

Consolidated Financial Results for the 3rd Qtr of the FY2018 (Apr. 2018 – Dec. 2018)

February 8th, 2019



SPARX Group Co., Ltd.

<https://www.sparxgroup.com/>



Mission

**To make the world
“Wealthier, Healthier and Happier”**

Vision

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

Financial Results for the 3rd Qtr of the FY2018

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

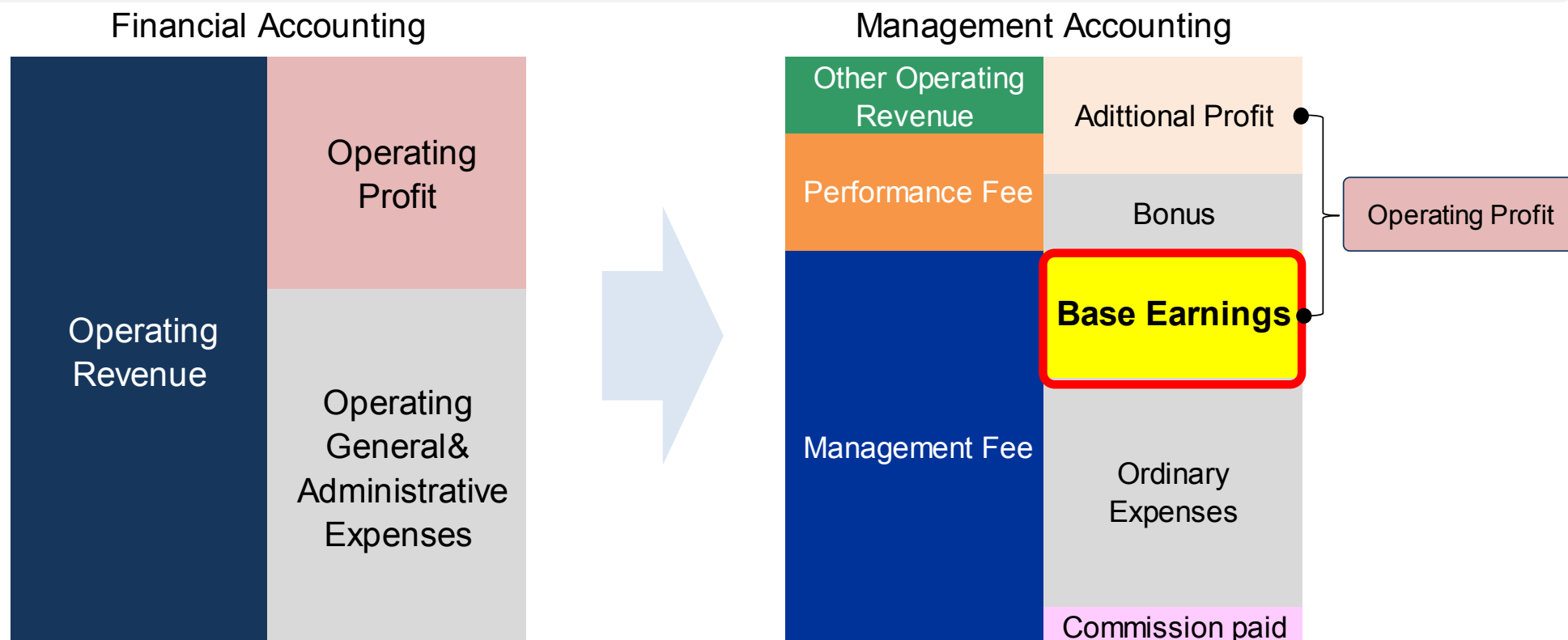


The Company identifies “**Base Earnings**” as the most important financial indicator. “Base Earnings” indicates the sustained and stable fundamental profitability of the Company.

Base Earnings = (Management Fee – Commission Paid) – Ordinary Expenses

= Management Fee (After the Deduction of Commission Paid) – Ordinary Expenses

The operating profit for financial accounting purposes includes one-off/ additional performance fees that can be affected by trends of the equity market and progress of real assets investment business. For this reason we recommend you to pay attention to “Base Earnings” to understand the earning strength.



(Note) “Company” means SPARX Group Co., Ltd. and its consolidated subsidiaries. Hereinafter the same.

Overview (1) Performance



The Base Earnings, which indicate the sustained and stable fundamental profitability of the Company, arose by 10.2%.

Operating profit decreased by 44.2% due to a significant decline of the performance fee.

(Unit:MM JPY)	FY2017	FY2018	YoY change
	Apr2017-Dec2017	Apr2018-Dec2018	
Operating revenue	10,088	8,077	▲19.9%
Operating profit	5,026	2,803	▲44.2%
Net income	3,663	2,247	▲38.7%
Base earnings	2,324	2,561	+10.2%

(Note) Please refer slide 4, 6, 28 and 34 for details of base earnings.

Overview (2) Performance



		FY2017		FY2018	
		Apr2017-Dec2017	Full Year	Apr2018-Dec2018	YoY change
Average AUM	(100MM JPY)	10,804	10,937	11,473	+6.2%
Management fee rate	(%)	0.67%	0.68%	0.71%	+0.04
(After the deduction of commission paid)					
Management fee	(MM JPY)	5,454	7,408	6,102	+11.9%
(After the deduction of commission paid)					
▲ Ordinary expenses	(MM JPY)	3,129	4,238	3,541	+13.2%
Base earnings	(MM JPY)	2,324	3,169	2,561	+10.2%
Performance fee	(MM JPY)	3,680	4,476	639	▲ 82.6%
Percentage of AUM eligible to earn performance fee	(%)	32.1%	25.4%	30.1%	▲ 2.1
Other operating revenue	(MM JPY)	139	182	88	▲ 37.1%
▲ Bonus (including ESOP Expense)	(MM JPY)	1,109	1,257	483	▲ 56.4%
Operating profit	(MM JPY)	5,026	6,569	2,803	▲ 44.2%
Profit attributable to owners of parent	(MM JPY)	3,663	4,681	2,247	▲ 38.7%
ROE	(%)	28.3%	26.6%	15.4%	▲ 12.9

(Note1) Management Fee includes fees from power plants related to Japanese Renewable Energy Investment Strategy. Hereinafter the same.

(Note2) Performance Fee includes one-off administrative fees the Company received from funds for real estate sales and purchases related to Japanese Real Estate Investment Strategy and one-off acquisition fees for setting up of power plant schemes related to Japanese Renewable Energy Investment Strategy. Hereinafter the same.

Overview (3) AUM



In the Japanese region, AUM remained JPY 1.1 trillion, due to continuous cash inflow, although the Japanese equity market declined.

(Unit:100MM JPY)	AUM			Average AUM (Nine months)		
	As of March, 2018	As of December, 2018	Change (%)	FY2017	FY2018	YoY change (%)
Japan	10,957	11,065	+1.0%	9,351	11,100	+18.7%
Korea	195	183	▲ 17.9%	1,355	178	▲ 86.8%
Asia	99	217	+119.5%	97	194	+100.0%
Total	11,252	11,443	+1.7%	10,804	11,473	+6.2%

	As of December, 2017	As of March, 2018	As of December, 2018	YoY change
TOPIX	1,817	1,716	1,494	▲ 17.8%
NIKKEI stock average (JPY)	22,764	21,454	20,014	▲ 12.1%
KOSPI	2,467	2,445	2,041	▲ 17.3%

※ Please refer to “SPARX Group Announces Assets Under Management for December 2018” for further information.

<https://ssl4.eir-parts.net/doc/8739/tdnet/1662213/00.pdf>

Progress of the Businesses and Future Plans

Recent Business Progress



Japanese Equity

There was a large redemption of Japanese Equity Clean Tech Strategy in February 2019. However, the influence of the redemption is considered as limited for consolidated results because of its relatively low management fee rate.

OneAsia

The Company launched two publicly offered investment trusts as results of generating investment intelligence across each location.

Real Asset

Mirai Renewable Energy Fund (approx. JPY 30 billion) has started since November 2018.

