/uploads/PressE140423-01.pdf

・In spite of an increase in debt through borrowings, a high-level capital-adequacy ratio is maintained (70.0% at end of the previous FY ⇒ 67.5% at end of Q2 under review).

SPARX will use sufficient funds on hand for investments for temporal business expansion, but will always search for the most suitable method to secure necessary funds.

(Note 1) : “(Simplified) operating cash flow is computed by adding back “amortization of goodwill” to “operating income” using a simplified method.

B/S Summary : Carried out compensation for deficits due to a reduction in capital, etc. and additional borrowings

(Units: MM JPY)	Mar. 2014	Sep. 2014	YoY change
Current assets	11,808	13,370	1,561
Cash and cash equivalents	9,694	10,552	857
Securities	286	309	23
Receivables	1,023	1,316	292
Fixed assets	3,998	4,083	84
Goodwill	859	774	▲84
Investment securities	2,524	2,826	301
Total assets	15,807	17,454	1,646
Payables	914	532	▲382
Long-term loans payable	1,500	3,000	1,500
Total liabilities	3,282	4,121	838
Common stock	12,492	8,497	▲3,994
Add'l paid-in-capital	14,340	4,035	▲10,304
Retained earnings	▲12,673	779	13,453
Treaury stock	▲4,438	▲3,304	1,134
Total Shareholder's Equity	9,720	10,008	288
Valuation difference on AFS securities	278	392	114
Foreign currency translation adjustment	1,063	1,370	306
Minority interests	1,371	1,476	105
Total net assets	12,524	13,333	808

(Simplified) Operating CF : ¥ 7.74 MM

Increased due to new borrowings (¥1,500 MM)

Accounted for ¥307 MM due to purchase of SATM.

For future amortization cost of goodwill, see p.13.

Newly borrowed ¥1,500 MM in June 2014.

Due : March in 2017

Rate : 1.365%

Compensated deficits of retained earnings by reducing capital, additional paid-in capital. These are transfers within shareholders' equity, giving no impact to it.

Used some of it in purchasing SATM.

Increased due to the impact of yen depreciation/won appreciation.

Capital adequacy ratio

Mar. 2014 : 70.0%

Sep. 2014 : 67.5%

(Note1) The figures above are truncated.

(Note2) The investment securities includes the seed money of SPARX Group funds

(Note3) 「(Simplified) operating cash flow」 is calculated by adding back amortization of goodwill to its operating income.

Progress of the Businesses and Future Plans

- Equity Investment

-Real Asset Investment

FY2014 Goal

AUM JPY 1 trillion
Increase in profit

Equity Investment

Japan Equity Management Business

・Multiple consulting firms have selected us and recommended us as manager for Japanese equity.

⇒Investment performance and administrative practices based on consistent investment philosophy have been highly valued.

⇒SPARX Group will ensure the mid-to-long term competitive advantage by demonstrating the effectiveness of its investment philosophy (“Macro is the Aggregate of the Micro”) and investment approach (“bottom-up research” and “catalyst”) through good and long-term investment performance.

・We have launched the first Japanese mutual fund in accordance with the Japanese Stewardship Code

⇒Since our foundation, investments have been made based on the belief that “investment activities based on thorough bottom-up approach focusing on dialogues with the management of investees would facilitate continuous growth of the investees and contribute to increased mid- to long-term returns for the beneficiaries.”

⇒Our track records include Value Creation Investment Strategy, which was established in 2003 together with CalPERS (The California Public Employees’ Retirement System) aiming to enhance value creations by Japanese corporations（closed in 2008)

(FYR) http://www.sparxgroup.jp/press/uploads/PressE140929-01.pdf

【Reprint】Awarded Morningstar “Fund of The Decade” (1)



SPARX Japan Small Cap Fund
(“Rising Sun”) awarded

Japan Equity Section of Morningstar
“Fund of the Decade 2013”

References to any specific securities do not constitute an offer to buy or sell securities. Those awarded funds based upon the past performance cannot guarantee their future performance. Data or statements are obtained from sources Morningstar Japan K.K believed to be reliable but are not guaranteed as to accuracy or completeness. All information is the property of Morningstar Japan K.K. or Morningstar, Inc. and protected by copyright and intellectual property laws. All rights reserved.

