Consolidated Financial Results for the 3rd Qtr of the FY2016 (Apr. 2016 – Dec. 2016)

February 10, 2017

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

SPARX VISION Statement

To Be the Most Trusted and Respected Investment Company in the World

Received Morningstar's Best Fund Award, "Fund of the Year 2016"

Won the "Best Fund Award"!

SPARX Dominates the "Best Fund Award" in Domestic Stock Fund Category

It is the first time that the same asset management company won "Best Fund Award" in both categories.
"Gensentoshi" has renewed the record 3 years in a row in the Domestic Large-cap Fund Category.
"Kachihakkutsu", has won "Fund Award" in the Domestic Mid- and Small-cap Fund Category for the first time.



Press Release January 30, 2017

Received Morningstar's Best Fund Award, "Fund of the Year 2016" ①



Domestic Large-cap Stock Fund Division

(total: 617 funds)

"Best Fund of the Year 2016"

Won 3 years in a row!

SPARX Shin Kokusai Yuryo Japanese Equity Fund ("Gensentoshi" ("Highly Selective Investment"))

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.

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Taking every factor into consideration, Morningstar Japan K.K. has selected funds for Morningstar Award "Fund of the Year 2016" in each divisions from open-end mutual fund based upon its unique quantitative and qualitative analysis. Awarded funds in the Domestic Large-cap Stock Fund Division have been selected from 617 funds at the end of December 2016. Awarded funds in the Domestic Mid- and Small-cap Stock Fund Division have been selected from 250 funds at the end of December 2016.

Press Release January 30, 2017

Received Morningstar's Best Fund Award, "Fund of the Year 2016" ②



Domestic Mid- and Small-cap Stock Fund Division (total: 250 funds)

"Best Fund of the Year 2016"

SPARX Premium Japanese Micro-cap Equity Fund ("Kachihakkutsu")

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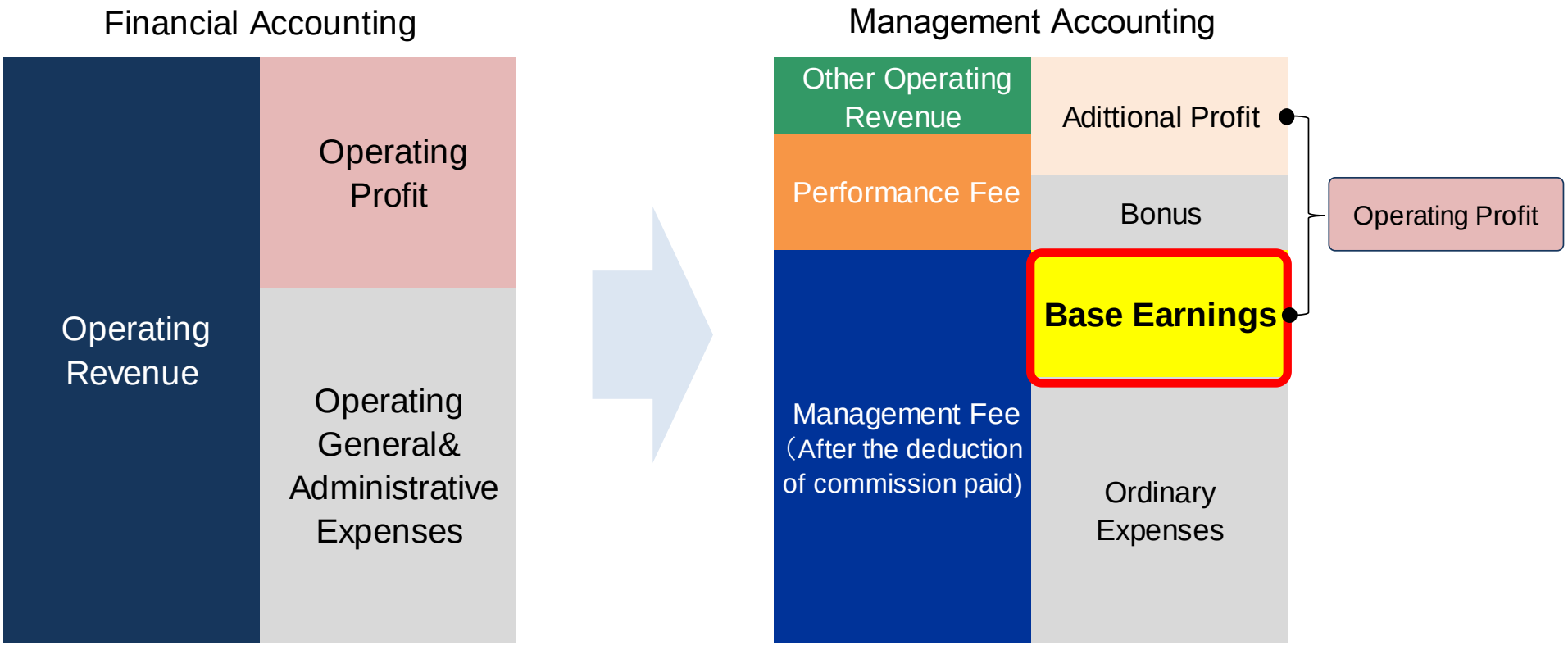
Financial Results for the 3rd Qtr of the FY2016

An Attention to Consolidated Financial Results of SPARX Group Co., Ltd.

The Company identifies "**Base Earnings**" as the most important financial indicator which explains sustained and stable fundamental profitability of the Company.

Base Earnings = Management Fee (After the deduction of commission paid) – Ordinary Expenses

Because of the operating profit for financial accounting purposes includes one-off/ additional performance fees which could be affected by trends of the equity market and progress of real assets investment business, **we recommend you to pay attention to "Base Earnings" for understanding the earning strength.**



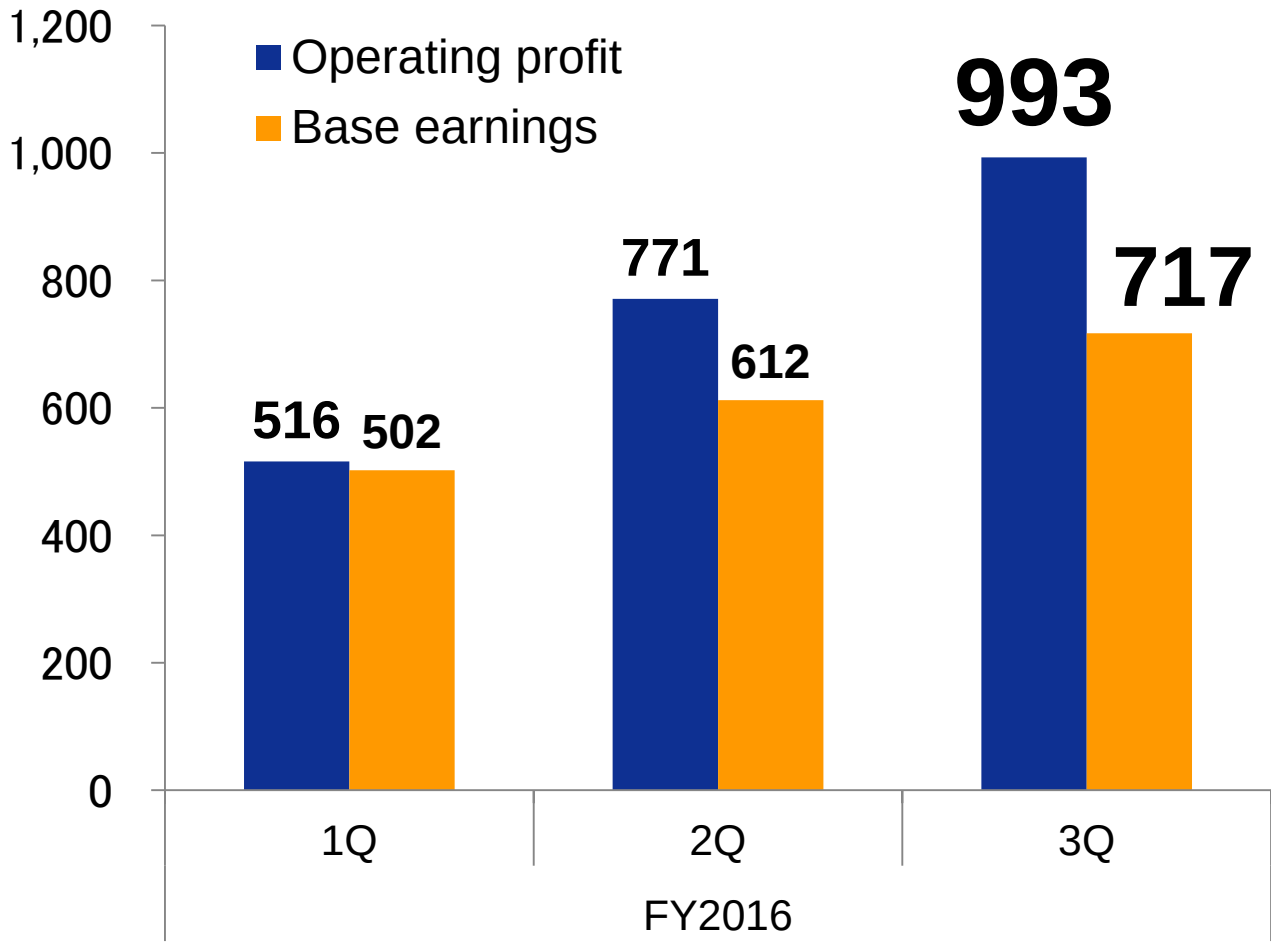
(Note) The Company is the abbreviation for SPARX Group Co., Ltd. and its subsidiaries. Hereinafter called the same.