Mirai Creation

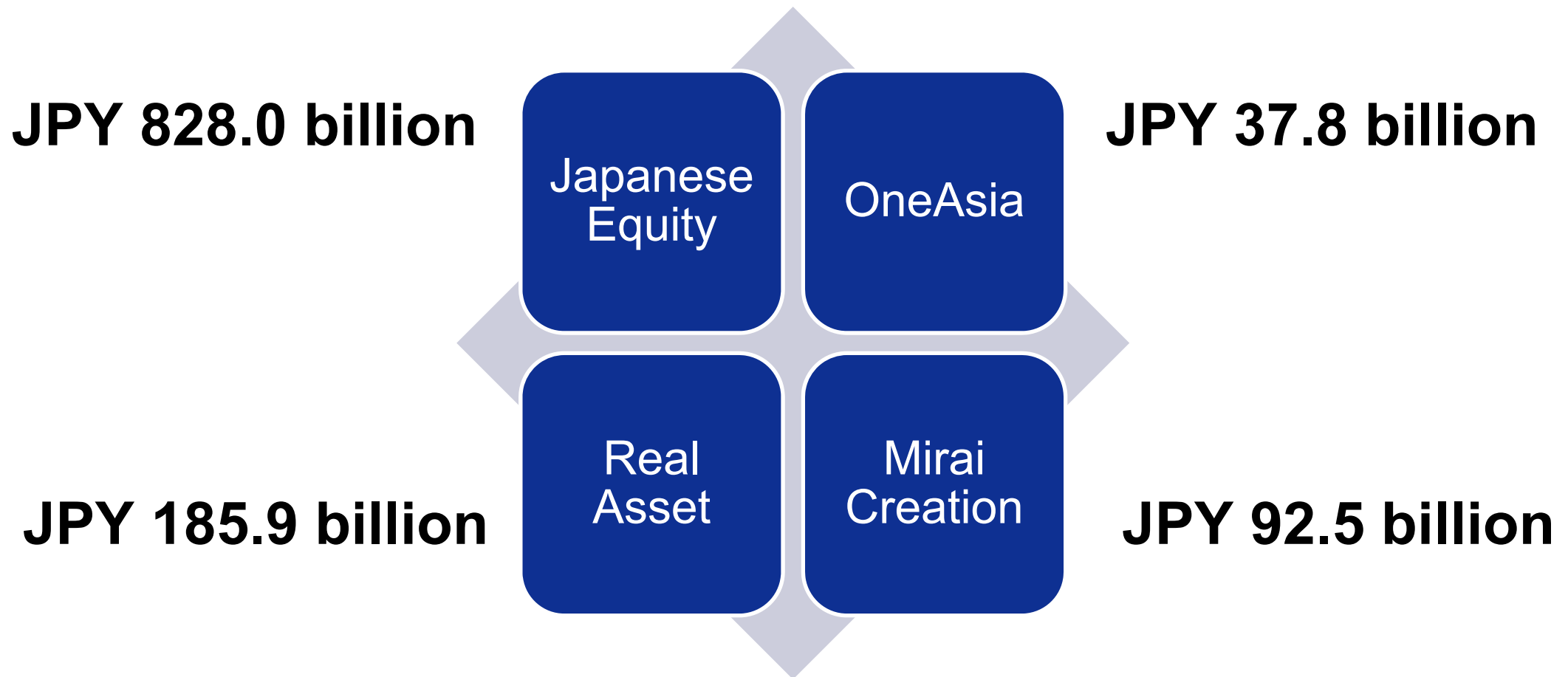
Total AUM of Mirai Creation Fund I and II reached JPY 92.5 billion (at the end of January 2019) due to the steady expansion of Mirai Creation Fund II's AUM.

4 Main Investments for Growth Realization:

Hybrid of High Profitability and Stability



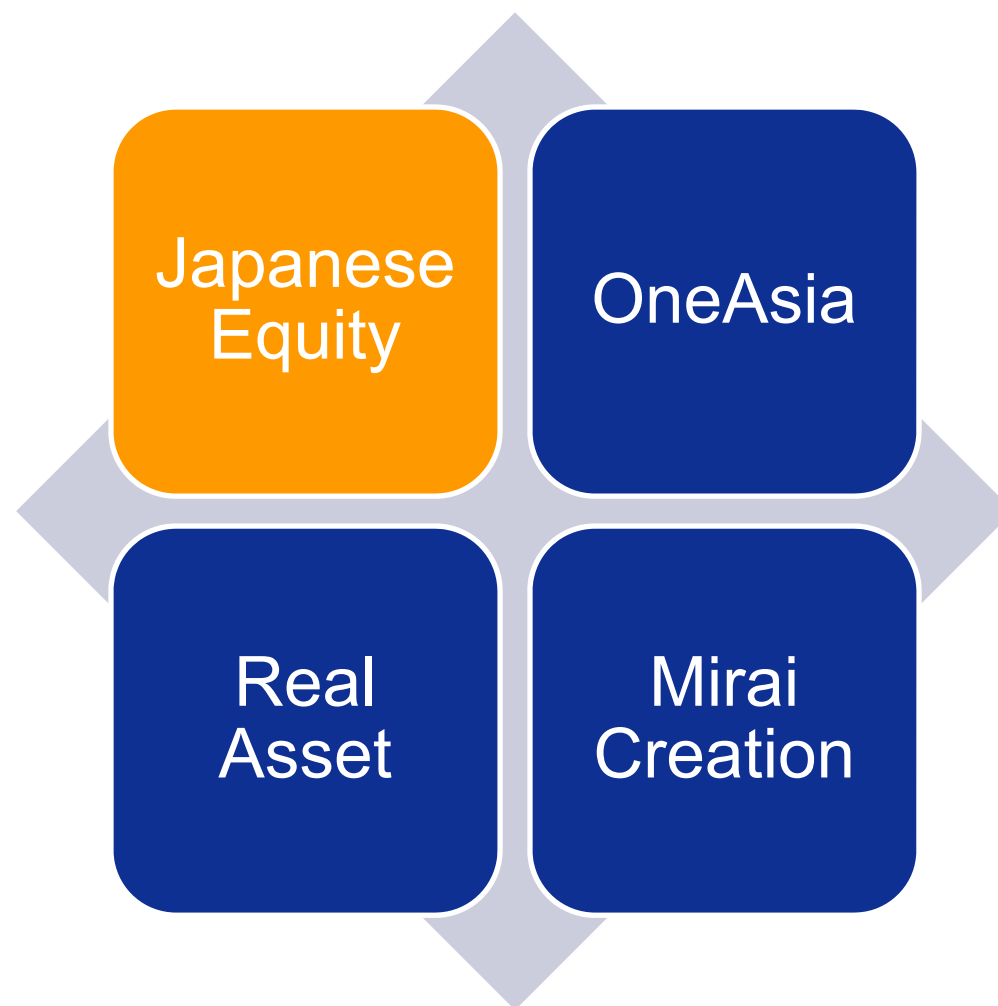
High Profitability : a large scale of profit (performance fees) can be generated depending on fund performance.



Stability : a stable revenue will be expected due to long term contracts without redemptions.

① Japanese Equity Investment Strategy

(AUM as at the end of December 2018 : JPY 828.0 billion)



Japanese Equity Investment Strategy : AUM by Strategies



- AUM steadily rose due to an increase in cash inflow of investment trusts despite the influence of a redemption in May 2018 and the decrease in market value.
- AUM of Japanese Equity Market Neutral Investment Strategy which started operation in this FY steadily rose, and continually performed, despite challenging market conditions.

(Unit : 100million JPY)	AUM			
	Mar. 2018	Dec. 2018	Change	Change (%)
Japanese Equity Long-Short Strategy	367	444	+77	21.0%
Japanese Equity Focus All Cap Strategy	4,231	4,396	+165	3.9%
Japanese Equity Mid & Small Cap Strategy	2,724	1,997	▲ 727	▲ 26.7%
Japanese Equity Clean Tech. Strategy	1,021	616	▲ 405	▲ 39.7%
Value Creation/Engagement Strategy	135	106	▲ 29	▲ 21.5%
Japanese Equity Market Neutral Strategy	-	337	+337	-
Japanese Equity Sustainable Strategy	178	382	+204	114.8%
Others	5	0	▲ 5	▲ 100.0%
Total	8,664	8,280	▲ 384	▲ 4.4%

Proposal to TEIKOKU SEN-I^(Note) for Second Consecutive Year through the Fund of Value Creation / Engagement Strategy



TEIKOKU SEN-I operates an excellent business, however its inefficient capital allocation is notably diminishing its corporate value.



Proposal1 Election of an Outside Directors

Appoint Katsuya Natori
as an outside director.