Taking every factor into consideration, Morningstar Japan K.K. has selected funds for Morningstar Award “Fund of the Decade 2013” in each divisions from open-end mutual fund based upon its unique quantitative and qualitative analysis. Awarded funds in the Domestic Stock Fund Division have been selected from 348 funds at the end of December 2013.

【Reprint】Awarded Lipper “Fund Award 2014”



Lipper Fund Awards Japan 2014
Category:Best Group (Equity)
Evaluation Period:3 years to December 2013

Lipper Fund Awards

“Lipper Fund Awards Japan 2014” is part of the “Lipper Fund Awards Program” held all over the world and determines the Fund/Group Awards winners from domestic and offshore funds registered for sale in Japan, based on Consistent Return (Effective Return) value according to the “Lipper Leaders Rating System (Lipper Leaders)”.

Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Users acknowledge that they have not relied upon any warranty, condition, guarantee, or representation made by Lipper. Any use of the data for analyzing, managing, or trading financial instruments is at the user’s own risk. This is not an offer to buy or sell securities.

【Reprint】SPARX Received “MERCER MPA Award (Japan) 2014”

July 9, 2014

SPARX Group Co., Ltd

SPARX Asset Management Co., Ltd

SPARX Received MERCER MPA Award (Japan) 2014

We are pleased to announce that SPARX Japan Equity Focus All Cap Strategy (“the Strategy”) managed by SPARX Asset Management Co., Ltd, a wholly-owned subsidiary of the SPARX Group Co., Ltd has been recognized for outstanding investment performance at the 12th Annual Mercer MPA Award (Japan) 2014 of Japan Equity Category for 5 years to March 2014.

Strategy	Category	Evaluation Period
SPARX Japan Equity Focus All Cap Strategy	Japan Equity	5 years to March 2014

The SPARX Group continues to strive to become the most trusted and respected investment company in the world. All members at the SPARX Group remain dedicated to improve our investment capabilities, product offerings and client service activities.

The Mercer MPA (Japan) Awards are given to strategies with outstanding performance among those registered with Mercer Manager Performance Analytics (MPA), an investment analysis tool developed by Mercer.

<Reference>About Mercer MPA (Japan) Awards

The Mercer MPA (Japan) Awards are given to strategies with outstanding performance among those registered with Mercer Manager Performance Analytics (MPA), an investment analysis tool developed by Mercer .

The Mercer MPA Awards are based only on historical return obtained from investment managers and there is no relationship with Mercer’s qualitative ratings or recommendation. Mercer gives no representations or warranties as to the accuracy of such information or method of calculation, and accepts no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in such information. In addition, Past Performance cannot be relied upon as a guide to future performance. Only Mercer Japan Ltd. gives this award to investment managers and no other Mercer offices are responsible for this award.

For further information on Mercer Japan Ltd., please visit http://www.mercer.co.jp/ (Japanese)

【Reprint】Awarded “The First Prize of R & I Fund Award 2014 of Investment Trusts Category - Emerging Equity Multi-regional Fund”

The following is an English announcement made corresponding to the official Japanese announcement, which has been given to the JASDAQ and the media in Tokyo, Japan.

April 21, 2014
SPARX Group Co., Ltd
SPARX Asset Management Co., Ltd
SPARX Asia Capital Management Limited

SPARX fund received The First Prize of R&I Fund Award 2014

We are pleased to announce that Nikko SPARX Asia & Middle East Equity Fund (“the Fund”) managed by SPARX Asset Management Co., Ltd, a wholly-owned subsidiary of the SPARX Group Co., Ltd received The First Prize of R & I Fund Award 2014 of Investment Trusts Category / Emerging Equity Multi-regional Fund for the second consecutive year. Rating and Investment Information, Inc. (“R&I”) is the Japanese credit rating agency, a group of professionals for credit risk evaluation and investment evaluation.