3Q FY 2016 Overview (1) Performance

		FY2015		FY2016	
		Apr-Dec 2015	Full Year	Apr-Dec 2016	YoY change
Average AUM	(100MM JPY)	9,810	9,732	9,402	▲4.2%
Management fee rate (After the deduction of commission paid)	(%)	0.56%	0.59%	0.68%	0.12
Management fee (After the deduction of commission paid)	(MM JPY)	4,143	5,705	4,822	+16.4%
▲ Ordinary expenses	(MM JPY)	2,772	3,770	2,989	+7.8%
Base earnings	(MM JPY)	1,370	1,935	1,832	+33.7%
Performance fee	(MM JPY)	1,462	1,730	885	▲39.5%
Percentage of AUM eligible to earn peformance fee	(%)	37.3%	40.1%	39.2%	1.9
Other operating revenue	(MM JPY)	335	365	71	▲78.6%
▲Amortization of goodwill	(MM JPY)	302	311	-	-
▲ Bonus	(MM JPY)	686	674	467	▲31.9%
Operating profit	(MM JPY)	2,113	2,978	2,281	+7.9%
Profit attributable to owners of parent	(MM JPY)	2,164	2,685	1,662	▲23.2%

3Q FY 2016 Overview (2) Performance Quarterly Trends

(Unit: MMJPY)



Operating Profit • Base Earnings in 3Q have expanded

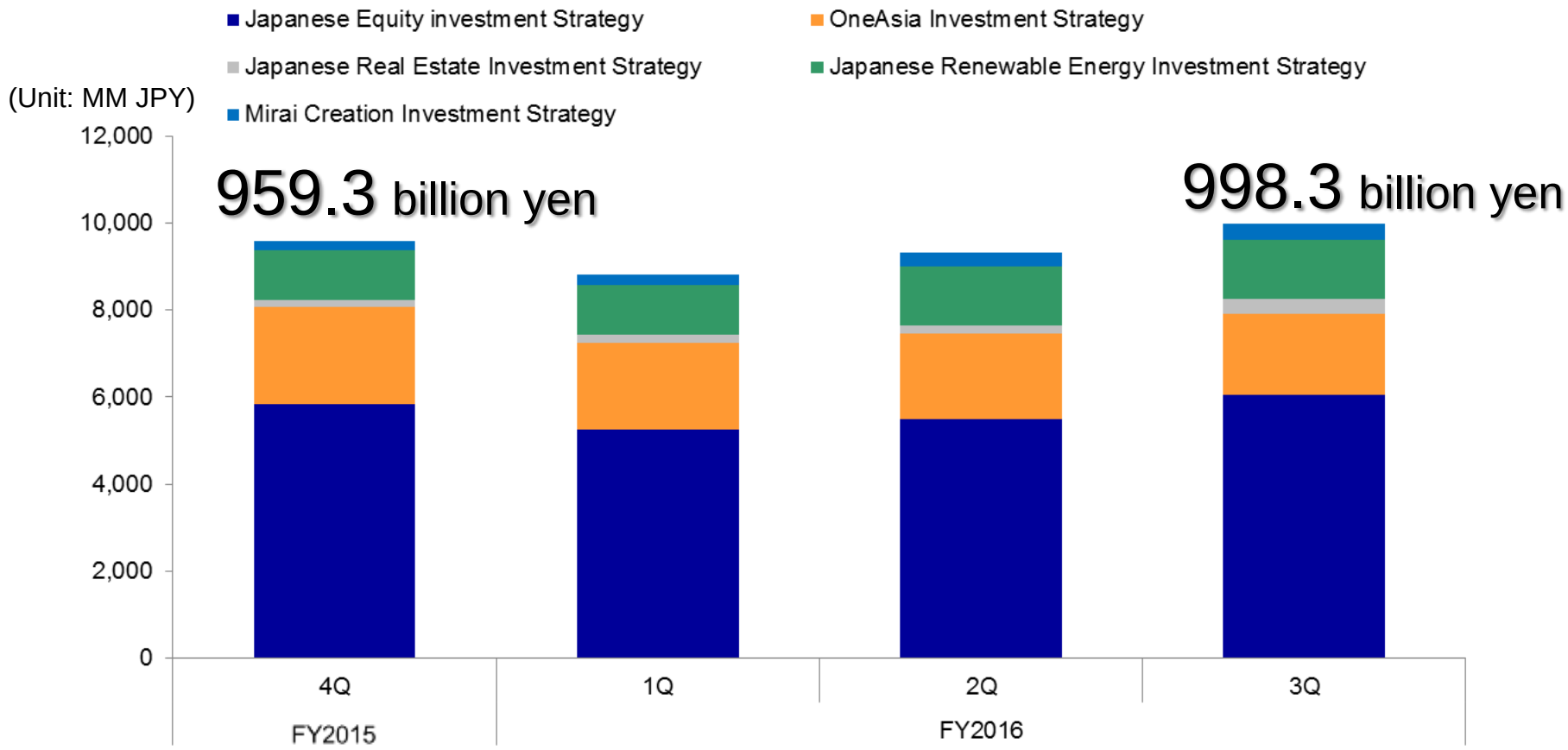
Base Earnings

+42.8%

(Change from 1Q)

3Q FY 2016 Overview (3) AUM

Total AUM has recovered due to expanding AUM in Renewable Energy Investment Strategy and Mirai Creation Investment Strategy



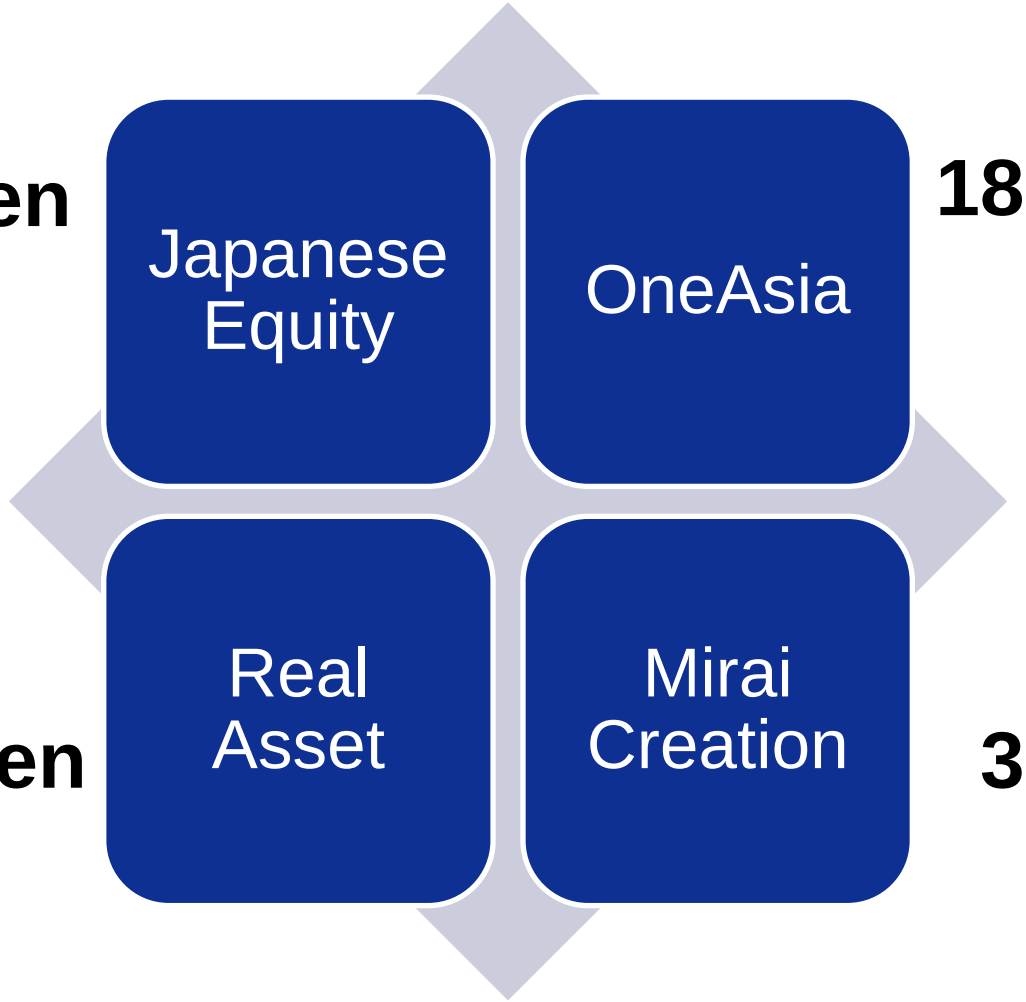
※ Please refer “SPARX Group Announces Assets Under Management for December” for further information.
https://www.sparxgroup.com/press/uploads/AUM_Monthly_2016DecemberE.pdf

Progress of the Businesses and Future Plans

4 Main Investments for Growth Realization

Breakdown of AUM as at the end of December 2016

604.8 billion yen

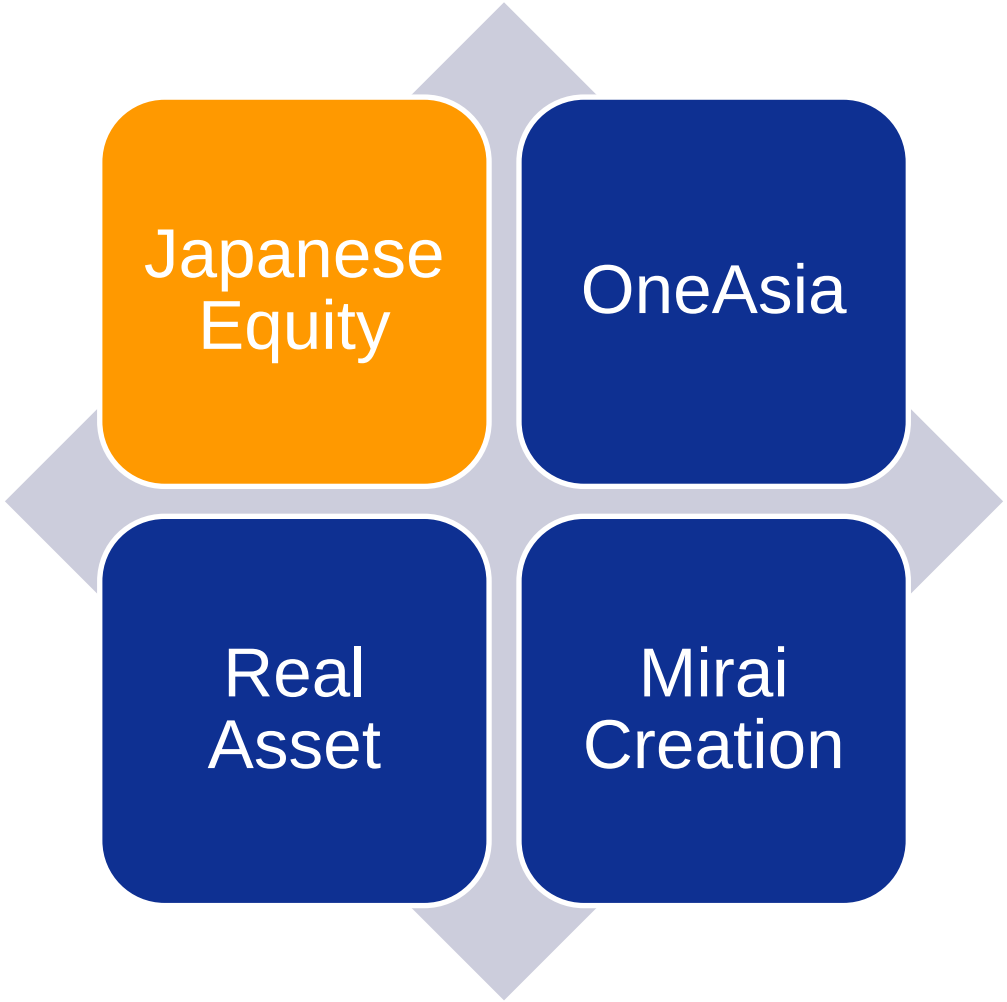


187.5 billion yen

170.5 billion yen

35.1 billion yen

① Japanese Equity Investment Strategy
(AUM as at the end of December 2016 : 604.8 billion yen)