Improve the corporate
governance

Proposal2 Increase Dividends from Retained Earnings

Increase year-end dividend
up to JPY 95 per share
from JPY 35 per share



- Improve the inefficient capital allocation
- require dividends at a level sufficient to rein in the growth of cash equivalents.



Proposal3 Shorten the term of office for board members

Shorten the term of office
for board members from
"up to two years from appointment"
to "up to one year from appointment"



Establish a structure which
incorporates shareholders'
perspectives into their decision-
making process by increasing the
opportunities for approval by
shareholders.

**Intend to continue to engage with TEIKOKU SEN-I in order to increase corporate value
and solve unreasonable excess of internal reserves.**

Please refer below press release for further information.

(Reference) <https://ssl4.eir-parts.net/doc/8739/tdnet/1664135/00.pdf>

(Note) TEIKOKU SEN-I is the abbreviation for TEIKOKU SEN-I Co., Ltd.

Received Morningstar Award “Fund of the Year 2018”



Domestic Stock Fund Division **Fund of the Year 2018**

SPARX M&S JAPAN FUND
("Hanasaku Chukogata")

(Reference) <https://ssl4.eir-parts.net/doc/8739/tdnet/1668596/00.pdf>

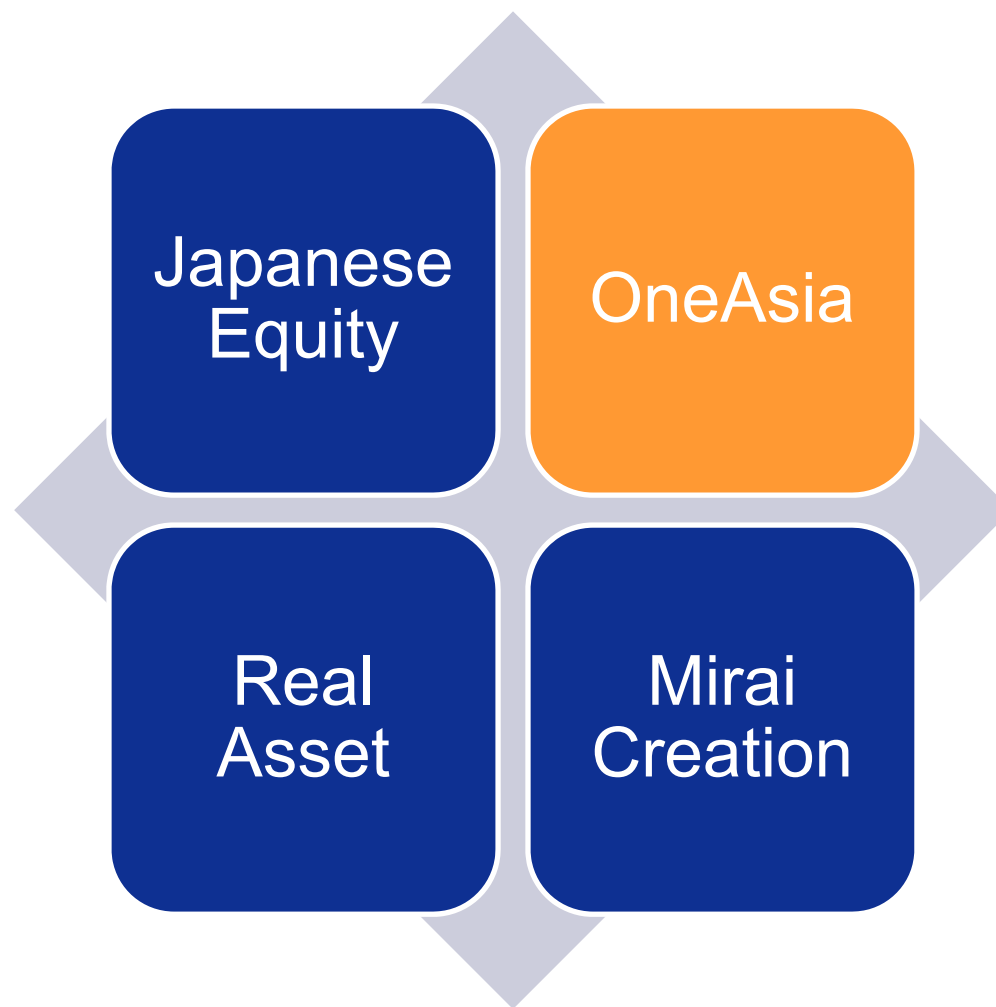
References to any specific securities do not constitute an offer to buy or sell securities. Those awarded funds based upon the past performance cannot guarantee their future performance. Data or statements are obtained from sources Morningstar Japan K.K believed to be reliable but are not guaranteed 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 2018” 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 871 funds at the end of December 2018.

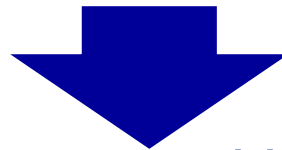
②OneAsia Investment Strategy

(AUM at the end of December 2018: JPY 37.8 billion)

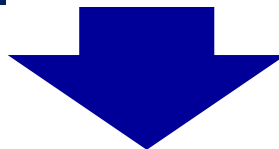


Outcome of generating investment intelligence

Fund managers in Tokyo and those in South Korea and Hong Kong have been enhancing investments in Asian region by sharing their investment intelligence. The managers started projects to develop products by sharing their ideas across each location and to lead the successful launching.



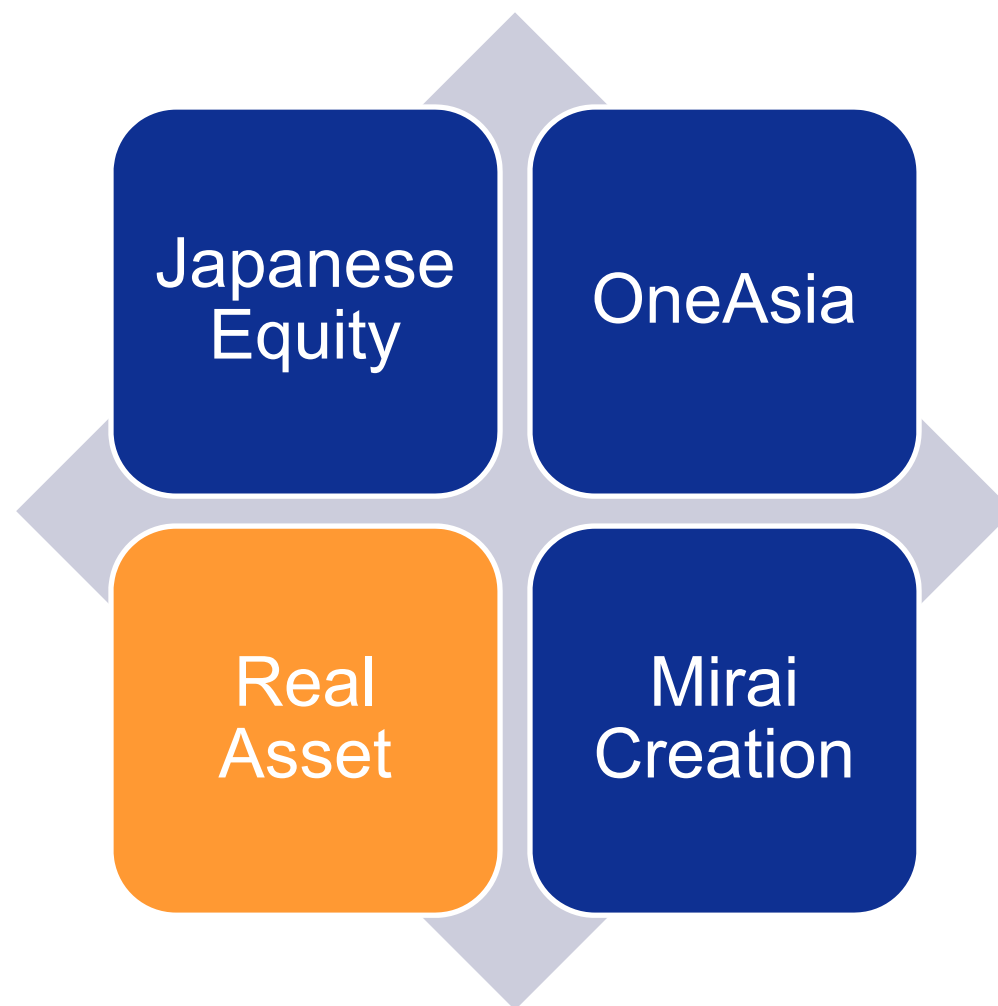
Publicly offered investment trust with investments into dedicated companies in South Korea, started being handled by Tokai Tokyo Securities Co., Ltd., subsequent to the publicly offered investment trust distributed by Mito Securities Co., Ltd., which focuses on Asian equity market including Japan.