The objective of the Fund is to generate income and achieve medium- to long-term capital appreciation by investing in equities in the Asia Pacific (excluding Japan) and the Middle-East countries through investment trust securities managed by SPARX Asia Capital Management Limited (Hong Kong), a member of the SPARX Group and one of the largest Asia-based alternative investment management companies.

Following SPARX Group’s “intensive bottom-up” research philosophy, the Fund invests in quality companies with strong balance sheets, sustainable business models, and above average dividend-paying capability at attractive valuations. The Fund is well-diversified to deliver its targeted portfolio return on a risk-adjusted basis.

The SPARX Group continues to strive to become the most trusted and respected investment company in the world. Encouraged further by this prize, all members at the SPARX Group remain dedicated to improve our investment capabilities, product offerings and client service activities.

(R&I Fund Award 2014)
Funds eligible for the "Investment Trusts" and "Investment Trusts/Aggregate" categories are Publicly Offered Open-type Stock Investment Trusts excluding defined contribution pension funds. "Defined Contribution Pension Funds" consist of Publicly Offered Open-type Stock Investment Trusts used in the defined contribution pension plan. “NISA” consist of Publicly Offered Open-type Stock Investment Trusts used in NISA (Nippon Individual Savings Account). "Defined Benefit Pension Funds" are funds registered in "R&I Pension Fund Data Service". All of them are in principle based on R&I's classifications. The funds nominated in the "Investment Trusts", "Defined Contribution Pension", “NISA” and "Defined Benefit Pension" categories are those ranked in the top 75% of the annual quantitative evaluation for three consecutive years based on the actual performance data for one year ending in March 2012, 2013 and 2014, respectively. The winner is selected based on the ranking of quantitative evaluation for the three-year period ending in March 2014. The quantitative evaluation for the "Investment Trusts", the "Defined Contribution Pension Funds" and “NISA” is based on "Sharpe Ratio", and nominees must satisfy the following conditions: (1) the fund has been set for three years or more and has one year or more left before maturity, (2) the fund has 3 billion yen in "Investment Trusts" and “NISA”(1 billion yen in "Defined Contribution Pension") or more outstanding and (3) the fund ranks among the top 50% in "Investment Trusts" and “NISA”(75% in "Defined Contribution Pension") in its category in terms of outstanding balance. The quantitative evaluation for "Defined Benefit Pension Funds" is in principle based on "Information Ratio". R&I gives the first prize to one fund and the second prize to about two funds. For the "Defined Benefit Pension Funds", there are no prize levels. Eligible for the "Investment Trusts/Aggregate" category, are fund managers that have three funds or more with the balance of 3 billion yen or more each as of the end of March 2014. The first and second prizes are given to one fund manager each based on the ranking by balance-weighted average "Sharpe Ratio" of funds during the last three years.

Real Asset Investment －（1）

Investments in renewable energy generating facilities

・We have been selected as an asset manager of the Public-Private Partnership Renewable Energy Fund (Public-Private Fund 2) to be newly launched by the Tokyo Metropolitan Government.

⇒Leverage our steady track record and experience in managing Public-Private Fund 1

⇒Plan to invest also in wind power and other energies in addition to photovoltaic energy.

（FYR） http://www.sparxgroup.jp/press/uploads/PressE141024-01.pdf

・In addition to the Public-Private Infrastructure Fund (Public-Private Fund 1) of the Tokyo Metropolitan Government, we have invested funds from overseas/domestic institutional investors in large-scale solar power-generating plants one after another (see p.26).

⇒Completed the investment in Public-Private Fund 1, which has been managed stably.