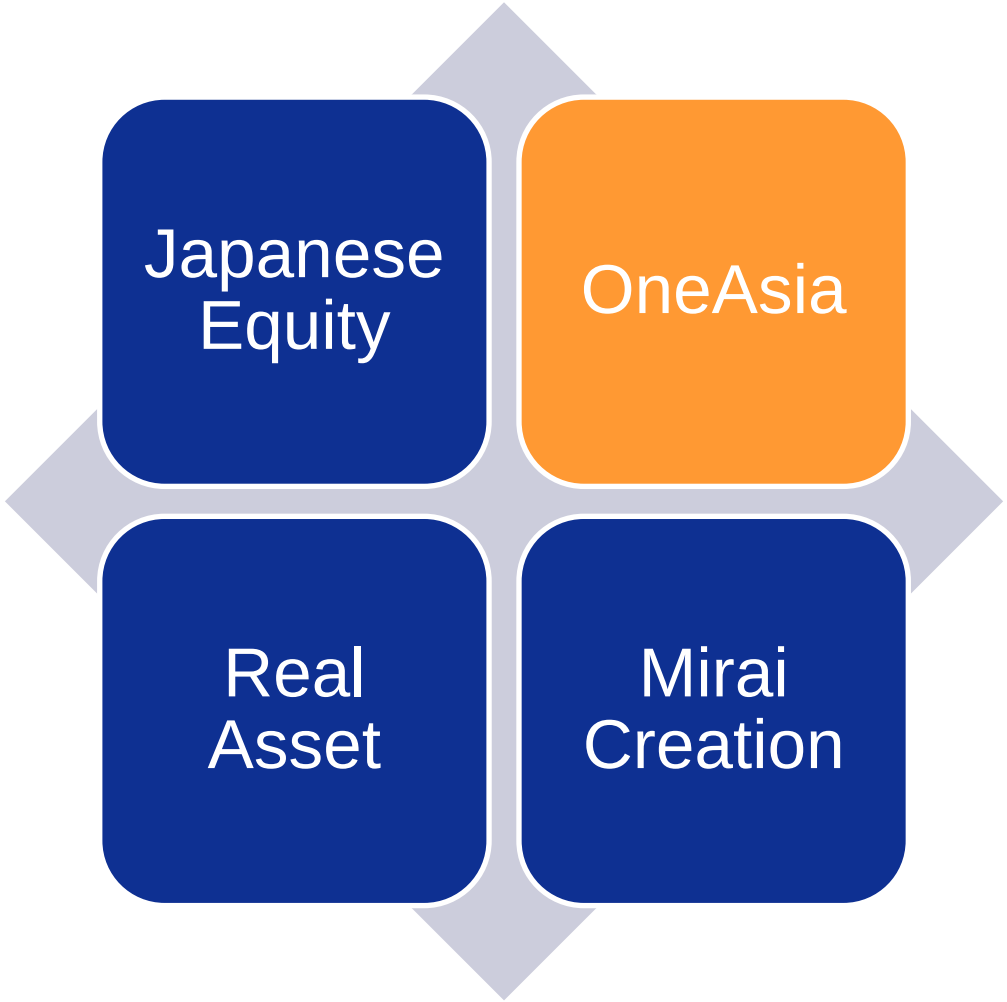
Japanese Equity Investment Strategy : AUM by Strategies

（Unit：100 million JPY）	AUM			
	Mar. 2016	Dec. 2016	Change	Change (%)
Japanese Equity Long-Short Strategy	399	224	▲174	▲43.8%
Japanese Equity Focus All Cap Strategy	2,522	2,925	+403	16.0%
Japanese Equity Mid & Small Cap Strategy	1,915	1,770	▲145	▲7.6%
Japanese Equity Clean Tech. Strategy	851	1,031	+179	21.1%
Shareholders Responsibility Strategy	65	58	▲7	▲11.1%
Others	100	38	▲62	▲62.0%
Total	5,855	6,048	+193	3.3%

- Japanese Equity Long-Short Strategy:
  decreased due to redemption mainly from domestic institutional investors
- Japan Equity Focus All Cap Strategy:
  increased due to new subscription, favorable performance and rise of equity market
- Japanese Equity Mid & Small Cap Strategy:
  decreased due to redemption mainly from domestic and international institutional investors
- Japanese Equity Clean Tech. Strategy:
  increased due to favorable performance and rise of equity market

②OneAsia Investment Strategy

（AUM at the end of December 2016: 187.5 billion yen）



OneAsia Investment Strategy

Set up OneAsia Gensentoshi Fund in February 2017

Set up Asian version of Japanese equity・Gensentoshi Fund (Highly Selective Investment Fund) which has been highly respected, as a private placement fund in February. (Long term investment focuses on limited number of Asian (excluding Japanese) firms possessing advanced technology and brand names, which are expected to realize future global expansion)
Thereafter aim to set up a public placement fund of the same strategy, thereby enhancing approach to individual investors and expanding AUM.

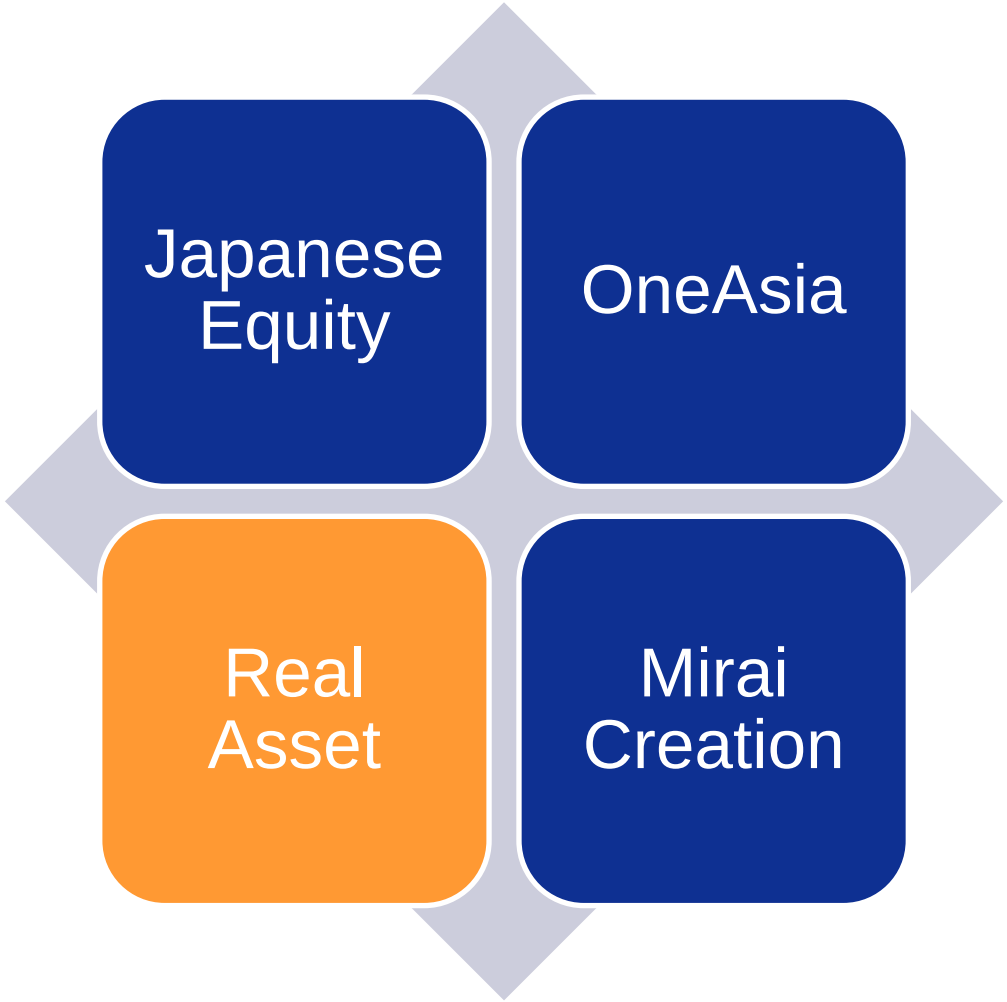
Plan to set up Korean Long Short Fund in March 2017

Plan to set up a Long Short Fund of Korean listed equities by utilizing the know-how of investments in Japanese equities.
Seek to increase AUM with alternative investments as higher value-added products.

Large redemption from a Korean institutional investor in January 2017

Reflection of the large redemption from a Korean institutional investor to the consolidated performance is limited due to its very low management fee rate, although AUM decreased.

③ Real Asset Investment Strategy
（AUM at the end of December 2016: 170.5 billion yen）



Investment in Renewable Energy Generating Facilities (AUM at the end of December 2016: 137.3 billion yen)

Invested in 23 projects (approx. 307MW)

Including 12 projects already selling electricity (approx. 84MW)

- Diversifying the portfolio of investment strategy as a whole by making investments in energy generating facilities of various energy sources such as solar, wind, geothermal and biomass. Constructions of woody biomass power plant (Sanjo-shi, Niigata Prefecture) and geothermal power plant (Ibusuki-shi, Kagoshima Prefecture) are in progress.

- SPARX has been utilizing its know-how, intelligence and knowledge for “green field investment” funds, targeting on the preparation and launch of renewable power generation facilities. In addition, SPARX continues preparation to provide “brown field investment” funds, focusing on the running of renewable power generation facilities, which can produce long-term stable cash flow, for institutional investors.