The Company aims at a full-fledged expansion of the OneAsia strategy's AUM, encouraged by using these new investment trusts.

③ Real Asset Investment Strategy

(AUM at the end of December 2018: JPY 185.9 billion)



Investment in Renewable Energy Generating Facilities (1)






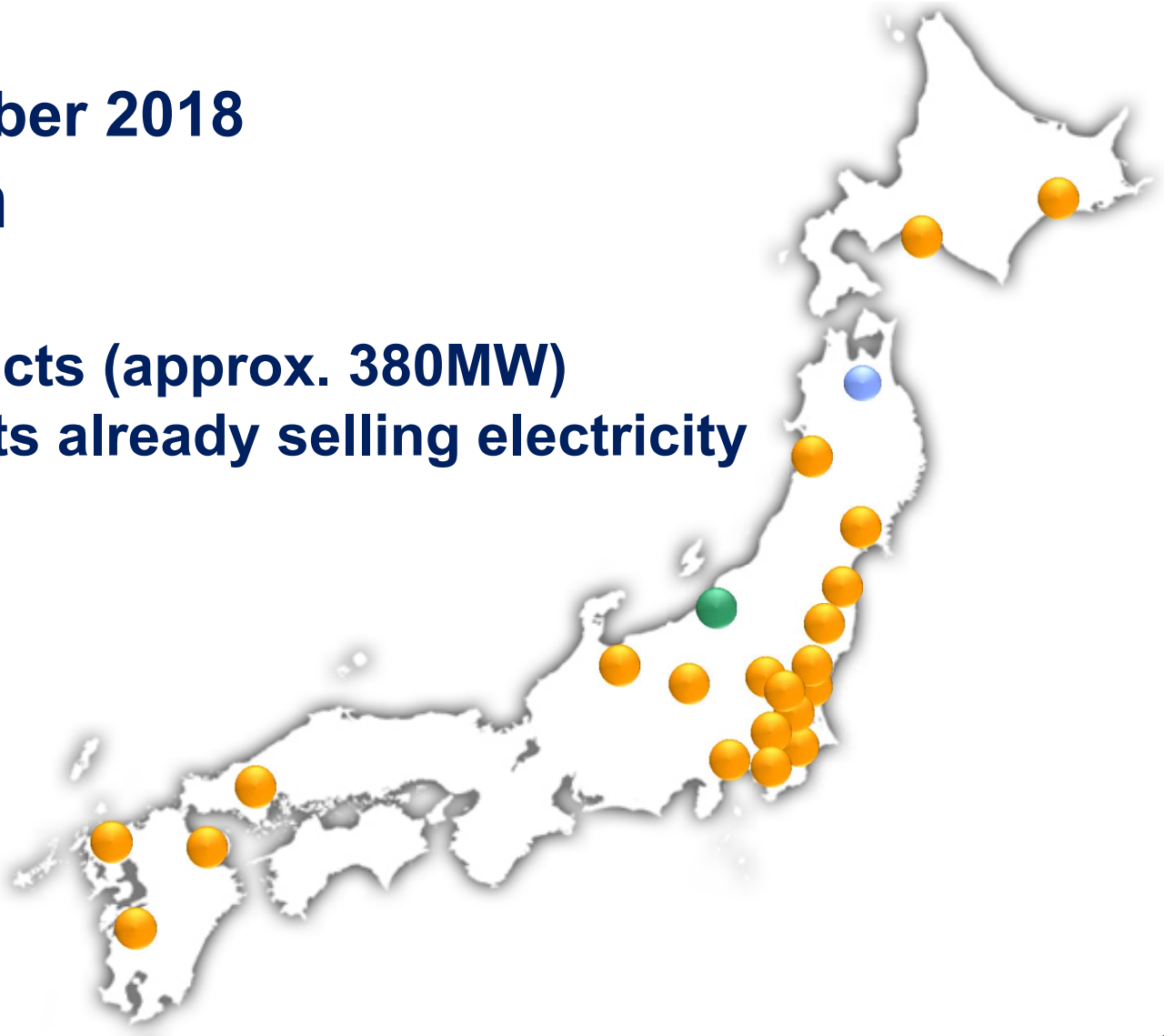
■ AUM

At the end of December 2018

JPY 152.8 billion

- Invested in 24 projects (approx. 380MW)
Including 19 projects already selling electricity (approx. 200MW)

-  Solar Power Station
-  Wind Power Station
-  Biomass Power Station



Investment in Renewable Energy Generating Facilities (2)



Operation of “Mirai Renewable Energy Fund” began from November 1st, 2018.

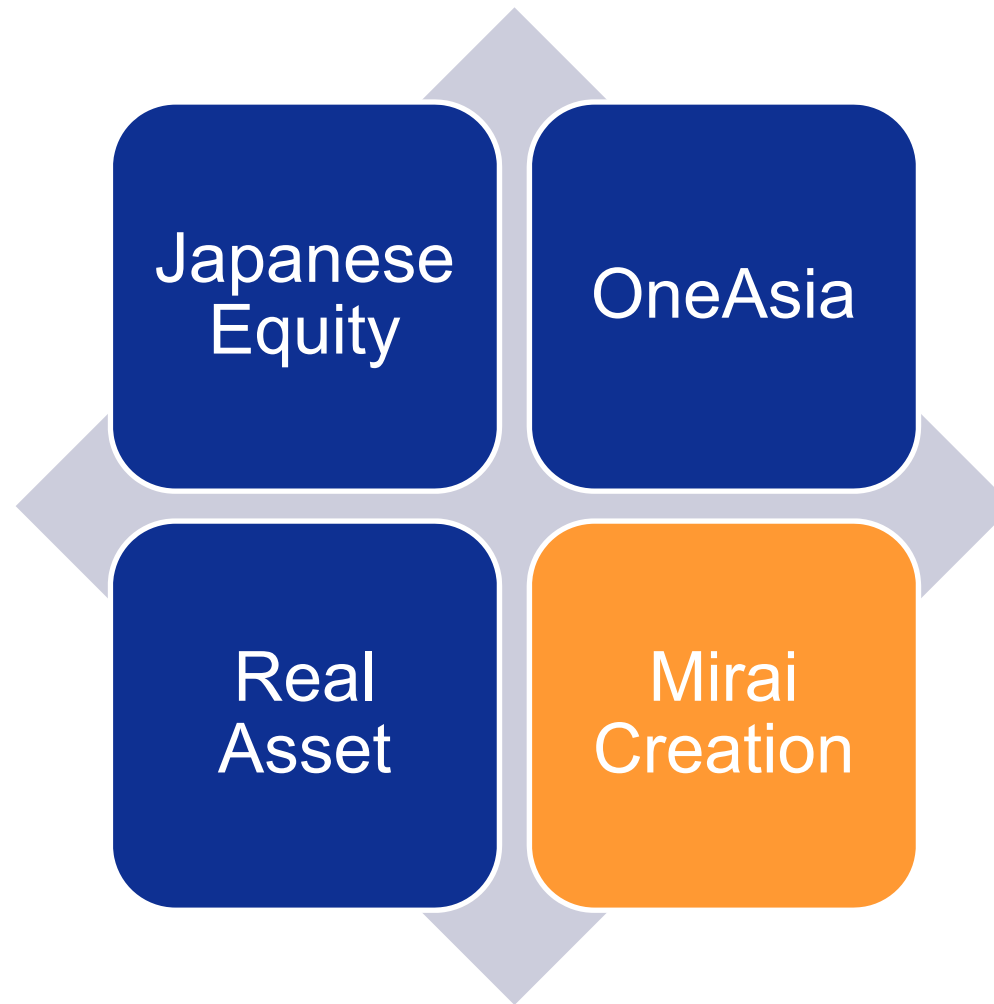
Toyota Motor Corporation participates as an investor.