・As for the Listed Infrastructure Fund, the environment for the market launch within this year is being arranged, including various legislative and regulatory revisions.

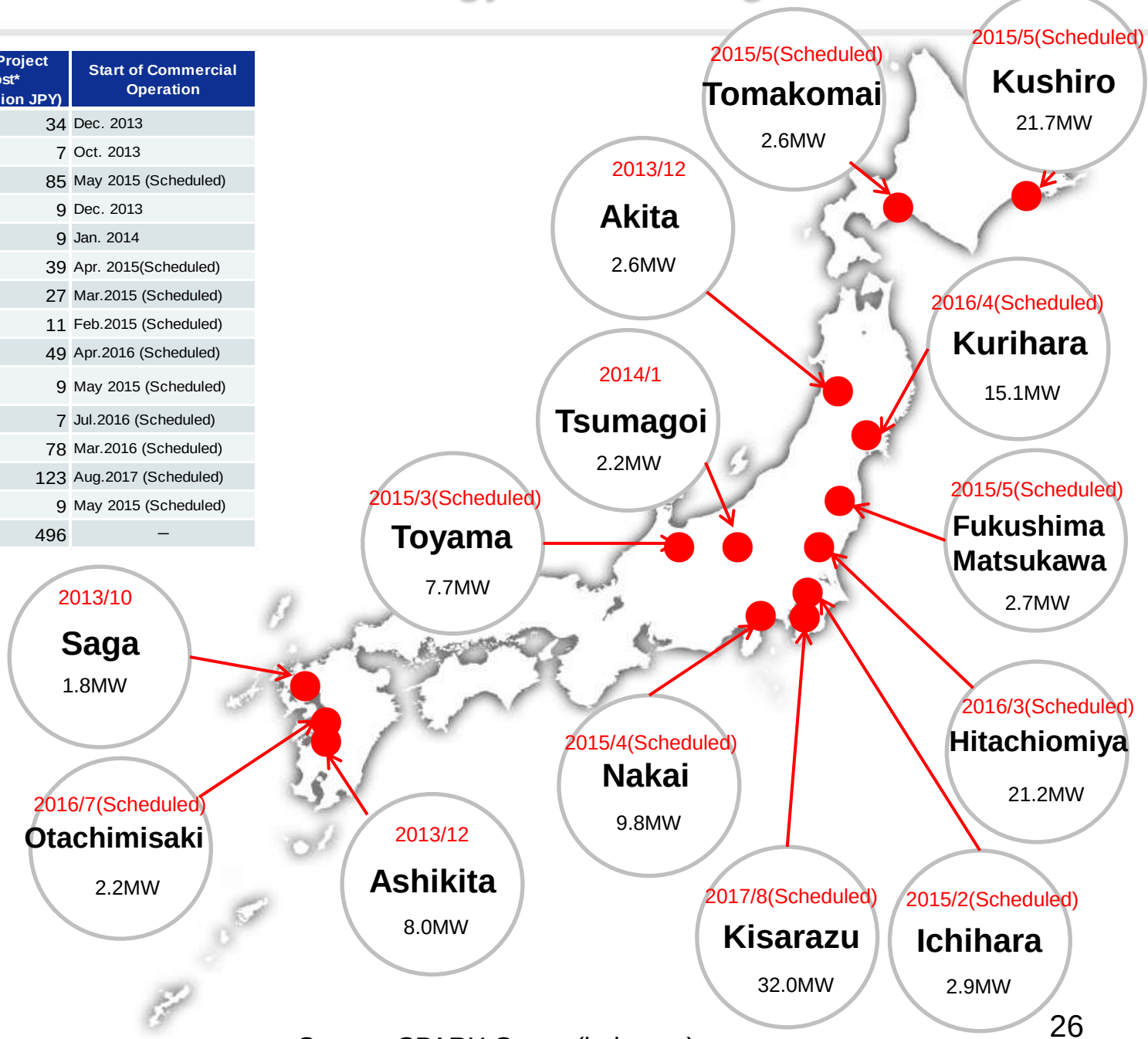
⇒Steadily conducting preparations for participating in the listed infrastructure fund market, having SATM as manager.