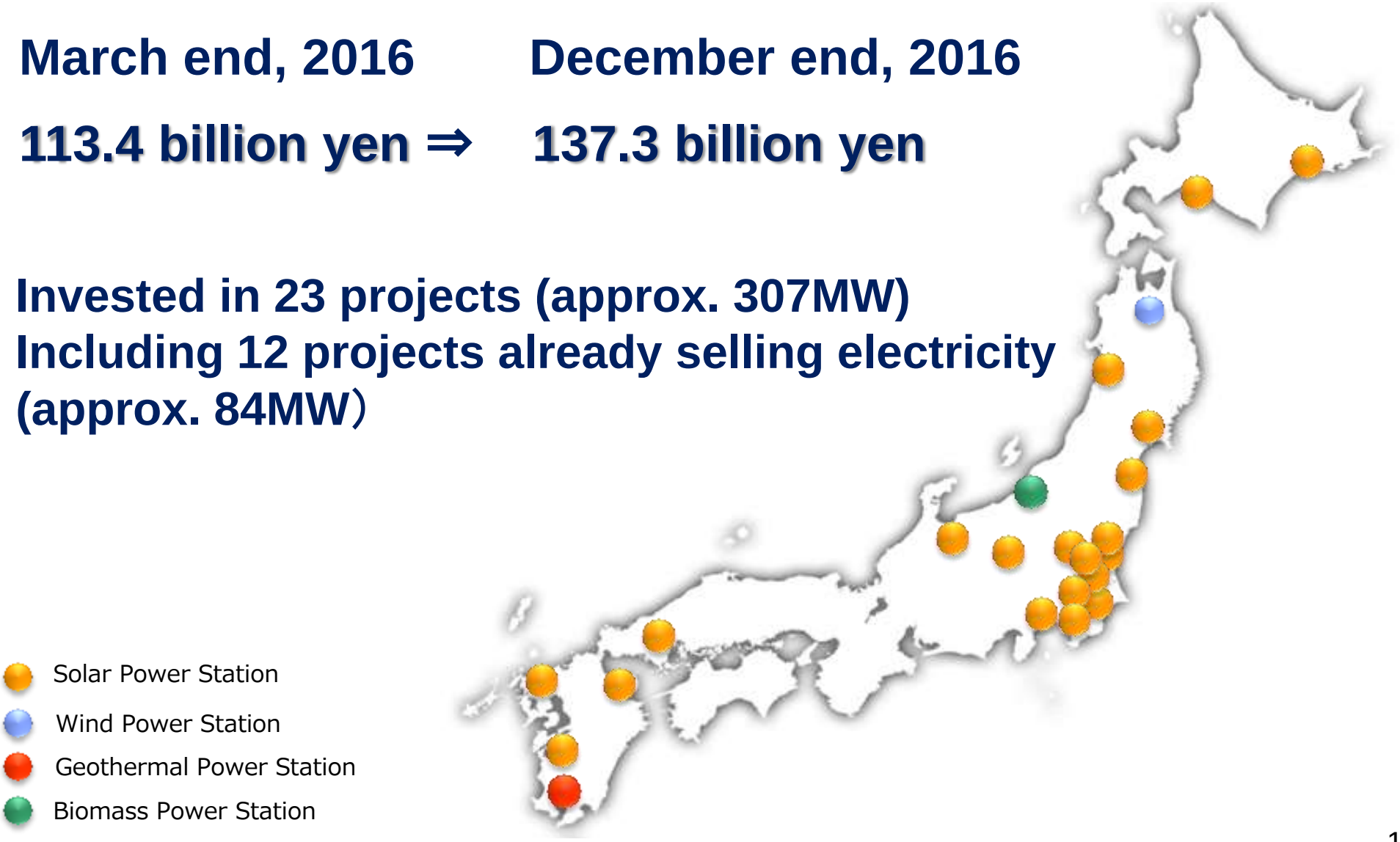
AUM of the Renewable Energy Investment Strategy

■ AUM

March end, 2016 **December end, 2016**

113.4 billion yen ⇒ 137.3 billion yen

■ Invested in 23 projects (approx. 307MW) Including 12 projects already selling electricity (approx. 84MW）



Real Estate Investment

(AUM at the end of December 2016: 33.1 billion yen)

Investment in an office building “New City Tama Center Building” has been executed by the real estate investment fund

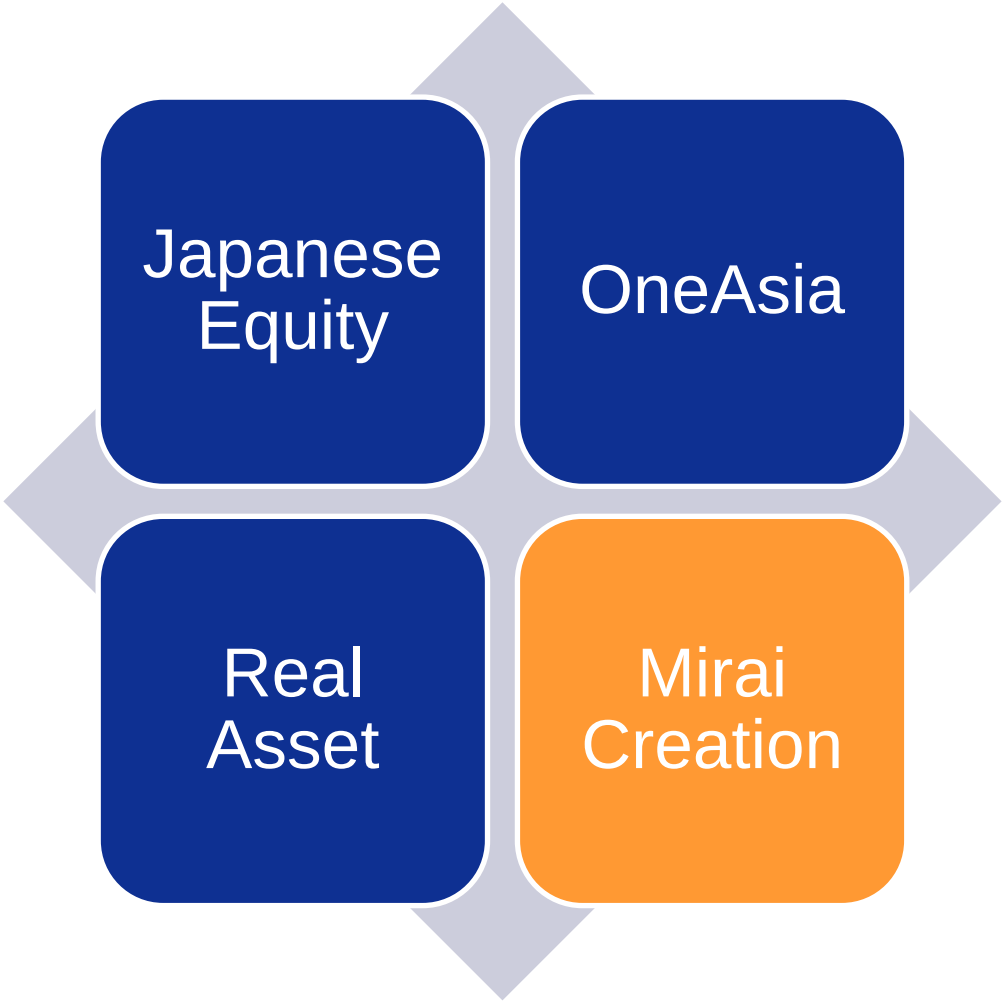




- The office building with a sense of dignity and a refined design was designed by Kengo Kuma and Associates and constructed in 2002.
- Currently, it is utilized as headquarters and operation centers by a major bank, an insurance company, retailers and others.

(Reference) https://www.sparxgroup.com/press/uploads/PressE161215.pdf

④ Mirai Creation Investment Strategy
（AUM at the end of December 2016: 35.1 billion yen ）