Basic Principle	"Driving renewable energy growth and use throughout Japan"
Fund Name	Mirai Renewable Energy Investment Limited Partnership
Investment Targets	Domestic new renewable energy power facilities (power sources: solar, wind, biomass, geothermal, and hydraulic)
Investors	GP:SPARX Group Co., Ltd. LP:Toyota Motor Corporation, CHUBU Electric Power Co.,Inc., Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd.

**Expanded the fund size
to approx. JPY30.0 billion
at the end of December 2018**

④ Mirai Creation Investment Strategy

(AUM at the end of December 2018: JPY 92.5 billion)

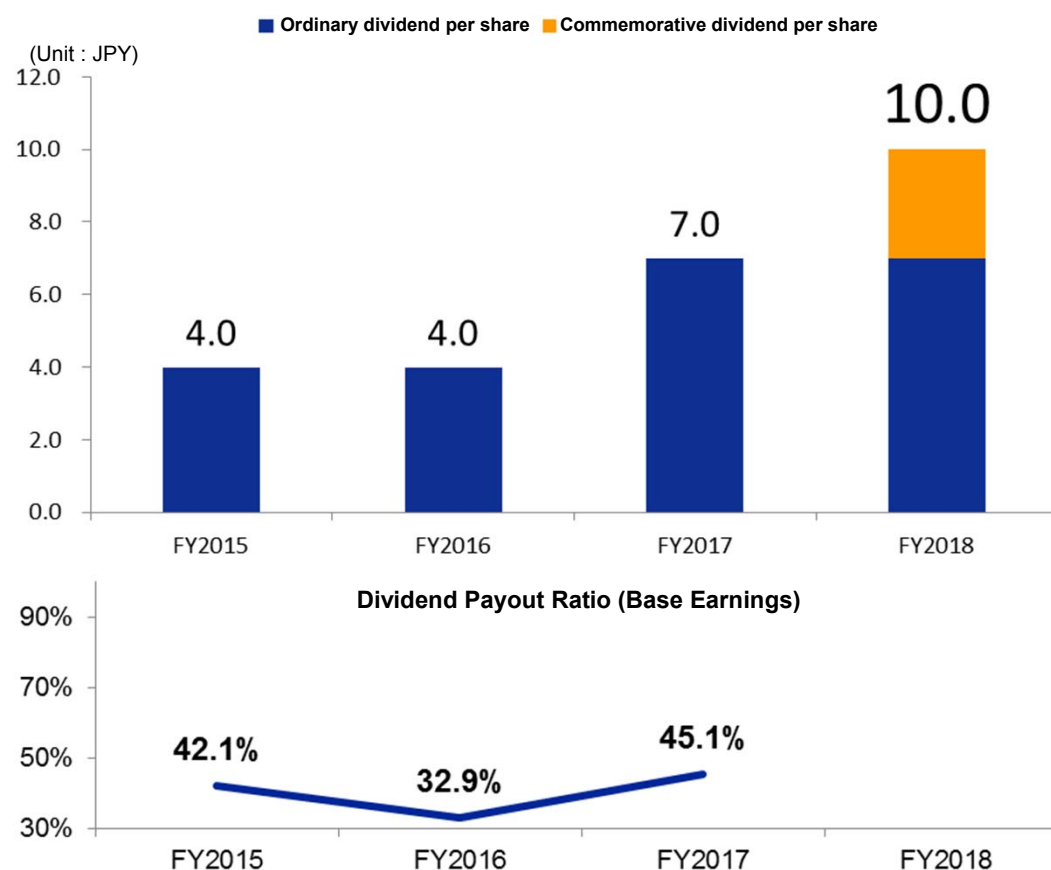


Other

Shareholders Return



30th anniversary commemorative dividend per share scheduled to be 3.00 yen in addition to ordinary dividend of 7.00 yen per share by considering the continuously robust financial condition, increase in the Base Earnings, and so on. (Note 1)



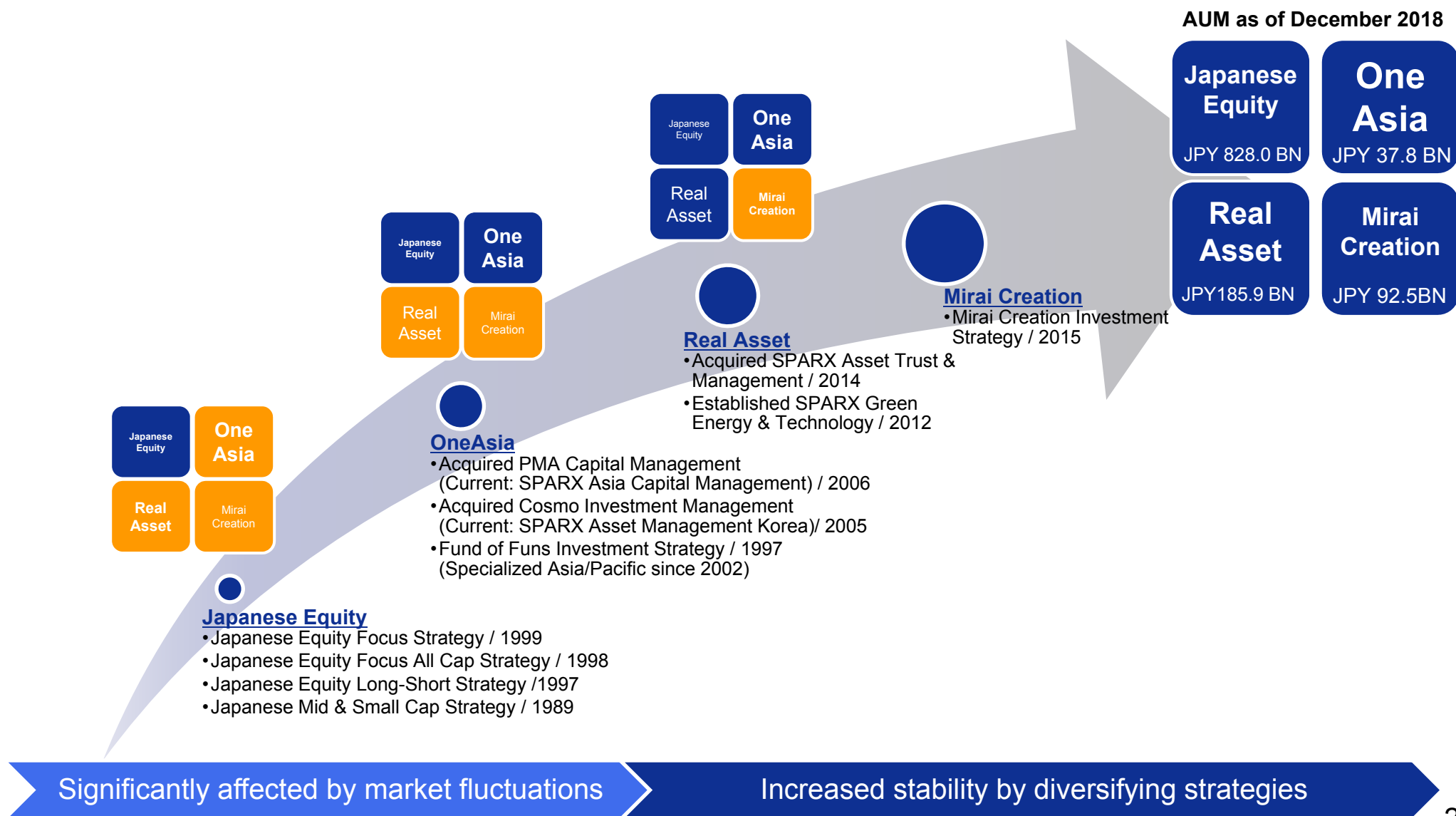
(Note 1) Dividend will be officially decided and implemented upon the resolution of the 30th Ordinary General Meeting of Shareholders to be held in June 2019.

(Note 2) Dividend Payout Ratio (Base Earnings)= Total amount of dividends ÷ Base Earnings

<Reference> Hybrid Business Model



Hybrid model composed of strategies:
Highly profitable Japanese Equity and stable Real Asset / Mirai Creation



Inherits investment philosophy of SPARX through Internal Study Sessions, “Buffett Club”



What's Buffett Club

Through sessions, SPARX employees share values of making clients wealthier, healthier and happier as “the Most Trusted and Respected Investment Company in the World” by analyzing and discussing investment philosophies including a prominent investor, Warren Buffett.