（FYR） http://www.sparxgroup.jp/press/uploads/PressE140730-01.pdf

Records of Investments in Renewable Energy Generating Facilities

	Location (Prefecture)	Output Scale (MW)	Total Project Cost* (100 million JPY)	Start of Commercial Operation
Ashikita Mega Solar	Kumamoto	8.0	34	Dec. 2013
Saga Mega Solar	Saga	1.8	7	Oct. 2013
Kushiro Mega Solar	Hokkaido	21.7	85	May 2015 (Scheduled)
Akita Mega Solar	Akita	2.6	9	Dec. 2013
Tsumagoi Mega Solar	Gunma	2.2	9	Jan. 2014
Nakai Mega Solar	Kanagawa	9.8	39	Apr. 2015(Scheduled)
Toyama Mega Solar	Toyama	7.7	27	Mar.2015 (Scheduled)
Ichihara Mega Solar	Chiba	2.9	11	Feb.2015 (Scheduled)
Kurihara Mega Solar	Miyagi	15.1	49	Apr.2016 (Scheduled)
Fukushima Matsukawa Mega Solar	Fukushima	2.7	9	May 2015 (Scheduled)
Otachimisaki Mega Solar	Kumamoto	2.2	7	Jul.2016 (Scheduled)
Hitachiomiya Mega Solar	Ibaraki	21.2	78	Mar.2016 (Scheduled)
Kisarazu Mega Solar	Chiba	32.0	123	Aug.2017 (Scheduled)
Tomakomai Mega Solar	Hokkaido	2.6	9	May 2015 (Scheduled)
Total	–	132.5	496	–

The data shown in the list above is as of October 31, 2014. The figures above are truncated. Estimated figures are described for the facilities under construction.



Source: SPARX Group (in-house)

Significance of Origination of a Listed Infrastructure Fund by SPARX

Current Status	Contemporary Needs	SPARX Method	Listed Infrastructure Fund
✓ Departure from dependence on fossil fuels ✓ Necessity of reduction of greenhouse gases ✓ Building of multi-layered, diversified and flexible demand-supply structure of energy	Expansion/promotion of renewable energy	SPARX will exert the following edges in a listed infrastructure fund: ✓Proven results of having developed new investment fields while remaining undaunted and maintaining the bottom-up research in the stock investment field since its foundation. ✓Philosophy and tradition of SPARX has been inherited uninterruptedly in the area of investments in infrastructure such as renewable energy. ✓Will use survey analysis ability and practical business realization ability which SPARX has developed in the past performance as a professional of investments.	The fund helps not only expand/promote renewable energy and promote inflows of private funds into infrastructure, but also ✓Improve investment efficiency of the entire Japan *(effective use of individual financial assets of ¥1,600 trillion)* ✓create new investment opportunities - By listing infrastructure funds, profits from infrastructure investment will be returned to many investors incl. individuals. -Provide products with highly alternative features that are assumed to be not prone to economic fluctuations, changes in economic circumstances.
✓ Ageing infrastructure ✓ Financial difficulty	Use of private funds for investment in infrastructure (effective use of individual financial assets of ¥1,600 trillion)		

TSE
Rejuvenation of Japan's financial/capital markets

Real Asset Investment －（2）

Real estate investments

・Since the investment commitment received from an overseas sovereign wealth fund in June 2012, we have made investments for five projects that invest in residential properties（cumulative total of acquired assets: approximately 36.6 billion yen including consumption tax (out of which, approximately 9.4 billion yen was invested in the form of anonymous associations)）.