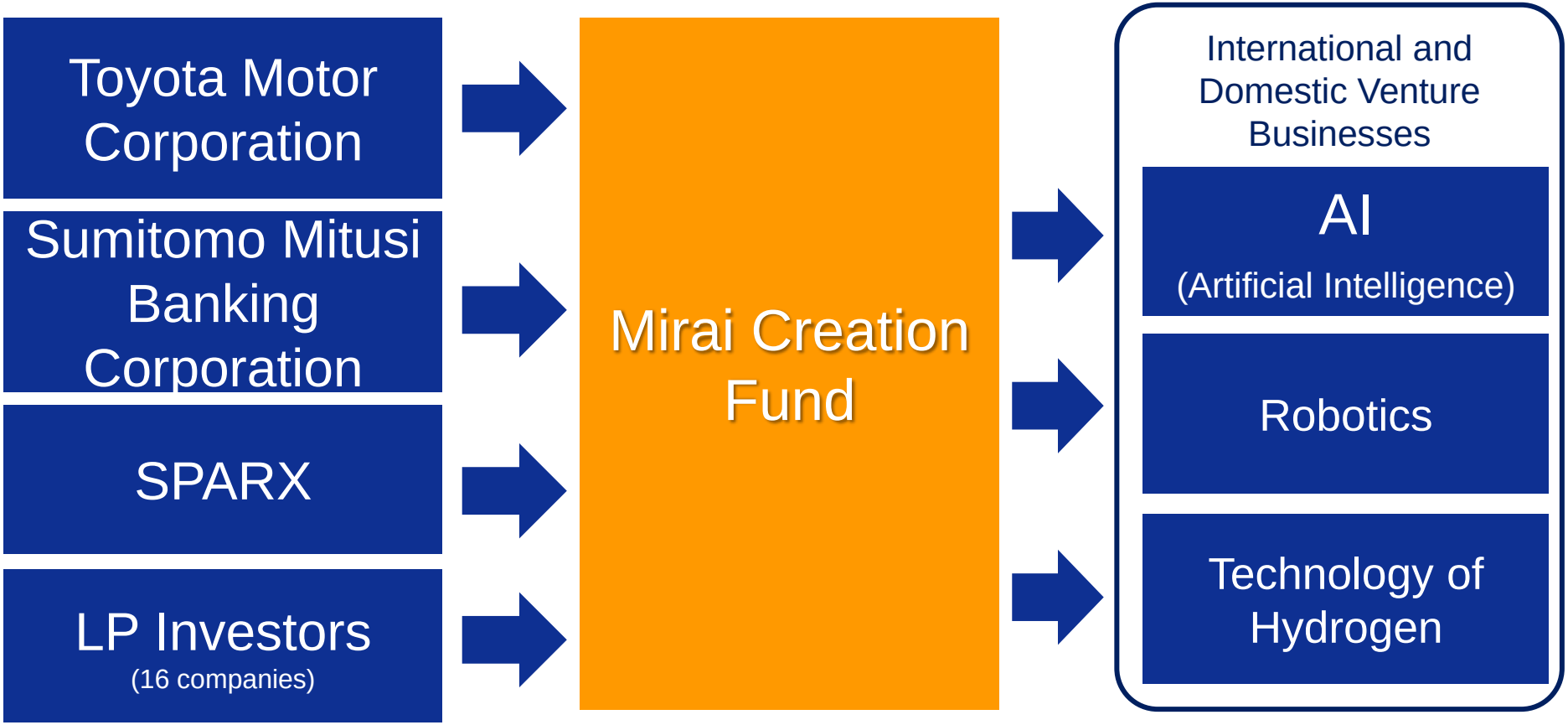
Mirai Creation Fund　AUM Increased

At the end of March 2016

JPY 21.6 BN

At the end of December 2016

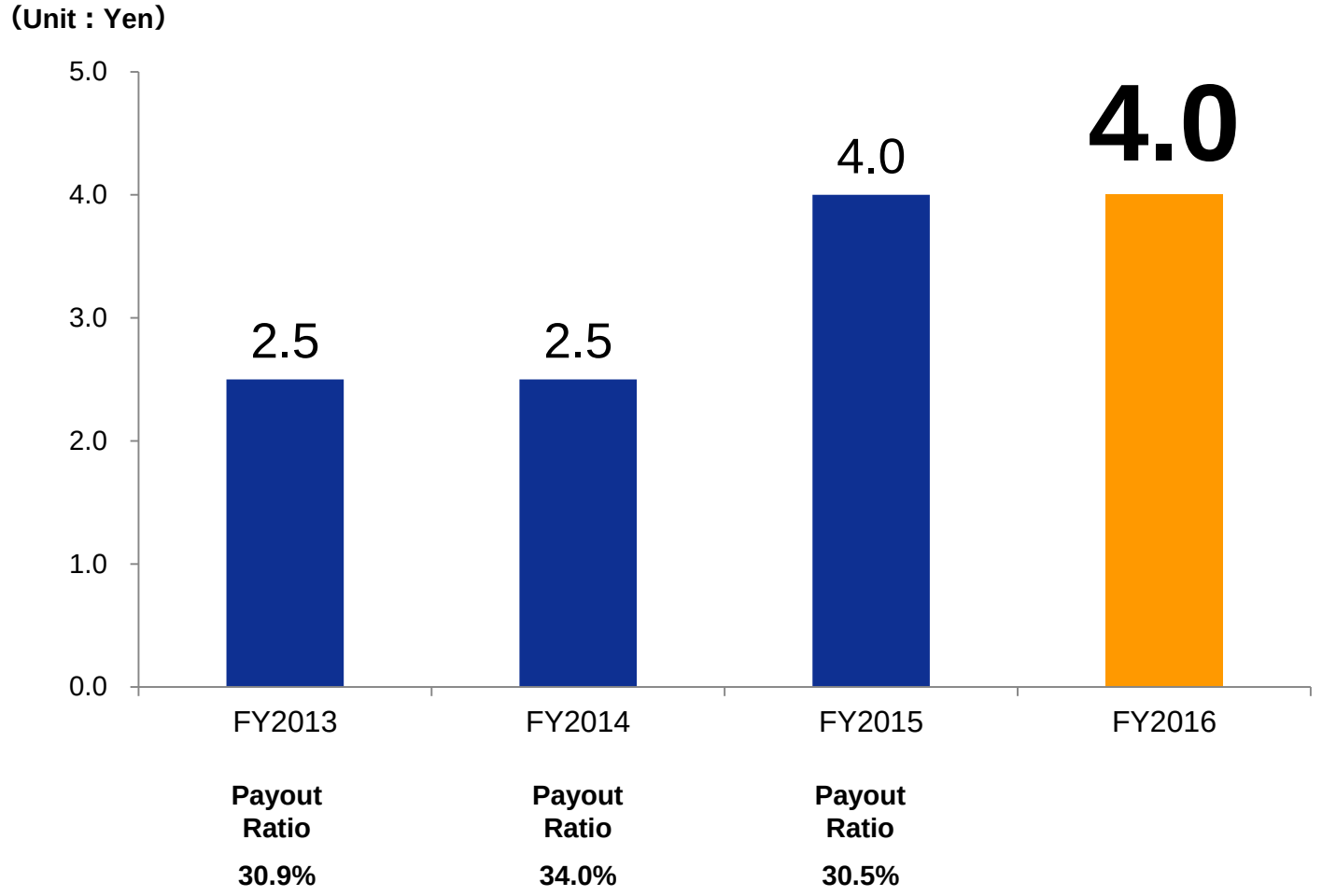
JPY35.1BN



Shareholders Return

Shareholders Return : Dividend at the End of FY2016

Dividend per share for the fiscal year ending on March 31, 2017 is scheduled to be 4.00 yen which is the same amount as the previous fiscal year.(Note)

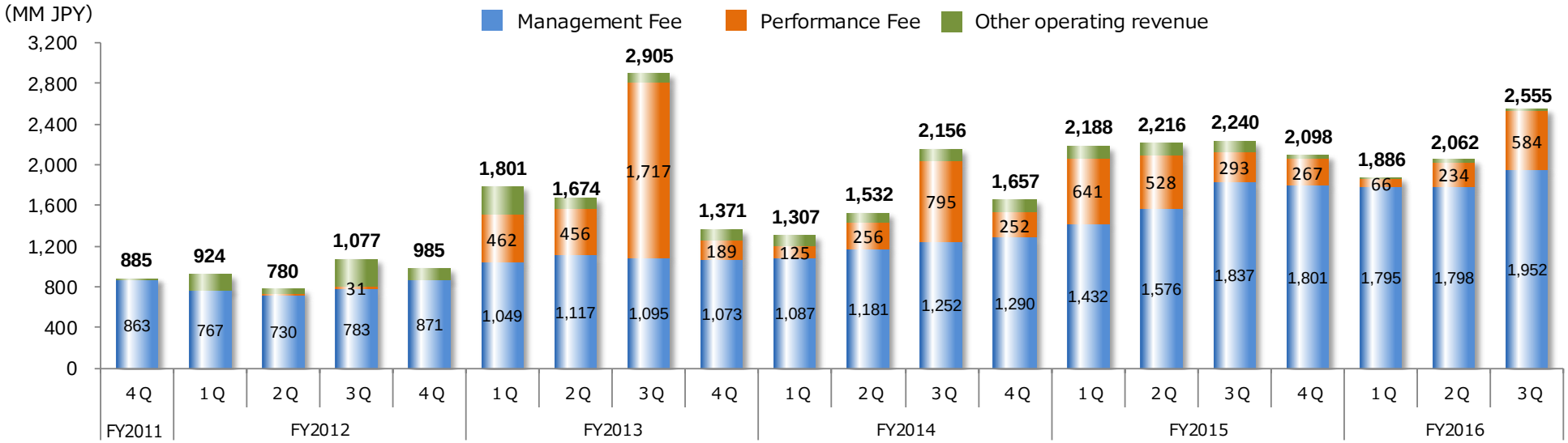


（Note） dividend shall be officially determined and the dividends will be paid out subject to the approval of the resolution of the 28th general shareholders' meeting that is scheduled to be held in June 2017. in addition, stock repurchase has been executed (199 million yen) in 2QFY2016.

Appendix

Quarterly Trends of Operating Revenue

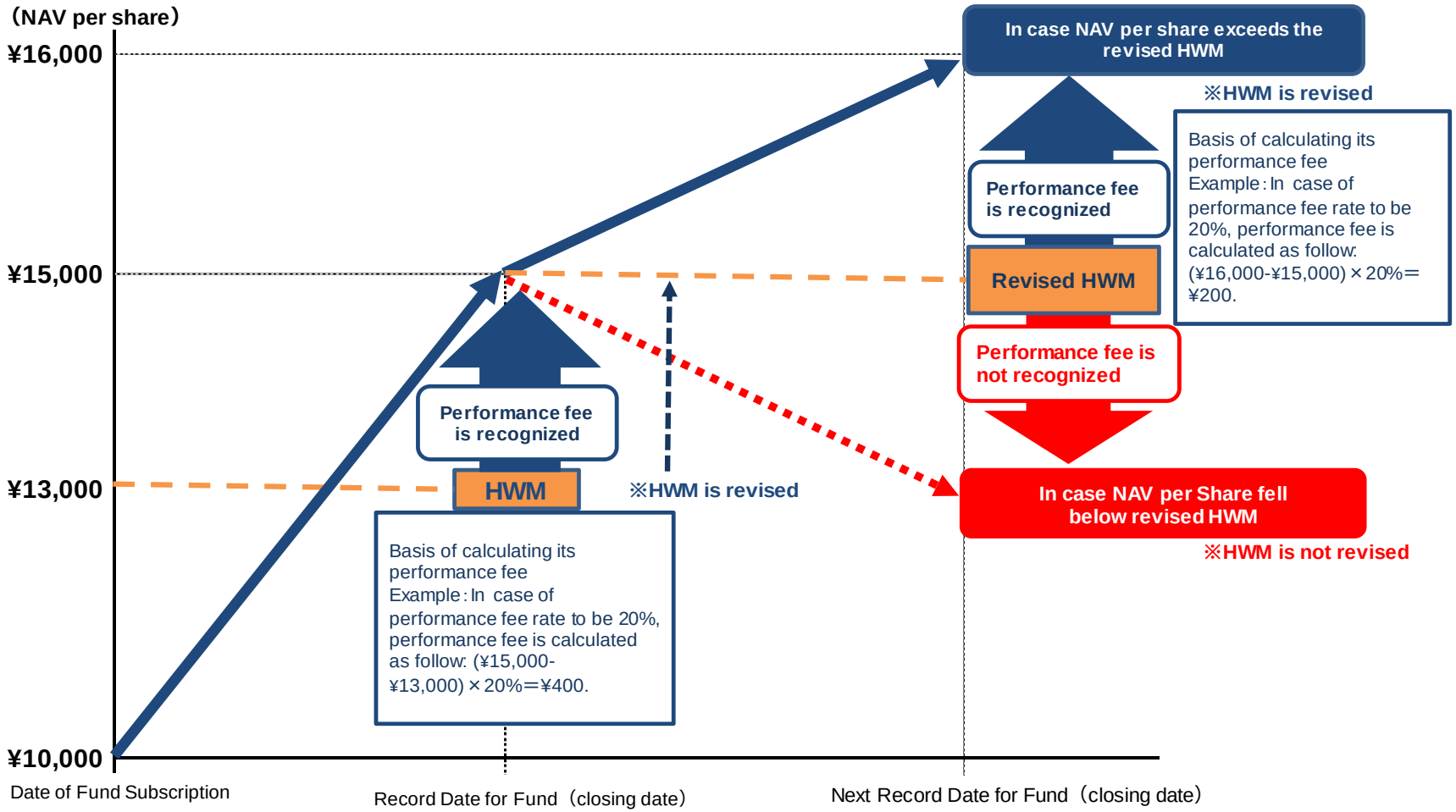
Management fee has remained stable due to improvement of the management fee rate