Sessions have been carried on periodically since SPARX established and investment philosophy of SPARX has been inherited to next generations.



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	8,585 million Yen (as of Dec. 2018)
Number of Employees	158 (as of Dec. 2018)
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

Appendix

<Reference> Revenue Structure and Important Management Indicator



Business that receiving fees at fixed rate of AUM

■ Revenue Structure

Management Fees = AUM × rate of management fees

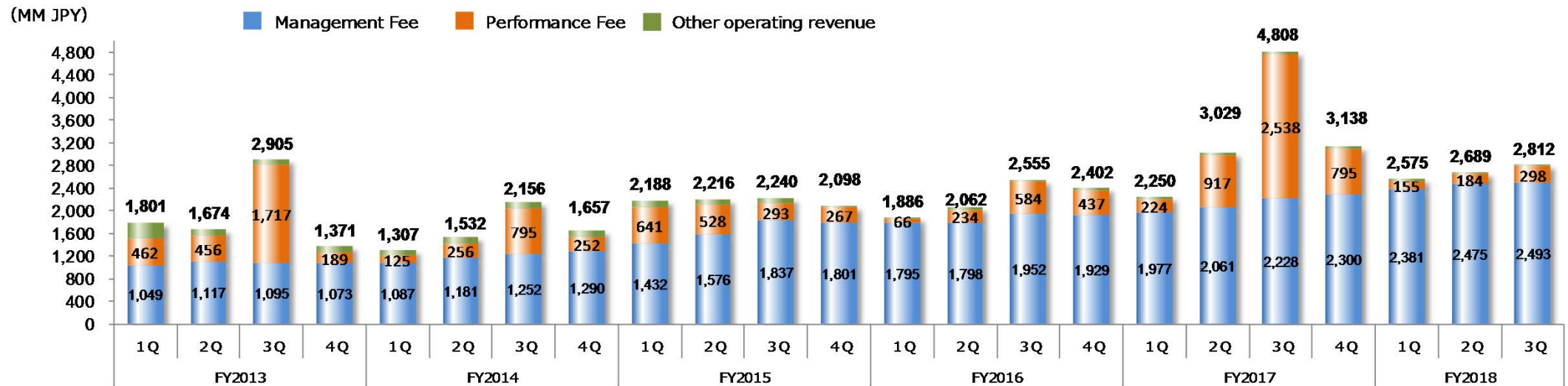
Performance Fees = AUM × percentage of AUM eligible to earn performance fees
× rate of performance fees

■ Important Management Indicator

- Asset under management (AUM)
- Rate of management fee
- Percentage of AUM eligible to earn performance fees
- Base Earnings
= management fees (after deduction of commission paid) ▲ ordinary expenses

Quarterly Trends of Operating Revenue

Management fee has been steadily maintained due to the consistent high management fee rate



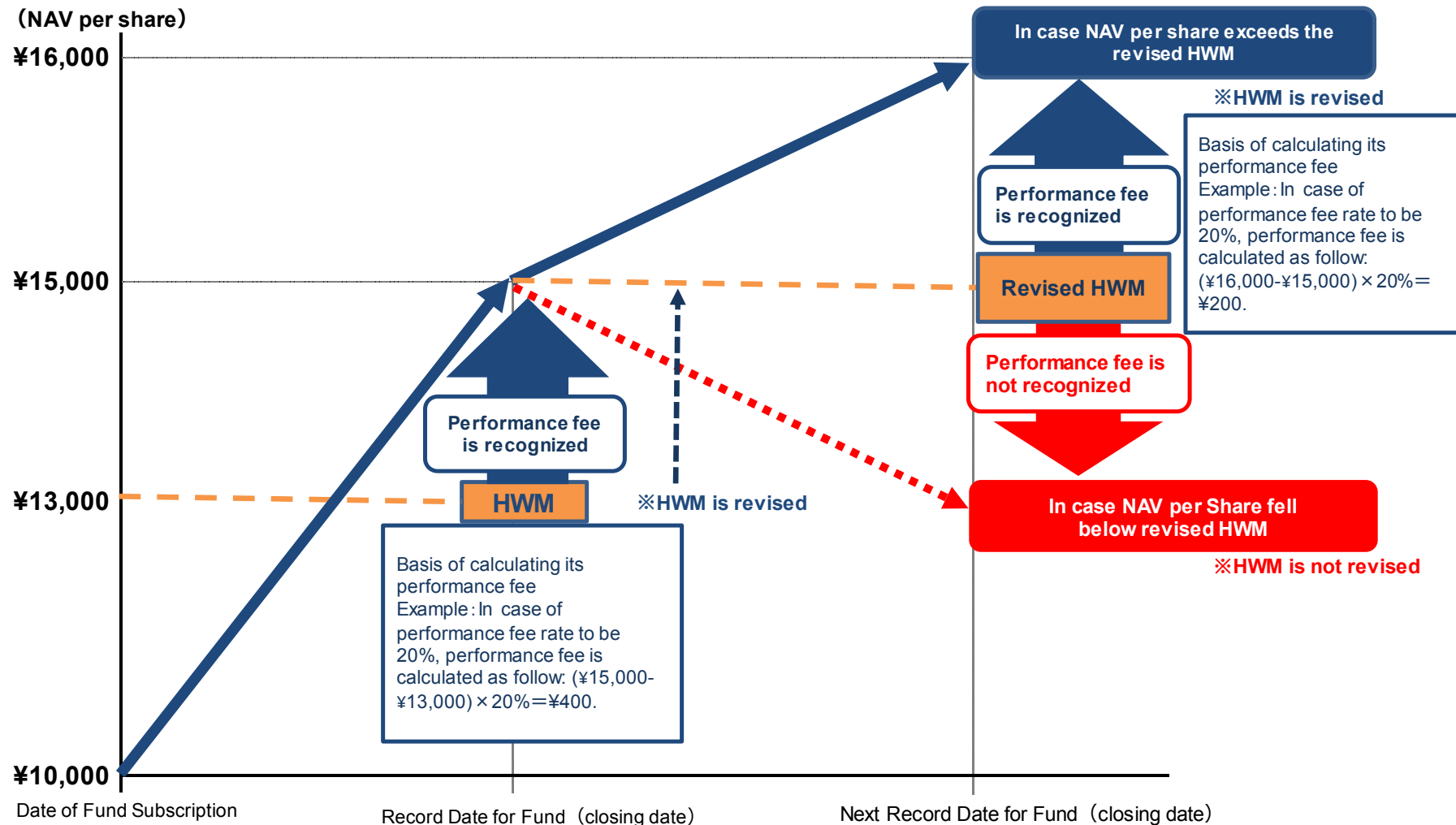
(MM JPY)	FY2013				FY2014				FY2015				FY2016				FY2017				FY2018		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Management Fee	1,049	1,117	1,095	1,073	1,087	1,181	1,252	1,290	1,432	1,576	1,837	1,801	1,795	1,798	1,952	1,929	1,977	2,061	2,228	2,300	2,381	2,475	2,493
Performance Fee	462	456	1,717	189	125	256	795	252	641	528	293	267	66	234	584	437	224	917	2,538	795	155	184	298
Other operating revenue	288	100	92	109	94	94	109	114	114	111	109	29	24	28	18	35	48	50	41	42	38	28	20
Operating Revenue	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	2,402	2,250	3,029	4,808	3,138	2,575	2,689	2,812
(Reference)																							
Average AUM (100MM JPY) (3months average)	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	9,631	10,018	10,627	11,773	11,339	11,310	11,510	11,598
Management fee rate (3months average) (After the deduction of commission fee)	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%	0.70%	0.68%	0.68%	0.66%	0.69%	0.71%	0.71%	0.71%
Percentage of AUM eligible to earn performance fees	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%	36.4%	35.0%	34.2%	32.1%	25.4%	27.2%	25.4%	30.1%
NIKKEI stock average (Record date)	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	18,909	20,033	20,356	22,764	21,454	22,304	24,120	20,014

Structure of Performance Fee

(Related to Equity Investment Fund)