⇒Agreed with investors to expand investments to include assets such as office buildings, warehouses, commercial facilities, and health care facilities (nursing homes and clinic malls)

⇒We have executed an investment in a distribution warehouse (whose asset value is approximately one billion yen including consumption tax) located in Chiba Prefecture as Investment Case No. 6. The private placement fund established in Japan for the purpose of the Investment Case is being managed by SATM.

（FYR) http://www.sparxgroup.jp/press/uploads/PressE141017-02.pdf

⇒Furthermore, we have also executed an investment in a distribution warehouse located in Tokyo（whose asset value is approximately 4.3 billion yen including consumption tax).

⇒In addition to management fees for AUM, we have received one-off fees from funds for real estate sales and purchases.

Our Overseas Offices
- Hong Kong
- Korea

Our Overseas Offices

Hong Kong（SPARX Asia）

・For One Asia L/S Strategy, investment track records have been built and its good performance is maintained.

⇒In order to make the fund size exceed a certain amount at an early stage, it is focusing on finding core investors who would contribute seed money.

⇒Then, on the back of relatively good investment performance, aim to achieve exponential growth of AUM.

・Confirmed that Honk Kong's institutional investors and family offices are highly interested in investments in real assets such as real estate and renewable energy generating facilities, as well as Value Impact Investment Strategy.

Korea (COSMO)

・Hired the CEO for COSMO from external source; CIO and CMO were also hired, reforming the management structure.

⇒Close to completion of smooth transition to the new structure. Especially keeping high presence for institutional investors in South Korea.

⇒Focusing on materializing South Korean institutional investors' needs to invest in Japan and Asia through cooperation with Tokyo and Hong Kong.

COSMO Introduction of New Management



Jang, JaeHa (CEO)
Mr. Jang joined Cosmo as its CEO in September 2014. Prior to joining Cosmo, from January 2012 Mr. Jang was with Kyobo Securities where he was responsible for Kyobo's principal investments and financial product sales as its Executive Director - Asset Finance Department. From December 2000 until July 2011, Mr. Jang worked at South Korea's National Pension Service (NPS). During his time at NPS, Mr. Jang advanced to become Director of NPS' Domestic Investment Department (April 2010 – January 2011) and subsequently, Director – Risk Management Department (February 2011 – July 2011). Previous to joining NPS, Mr. Jang worked at Samsung Asset Management (April 1999 – October 2000) where he was the Manager of Samsung's Equity Management team. From July 1990 until March 1999, Mr. Jang worked at Samsung Life Insurance Company as Manager of its Equity Management team.
Mr. Jang holds an MBA degree in Business Administration and a BA degree in Business Administration from Yonsei University.



Kim, TaeYeoung (CIO)
Mr. Kim was appointed as the Chief Investment Officer at Cosmo in October 2014.
Before joining Cosmo, Mr. Kim served as the CIO of Tonyang Asset Management for four years since November 2010. He was in charge of managing 1.3 trillion KRW equity funds. Prior to TongYang, he was also the CIO at Fides Investment Management from September 2007 to September 2010. He managed equity funds worth 800 Billion KRW. For eight years since November 1999, Mr. Kim was the Senior Equity Portfolio Manager at South Korea's National Pension Service. He conducted equity investment decisions for stock picking utilizing bottom-up basis and managed 1 Trillion KRW fund based on his own discretion. The Minister of Health and Welfare recognized his outstanding performances and awarded him with the Excellent Portfolio Manager's Award in 2004. Mr. Kim began his career as a Domestic Sales staff at Seoul Securities in 1992, and was soon promoted to an Equity Investment analyst in 1999.
Mr. Kim holds an MBA degree in Finance and Accounting at University of Illinois, Urbana-Champaign and a BA degree in Economics from MyongJi University.