(MM JPY)	FY2011	FY2012				FY2013				FY2014				FY2015				FY2016		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Management Fee	863	767	730	783	871	1,049	1,117	1,095	1,073	1,087	1,181	1,252	1,290	1,432	1,576	1,837	1,801	1,795	1,798	1,952
Performance Fee	2	0	2	31	5	462	456	1,717	189	125	256	795	252	641	528	293	267	66	234	584
Other operating revenue	18	156	46	261	107	288	100	92	109	94	94	109	114	114	111	109	29	24	28	18
Operating Revenue	**885**	**924**	**780**	**1,077**	**985**	**1,801**	**1,674**	**2,905**	**1,371**	**1,307**	**1,532**	**2,156**	**1,657**	**2,188**	**2,216**	**2,240**	**2,098**	**1,886**	**2,062**	**2,555**
(Reference)																				
Average AUM (100MM JPY) (3months average)	5,284	4,799	4,643	5,369	6,232	6,774	6,752	7,117	6,874	7,239	7,859	8,217	9,126	10,297	9,277	9,856	9,497	9,233	9,270	9,703
Management fee rate (3months average) (After the deduction of commission fee)	0.58%	0.57%	0.55%	0.52%	0.50%	0.55%	0.58%	0.53%	0.52%	0.51%	0.52%	0.53%	0.49%	0.49%	0.59%	0.63%	0.66%	0.67%	0.67%	0.70%
Percentage of AUM eligible to earn performance fees	55.6%	54.0%	51.9%	46.3%	49.1%	46.9%	49.4%	51.9%	55.1%	51.2%	50.5%	51.2%	47.6%	47.4%	37.7%	37.3%	40.1%	39.8%	41.8%	39.2%
NIKKEI stock average (Record date)	10,084	9,006	8,870	10,395	12,397	13,677	14,455	16,291	14,827	15,162	16,173	17,450	19,206	20,235	17,388	19,033	16,758	15,575	16,449	19,114

Structure of Performance Fee (Related to Stock Fund)

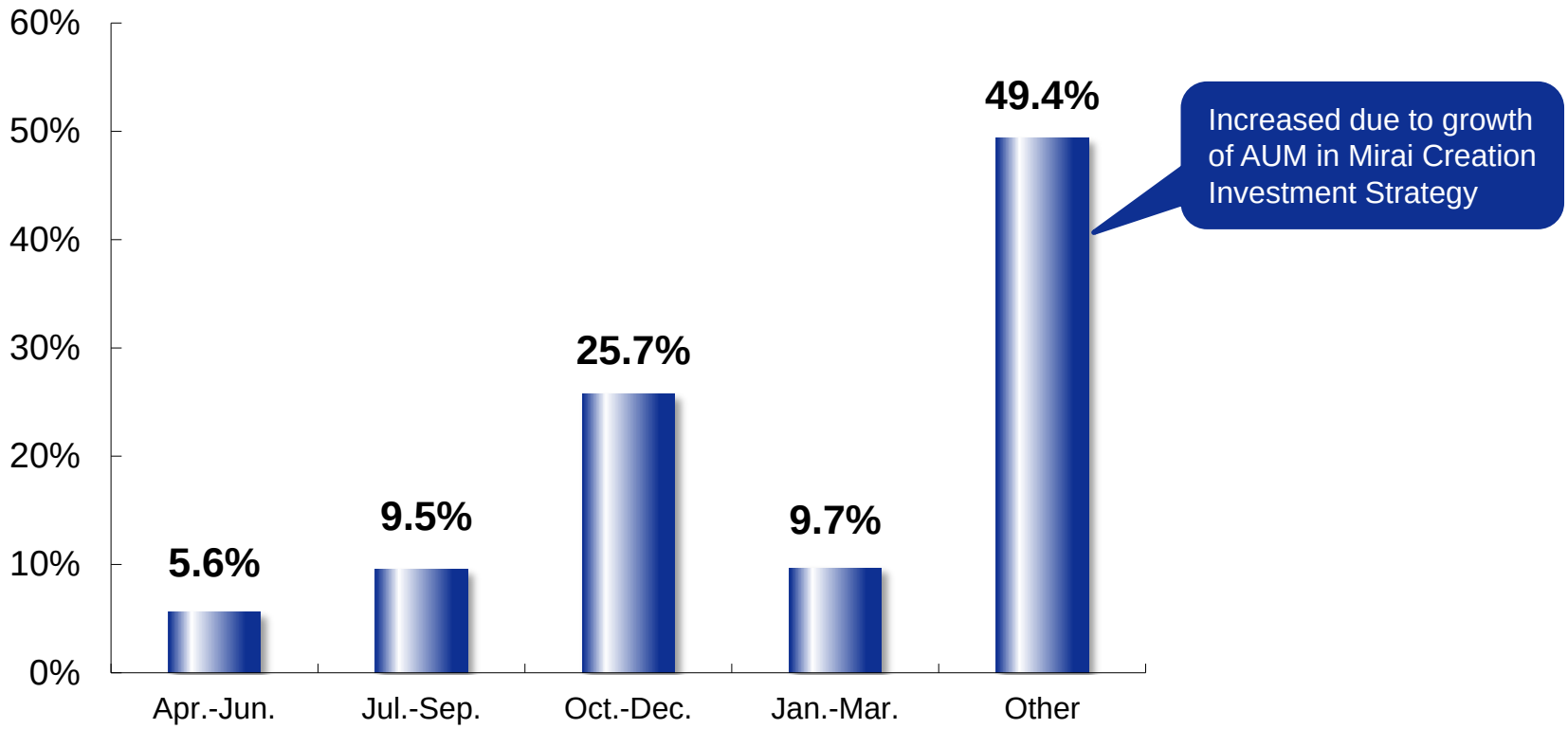
Performance Fee is recognized for NAV per share exceeding HWM as of record date for fund



(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" an abbreviation of High-Water Mark.
(Note 3)In case peformance fee recognized on record date for fund, "HWM" is revised.

（SAM）Funds with Performance Fees
Distribution of Record Date for Calculation

Aim to distribute record date (settlement date) of performance fee for funds



(Note1) All funds managed by SAM (investment trusts and discretionary investment accounts; hereinafter the same applies) as of December 31, 2016 are classified by the performance fee value date and payment month 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.

(Note2) In calculating these percentages, the following adjustments are made: for funds with multiple payment periods through a year, 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”.

(Note3) The table above excludes AUM which arises acquisition fees of fundraising the Company received from such power stations relating to Japan Renewable Energy Investment Strategy.

(Note4) The above % figures are rounded to the nearest tenth of a percent. In addition, the figures are estimated based on in-house calculation.

(Note5) SPARX Asset Management Co., Ltd. is our subsidiary; hereinafter called SAM in this document.

Breakdown for Operating Expenses and General & Admin Expenses

① **Moving costs incurred by the relocation of Tokyo office in 1Q.**

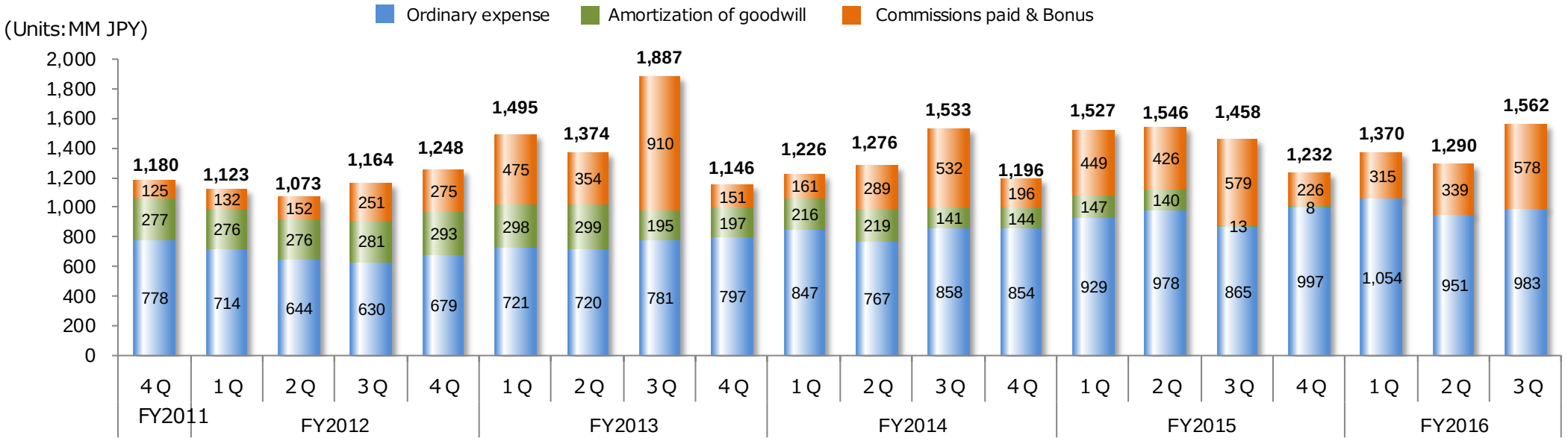
② **Expenses decreased due to goodwill completed in FY2015**

(Units: MM JPY)	FY2015		FY2016	
	Apr-Dec 2015	Full Year	Apr-Dec 2016	YoY change
Commissions paid	769	1,008	766	▲0.5%
Personnel exp.	1,903	2,305	1,712	▲10.1%
Entrusted fund admin fees	15	19	16	+4.6%
Travel exp.	134	187	173	+28.8%
Property rent	219	303	295	+34.6%
Entrusted business expenses	227	321	224	▲1.6%
Depreciation on fixed assets	99	112	70	▲29.7%
Other expenses	858	1,195	965	+12.4%
Amortization of goodwill	302	311	–	▲100.0%
Total: Operating and general administrative expenses	4,531	5,764	4,223	▲6.8%
Ordinary expense	2,772	3,770	2,989	+7.8%

（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 legal welfare, bonus and temporary staff, etc. other than salary.
（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; hereinafter the same applies in this document.

Quarterly Trends of Operating Expenses and General & Admin Expenses

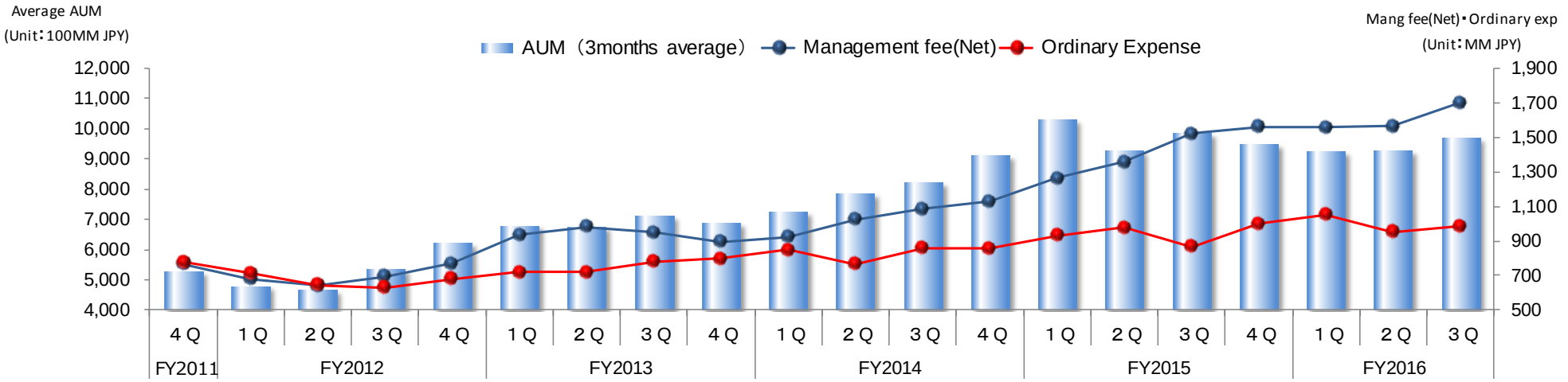
Cautious Cost-control taken continuously in the midst of business expansion