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



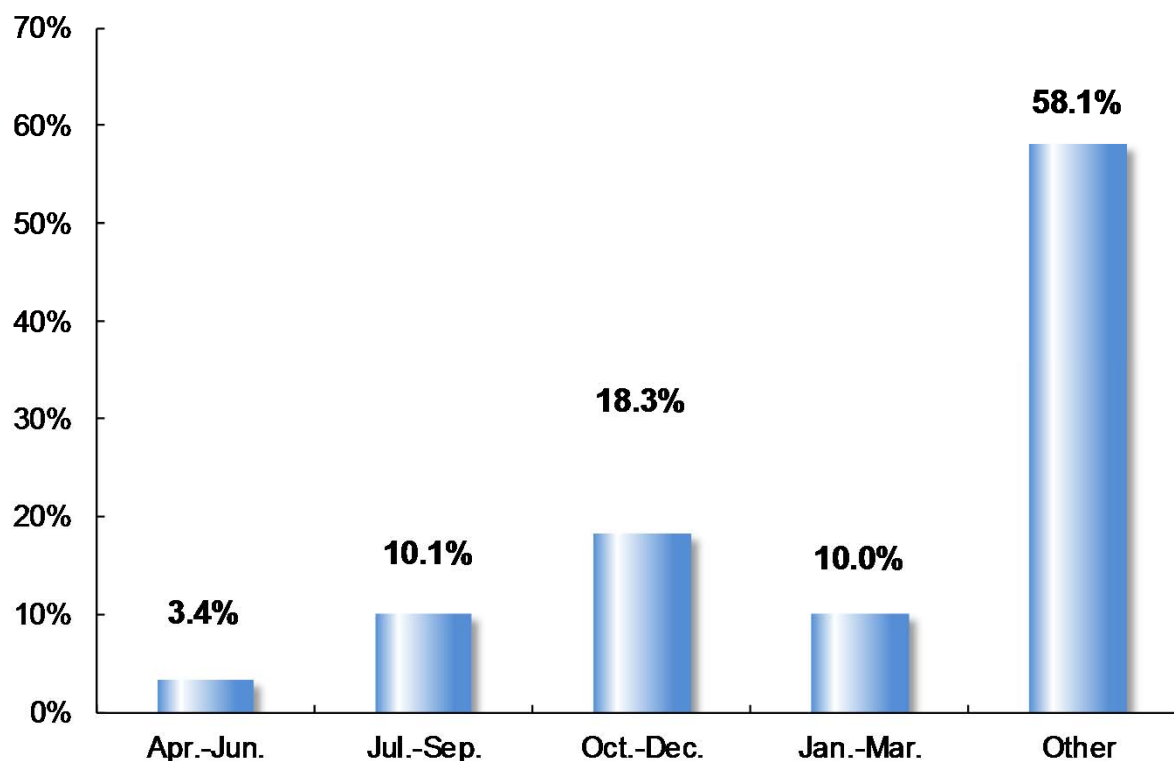
- (Note 1) The structure described above is only informational purpose on performance fee structure. It is not intended to explain exactly how the performance fee is calculated based on fund's NAV.
- (Note 2) Above uses performance fee rate of 20% (excludint tax) for informational purpose only. In addition, "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



Continuously endeavor 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 Dec 31, 2018 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) SAM is the abbreviation for SPARX Asset Management Co., Ltd. Hereinafter called the same.

Breakdown for Operating Expenses and General & Admin Expenses



Commission paid increased
due to a rise in management fee related to the investment trusts.

(Units: MM JPY)	FY2017		FY2018	
	Apr2017-Dec2017	Full Year	Apr2018-Dec2018	YoY change
Commissions paid	823	1,162	1,248	+51.6%
Personnel exp.	2,323	2,902	1,858	▲20.0%
Travel exp.	169	236	250	+48.2%
Property rent	241	321	247	+2.4%
Entrusted business expenses	640	864	768	+19.9%
Depreciation on fixed assets	111	150	123	+10.9%
Advertising exp.	109	148	81	▲25.1%
Research exp.	161	223	217	+34.3%
Other expenses	480	647	477	▲0.8%
Total: Operating and general administrative expenses	5,062	6,658	5,273	+4.2%
Ordinary expense	3,129	4,238	3,541	+13.2%

(Note1) The figures above, excluding “YoY change” are truncated. “YoY change” is rounded to the nearest tenth of a percent.

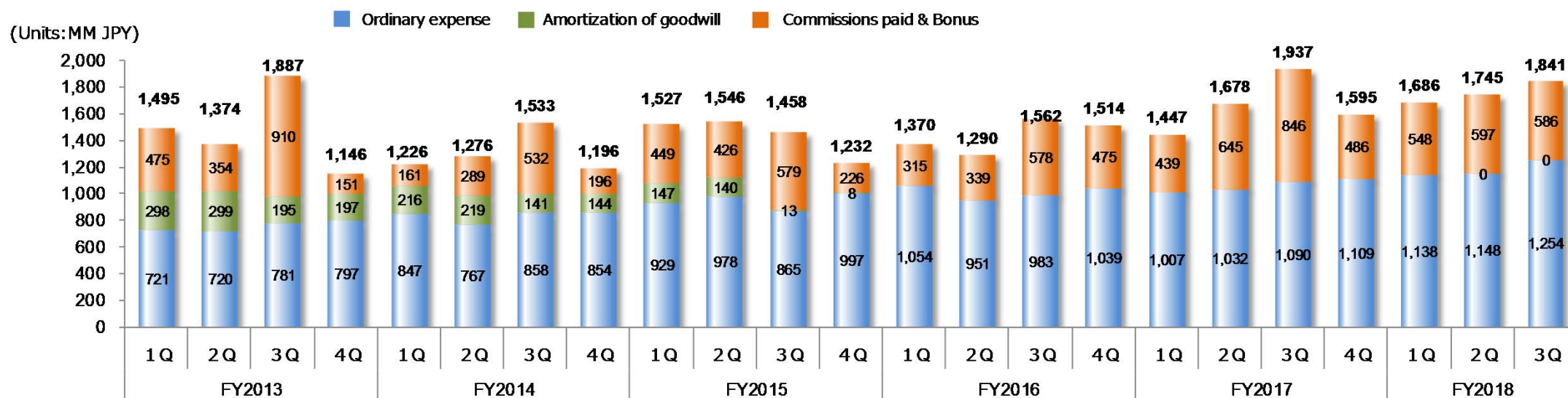
(Note2) The “Personnel expenses” data includes payments for legal welfare, bonus and temporary staff, etc. other than salary.

(Note3) The “Ordinary expenses” is calculated by deducting (1) Commissions paid, (2) Bonuses (including allowance for bonuses, legal welfare expenses related to bonuses, and ESOP expense) and (3) Severances package for key members, from total operating and general administrative expenses; hereinafter the same applies in this document.

Quarterly Trends of Operating Expenses and General & Admin Expenses



Cost-control taken continuously and cautiously,
considering the increase of ordinary expense, in the midst of business expansion