Bae, JungHyun (CMO)
Mr. Bae, CFA, joined Cosmo September 2014 and appointed as CMO in October. Prior to joining Cosmo, Mr. Bae was with Leading Securities where he was head of Research Center since March 2013. From October 2009 to February 2013, Mr. Bae worked as a financial analyst at SK Securities' Research center. Previous to this, he also served as a financial analyst at the Research center of DongBu Securities for two years since May 2007. From October 2003 until he transferred to DongBu, he was part of the outsourcing team at South Korea's National Pension Service (NPS). He started off his career at DaeHan Investment & Trust company, currently Hana DaeToo Securities, in 1997 in the securities investment as an analyst.
Mr. Bae holds a master's degree in Public Administration and a BA degree in economics from Seoul National University.

Other Activities

Making Company's First Corporate Commercial

Announcement of the Company's First Corporate Commercial

We have the pleasure of informing you that SPARX Group Co., Ltd., (hereinafter referred to as the "Company"; president and CEO, Shuhei Abe) has produced a corporate commercial and is going to start broadcasting it on TV tomorrow on Thursday, the 6th.

The Company Group, having adopted "SPARX Vision 2020" as our slogan for the fiscal year ending March 2021, thereby aims to make "Innovations in Terms of the Access to Individual Financial Assets (Japan)." This means, under the assumption that a major shift of individual financial assets of individuals and the new communication technology will enable the establishment of a new selling strategy, to make a revolutionary innovation in the method of sale of investment products, not relying on the method of sale for traditional investment trusts and pensions, by establishing a strong global brand based on "the trust and respect" for SPARX.

To achieve this goal, more specifically, to contribute to the enhancement of individual investors' recognition of the Company, with a view to improving our corporate image and fostering in-house awareness, we have produced the Company's first corporate image commercial.

We have produced a commercial film by taking the actual business scenes at the Company's office of the officers and employees of the Company Group who, based on the investment philosophy: "Macro is the Aggregate of Micro", which has been the Company's philosophy consistent since its foundation, are *truthfully and diligently* implementing the investment through the intensive bottom-up approach, mainly focusing their efforts on discussions with the management executives of the companies they invest in.

Please do look forward to the further activities of the Company Group!

"Truthful and Diligent SPARX": http://www.sparx.co.jp/

We Started Facebook (currently only available in Japanese)



Appendix

The data of this page does not include Korean subsidiary (Cosmo Investment Management Co., Ltd.) and Hong Kong subsidiary (SPARX Asia Capital Management Limited).

SAM: Annualized performance by strategy since inception

(Annualized)

(From Composite Start Date to September 30, 2014)

Japanese equities	Long-only Active (Commingled funds)	Mid & Small caps	Long-Short (JPY, Lev. 1)	Strategic Investment
Composites	9.59%	6.94%	3.87%	8.56%
Reference Index	0.95%	3.42%	0.59%	1.08%
Excess Return	**8.64%**	**3.52%**	**3.28%**	**7.48%**

Reference Index	TOPIX cum dividend	Russell/Nomura Mid-Small Cap Index	TOPIX cum dividend	TOPIX cum dividend
Start Date	May 1997	January 2000	June 2000	July 1999
Volatility of Composite Return (Annualized)	21.91%	18.35%	7.51%	20.96%

(Note1) The figures in the table above are calculated using the composite performance data of the major investment strategies and are based on the internal data. The "Reference index" is shown to facilitate comparisons and is not necessarily a representative of the "benchmark" indexes requested by clients.
(Note2) The calculation methods used for the annualized returns above are as follows: the modified Dietz method (pre-deduction of management related fees) is applied to Long-only Active (Commingled funds), Mid & Small Caps, and Strategic Investment. The NAV per share method (management fee deducted) is applied to the Long-Short (JPY, Lev.1). The above figures are rounded to the nearest tenth of a percent.

Source: SPARX Group Co., Ltd (Tokyo, Japan), as of September 30, 2014.

The data of this page does not include Korean subsidiary (Cosmo Investment Management Co., Ltd.) and Hong Kong subsidiary (SPARX Asia Capital Management Limited).