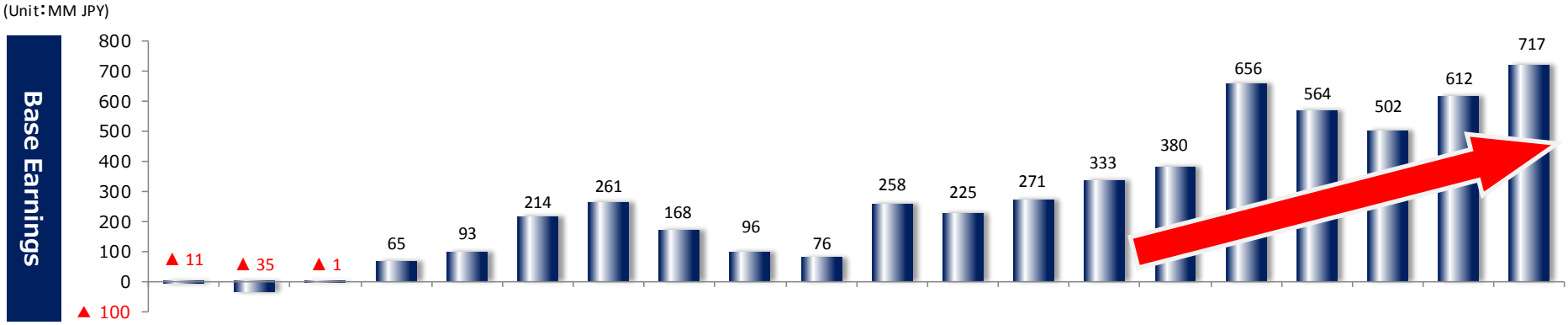


(Units : MM JPY)	FY2011	FY2012				FY2013				FY2014				FY2015				FY2016		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Ordinary expense	778	714	644	630	679	721	720	781	797	847	767	858	854	929	978	865	997	1,054	951	983
Amortization of goodwill	277	276	276	281	293	298	299	195	197	216	219	141	144	147	140	13	8	–	–	–
Commissions paid & Bonus	125	132	152	251	275	475	354	910	151	161	289	532	196	449	426	579	226	315	339	578
Operating and general administrative expenses	**1,180**	**1,123**	**1,073**	**1,164**	**1,248**	**1,495**	**1,374**	**1,887**	**1,146**	**1,226**	**1,276**	**1,533**	**1,196**	**1,527**	**1,546**	**1,458**	**1,232**	**1,370**	**1,290**	**1,562**

Quarterly Trends of Base Earnings

Base earnings slightly improved by cost-control and increase in management fees



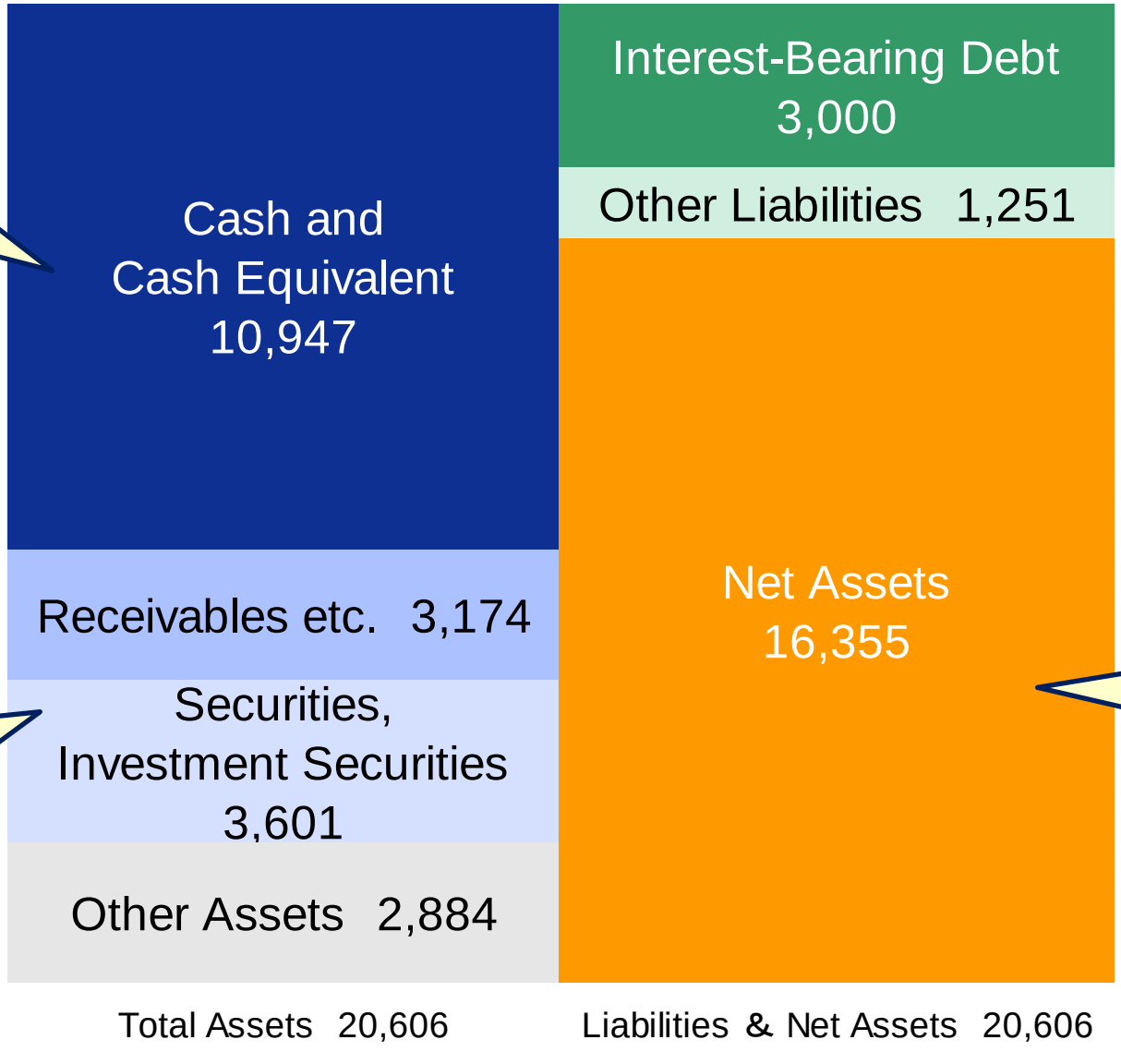


(Unit : MM JPY)	FY2011	FY2012				FY2013				FY2014				FY2015				FY2016		
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
AUM（3months average）	5,284	4,799	4,643	5,369	6,232	6,774	6,752	7,117	6,874	7,239	7,859	8,217	9,126	10,297	9,277	9,856	9,497	9,233	9,270	9,703
Management fee(Net)	766	679	642	695	771	934	982	950	894	923	1,025	1,084	1,126	1,262	1,358	1,521	1,562	1,557	1,563	1,701
Ordinary Expense	778	714	644	630	679	721	720	781	797	847	767	858	854	929	978	865	997	1,054	951	983
Base Earnings	▲11	▲35	▲1	65	93	214	261	168	96	76	258	225	271	333	380	656	564	502	612	717

(Note) As preliminary figures, the「Management fee (Net)」is calculated by multiplying the management fee rate (after the deduction of commission paid) and the average AUM for the period.

B/S Overview（1）

（Unit：MM JPY）



Expeditiously utilize cash in hand for further business expansions, etc.

Mainly seed money to funds that the company manages

Equity Ratio

72.3%

B/S Overview (2)

(Units: MM JPY)	Mar. 2016	Dec. 2016	YoY change
Current assets	16,921	15,598	▲1,323
Cash and cash equivalents	13,070	10,947	▲2,122
Securities	494	10	▲484
Receivables	1,838	3,174	+1,336
Fixed assets	3,758	5,008	+1,249
Tangible fixed assets	50	1,002	+952
Investment securities	3,335	3,591	+256
Total assets	20,680	20,606	▲73
Current portion of long-term loans payable	3,000	–	▲3,000
Long-term loans payable	–	3,000	+3,000
Payables	1,465	622	▲843
Provision for bonuses	–	432	+432
Total liabilities	4,946	4,251	▲695
Common stock	8,575	8,578	+3
Add'l paid-in-capital	4,108	4,109	+1
Retained earnings	3,972	4,819	+846
Treasury stock	▲3,501	▲3,701	▲199
Total Shareholder's Equity	13,154	13,805	+651
Valuation difference on AFS securities	▲63	▲59	+3
Foreign currency translation adjustment	1,163	1,153	▲10
Non-controlling interests	1,453	1,440	▲12
Total net assets	15,733	16,355	+621

Payment of dividend, bonus and others, recorded as accrued expenses in the previous fiscal year.

Breakdown of current portion of long-term loans payables is as follows:
1,500MM JPY Rate：1.365%
1,500MM JPY Rate：1.396%
Paid off in October 2016

New long-term loans payable
3,000MM JPY Rate : 0.78799%
Due : September 2021

Payment of dividend：▲815MM JPY
Profit attributable to owners of parent : ＋1,662MM JPY

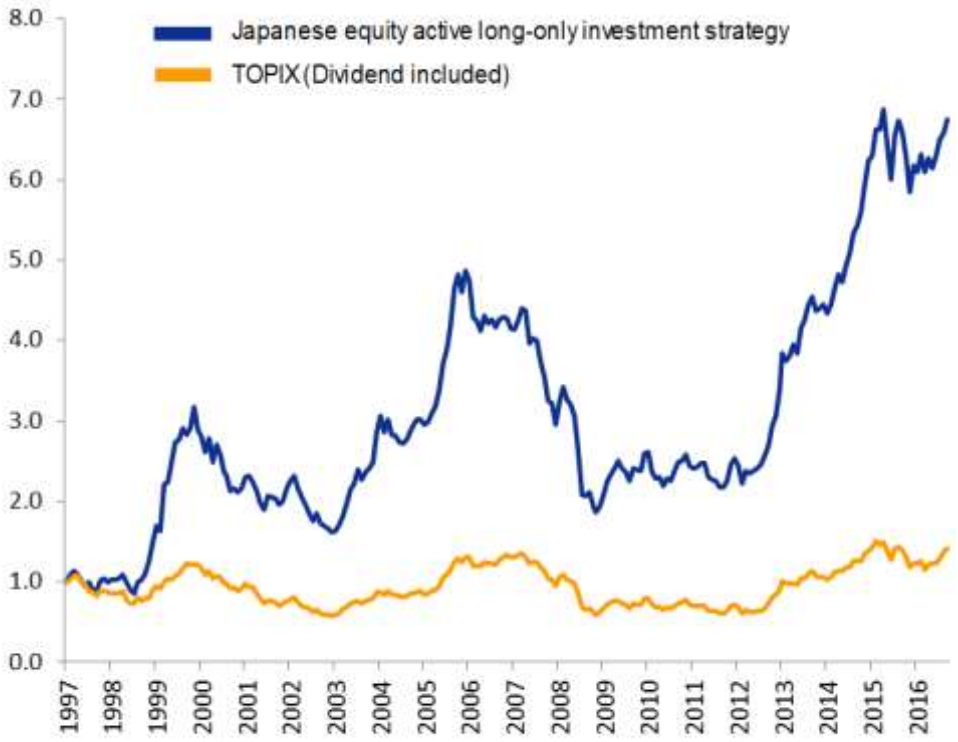
Stock repurchase 199MM JPY

(Note1) Figures above are truncated.
(Note2) Investment securities include the seed money of SPARX Group funds.
(Note3) Operating revenue is simply applied to “(Simplified) operating cash flow”.