SAM: Annualized performance by strategy

1. Each composite includes portfolios managed by companies of the SPARX group, excluding Cosmo and SPARX Asia.

2. Investment strategies of each composite are described below.

Name of Composite	Type of investment strategy
Japanese equity Active Long-only (commingled funds)	Investment strategy of active, long-only portfolio management of commingled funds. The universe of this strategy includes all of the listed equity securities on Japanese exchanges.
Mid & Small Caps	Investment strategy of investing companies in the medium and small cap stock universe.
Long-Short (JPY, Lev.1)	Investment strategy combining long and short positions. Leveraged within NAV, and aims to achieve stable absolute returns.
Strategic (or "Focused") Investment	Investment strategy identifying and investing in undervalued companies through a concentrated portfolio.

3. Investment strategy performance appendix (annual returns for the past five fiscal years)

	FY2009	FY2010	FY2011	FY2012	FY2013
Active Long-only (Commingled funds)	34.27%	-5.74%	3.54%	33.69%	31.47%
Active Long-only (TOPIX-Benchmark)	28.47%	-9.23%	0.59%	23.82%	18.56%
Mid&Small Caps	33.32%	-1.87%	8.80%	26.48%	32.84%
Mid&Small Caps (RNMS-Benchmark)	29.14%	-7.52%	1.92%	22.26%	20.14%
Long-short (JPY, Lev1)	6.03%	4.00%	-8.29%	17.24%	13.46%
Long-short (TOPIX-Benchmark)	28.47%	-9.23%	0.59%	23.82%	18.56%
Strategic Investment	23.14%	-1.76%	5.71%	30.31%	35.17%
Strategic Investment (TOPIX-Benchmark)	28.47%	-9.23%	0.59%	23.82%	18.56%

This report is prepared solely for the purpose of providing information in English to shareholders of SPARX Group Co., Ltd. (“SPARX”) and other interested parties and is not intended to be a recommendation or solicitation to buy or sell SPARX shares or any other securities. SPARX and its group companies do not warrant the accuracy, completeness, or appropriateness of any data, information, opinions or other statements contained in this report (which remain subject to auditing), and are not liable for any damage, loss and/or other results caused by any reliance on or use of any of the said data, information, opinions or other statements. Past results are not indicative of future performance.

This report contains forward-looking statements that reflect SPARX’s plans and expectations. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause SPARX’s actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements. A discussion of these factors which may affect SPARX’s actual results, performance, achievements or financial position is contained in SPARX’s annual securities report, which is on file with the Kanto Finance Bureau of the Japanese MOF. Further, the content of this report may be altered without any prior notice. SPARX owns the copyright of this report. No part of this report may be transmitted, reproduced, quoted, cited or otherwise used for any purpose whatsoever without the prior written permission of SPARX.

SPARX Asset Management Co., Ltd. has prepared and presented the relevant part of this report in compliance with the Global Investment Performance Standards (GIPS®). The firm has been independently verified for the periods- 1 April 1997 – 31 December 2013. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designated to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The firm is defined as SPARX, comprising SPARX Asset Management Co., Ltd. SPARX Asset Management Co., Ltd. is registered with Japanese authority to conduct the Investment Management Business, the Investment Advisory and Agency Business, the Type 1 Financial Instruments Business and the Type 2 Financial Instruments Business.

The term the “Firm” was redefined effective 15 October 2009 and 30 November 2010 where SPARX Investment & Research, USA, Inc. (SIR) and SPARX International (Hong Kong) Limited (SIHK) have been excluded, respectively, due to the dissolution of SIR and the transfer of SIHK’s shares to a third-party. SPARX Overseas Ltd. has been excluded from the definition of the firm since December 31, 2013.

Contact: Global Business Development Tel: +81-(0)3-6711-9200

SPARX Group Co., Ltd.
Tennoz First Tower 16F
2-2-4, Higashi Shinagawa, Shinagawa-ku, Tokyo 140-0002, Japan
Tel: +81-(0)3-6711-9100