Annualized Performance by Strategy Since Inception ①

※ Category of investment strategy in this slide is not completely match with IR information in previous slides .

Japanese equity active long-only investment strategy

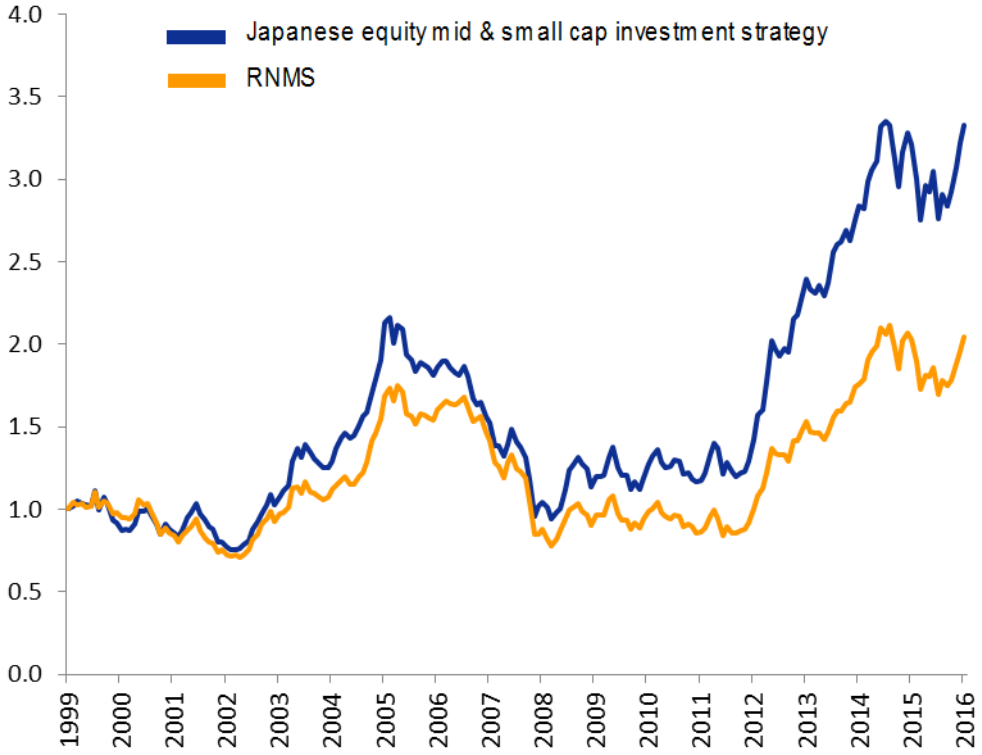


(Annualized Return)

Japanese equity active long-only investment strategy	10.19%
Reference Index	1.76%
Excess Return	8.44%

Reference Index	TOPIX (Dividend included)
Measurement Period	1997/5 ～2016/12
Volatility of Composite Return (Annualized)	21.17%

Japanese equity mid & small cap investment strategy



(Annualized Return)

Japanese equity mid & small cap investment strategy	7.32%
Reference Index	4.31%
Excess Return	3.02%

Reference Index	Russell/Nomura Mid-Small Cap Index
Measurement Period	2000/1 ～2016/12
Volatility of Composite Return (Annualized)	18.14%

Please refer to the disclaimers at the end of the slides.

Source: SPARX Group Co., Ltd (Tokyo, Japan), as of December 31, 2016.

Annualized Performance by Strategy Since Inception ②

※ Category of investment strategy in this slide is not completely match with IR information in previous slides .

Japanese equity long-short investment strategy

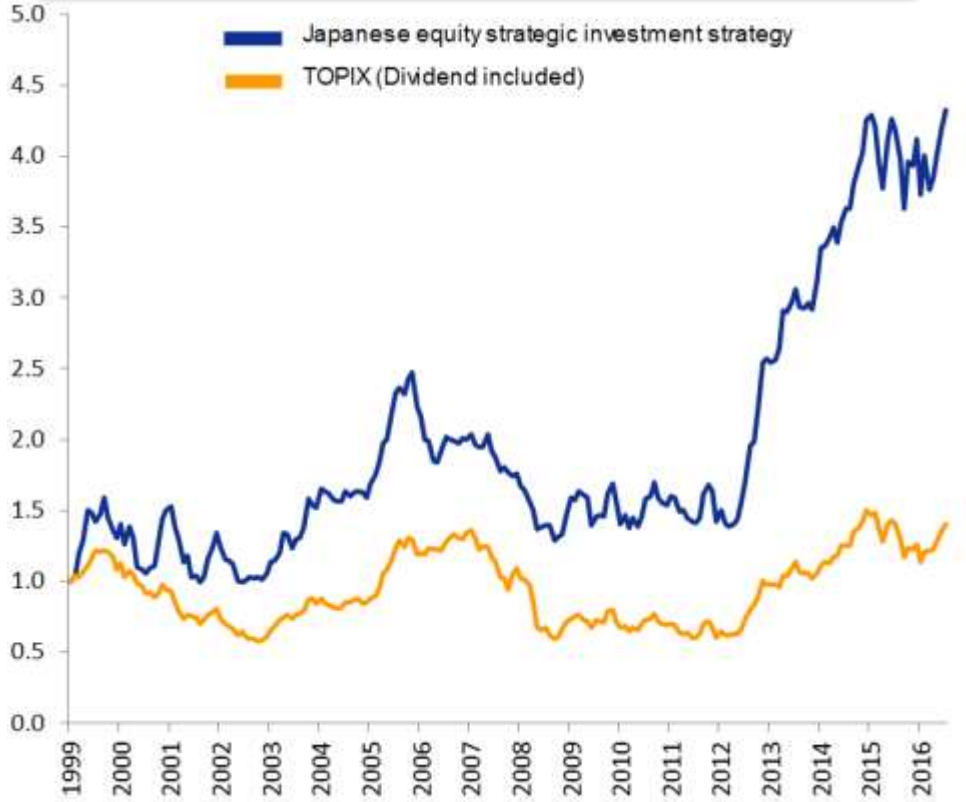


(Annualized Return)

Japanese equity long-short investment strategy	3.68%
Reference Index	1.59%
Excess Return	2.09%

Reference Index	TOPIX (Dividend included)
Measurement Period	2000/6 ～2016/12
Volatility of Composite Return (Annualized)	7.42%

Japanese equity strategic investment strategy



(Annualized Return)

Japanese equity strategic investment strategy	8.73%
Reference Index	1.97%
Excess Return	6.77%

Reference Index	TOPIX (Dividend included)
Measurement Period	1999/7 ～2016/12
Volatility of Composite Return (Annualized)	20.55%

Please refer to the disclaimers at the end of the slides.

Source: SPARX Group Co., Ltd (Tokyo, Japan), as of December 31, 2016.

Invested Companies by Mirai Creation Fund (at the end of December 2016)

＜Excerpt＞

Category	Company Name	Features
AI	Xevo Inc. (prev. UIEvolution, Inc.)	Develops middle ware smoothly accessible UX (user experience) from vehicles, hotels and luxury liner.
AI	SORACOM,Inc.	Provides secured network at low costs to accessing IoT devices.
AI	Getaround	A venture develops car sharing system “The AirbnB for car rental” Establishes a strategic relationship in Toyota “connected vehicle” project.
AI	freee, K.K.	The Japan’s leading market share company in the area of cloud accounting and payroll software.
Robotics	GROOVE X, Inc.	Aims to create a global standardized home robot by utilizing experiences via developing Pepper .
Robotics	Kymeta Corporation	Technology of satellite antenna which will realize high data capacity and high-bandwidth connected mobility.
Robotics	3D MEDiA Co., Ltd.	Contributing to industrial robots’ intelligence by providing function of eye and brain.
Robotics	WHILL Inc.	Develops, produces and sells high end e-wheelchairs complex of hardware and software.
Hydrogen	Exergy Power System Co., Ltd.	Has unique technology on hybrid-hydrogen batteries and hydrogen production.
FOF	Core Ventures Group Fund II, L.P.	Venture capital specializes investing in startup businesses, gateway to Silicon Valley.

Corporate Profile

Company Name	SPARX Group Co., Ltd.
President	President & CEO Shuhei Abe
Location	1-2-70 Konan, Minato-ku, Tokyo, JAPAN
Establishment	July 1, 1989
Capital	8,578 million Yen （as of Dec.2016）
Number of Employees	134 （as of Dec.2016）
Listed Market	JASDAQ Standard Market, Tokyo Stock Exchange
Ticker	8739



President & CEO Shuhei Abe

1954 Born in Sapporo, Hokkaido, Japan
1978 Graduated Sophia University faculty of economics
1980 Acquired an MBA from Babson College
Joined Nomura Research Institute, Ltd.
Engaged in researching individual firms of Japanese equity as an analyst
1982 Seconded to Nomura Securities International, Inc. (NY) and engaged in sale of Japanese equity for US institutional investors
1985 Established Abe Capital Research (NY)
Engaged in asset management and advisory business of Japanese equity in US dollars such quantum fund asset management of US individual asset holders
1989 After came back to Japan, established SPARX investment advisor (SPARX Group., Ltd.) and in charge of President and CEO (present)
2005 Acquired an AMP from Harvard Business School
2011 Assumed one of the Cost Estimation and Review Committee members of the Energy and Environment Council established by the Japanese Government
2012 Assumed one of the Demand and Supply Review Committee members established by the Japanese Government
2012 Assumed one of the Risk Advisory Committee members established by the Japan Bank for International Cooperation

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

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SPARX Group Co., Ltd.
Shinagawa Season Terrace 6F 1-2-70, Konan,
Minato-ku, Tokyo, 108-0075, Japan
Tel: +81-(0)3-6711-9100