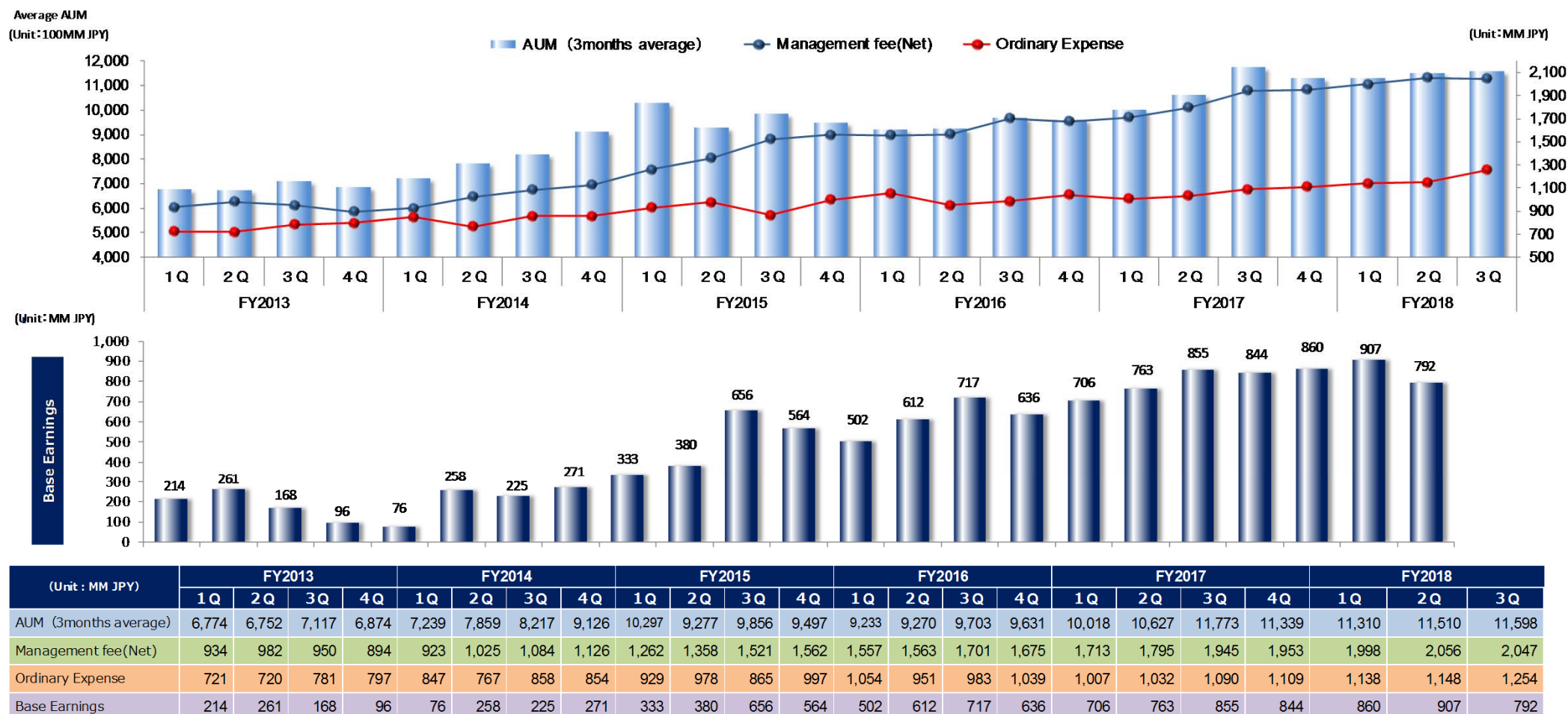


(Units : MM JPY)	FY2013				FY2014				FY2015				FY2016				FY2017				FY2018		
	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q
Ordinary expense	721	720	781	797	847	767	858	854	929	978	865	997	1,054	951	983	1,039	1,007	1,032	1,090	1,109	1,138	1,148	1,254
Amortization of goodwill	298	299	195	197	216	219	141	144	147	140	13	8	—	—	—	—	—	—	—	—	—	—	0
Commissions paid & Bonus	475	354	910	151	161	289	532	196	449	426	579	226	315	339	578	475	439	645	846	486	548	597	586
Operating and general administrative expenses	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	1,514	1,447	1,678	1,937	1,595	1,686	1,745	1,841

Quarterly Trends of Base Earnings

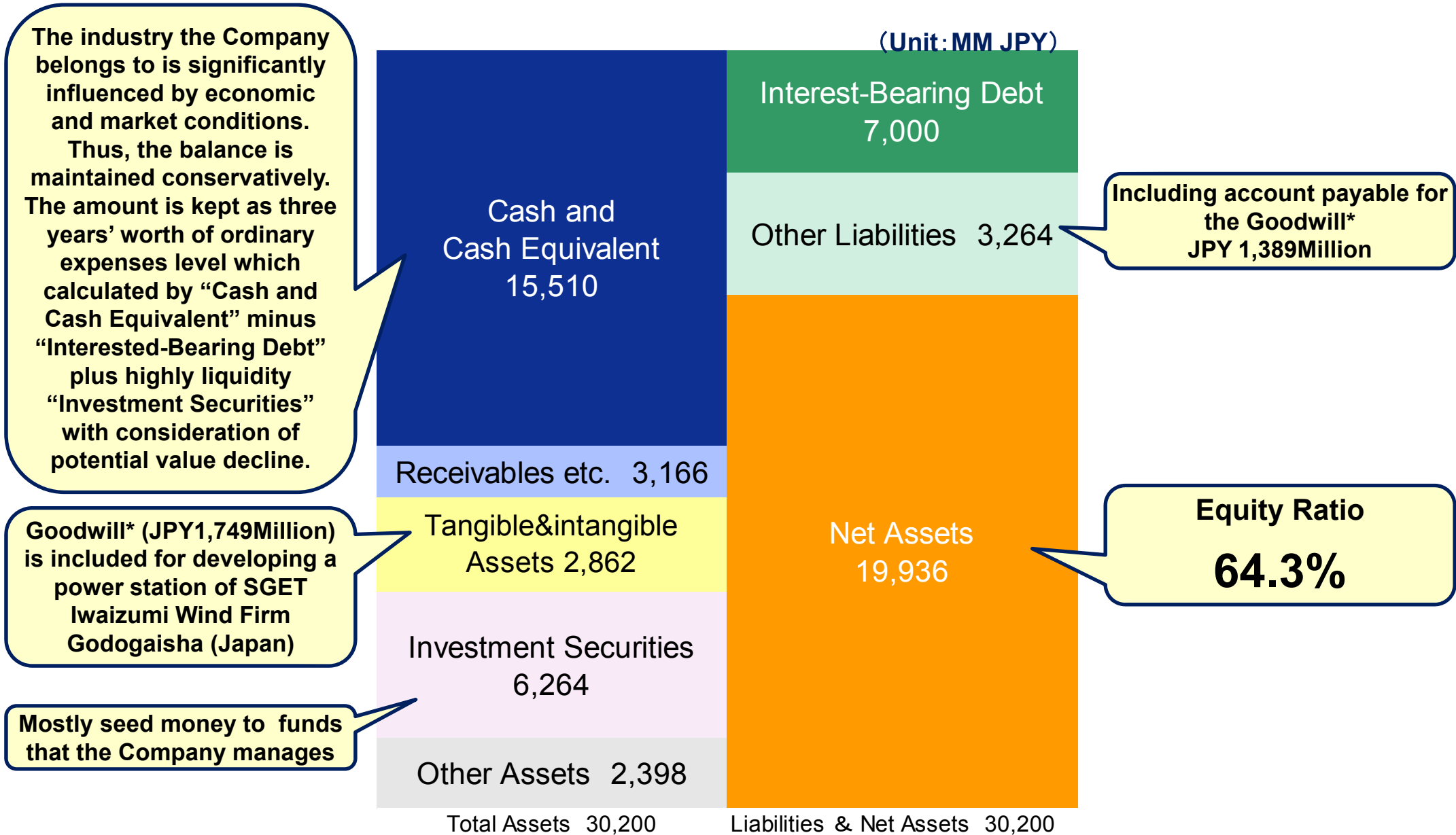


Base earnings has slightly decreased due to the ordinary expense increases in the last 3 months, although the management fee remained stable.



(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)



<Reference> Table below outlines the exclusion of Balance Sheet
of SGET Iwaizumi Wind Firm Godogaisha (Japan)



Equity Ratio
68.6%

B/S Overview (2)



(Units: MM JPY)	Mar. 2018	Dec. 2018	YoY change	
Current assets	21,484	19,996	▲ 1,487	Decreased mainly due to payment of dividends, bonuses and taxes
Cash and cash equivalents	18,649	15,510	▲ 3,138	
Receivables	2,403	3,166	+762	
Fixed assets	9,852	10,203	+351	
Goodwill	1,749	1,749	-	
Investment securities	5,868	6,264	+395	
Total assets	31,336	30,200	▲ 1,136	Long-term loans payable(new) JPY 2,000MM Interest rate: 0.77% Due: Dec. 2023
Long-term loans payable	5,000	7,000	+2,000	
Payables	4,447	2,456	▲ 1,991	Decreased mainly due to payment of bonuses and taxes
Total liabilities	9,945	10,263	+318	
Common stock	8,582	8,585	+2	Payment of dividend: ▲JPY 1,430MM Profit attributable to owners of parent in 3Q FY2018 : +JPY 2,247MM
Add'l paid-in-capital	3,285	2,554	▲ 731	
Retained earnings	9,374	10,190	+816	
Treasury stock	▲ 3,204	▲ 3,204	-	
Total Shareholder's Equity	18,038	18,126	+88	
Valuation difference on AFS securities	329	114	▲ 215	
Foreign currency translation adjustment	1,131	1,184	+52	
Non-controlling interests	1,875	500	▲ 1,375	Decreased due to fully acquired SAMK
Total net assets	21,391	19,936	▲ 1,454	

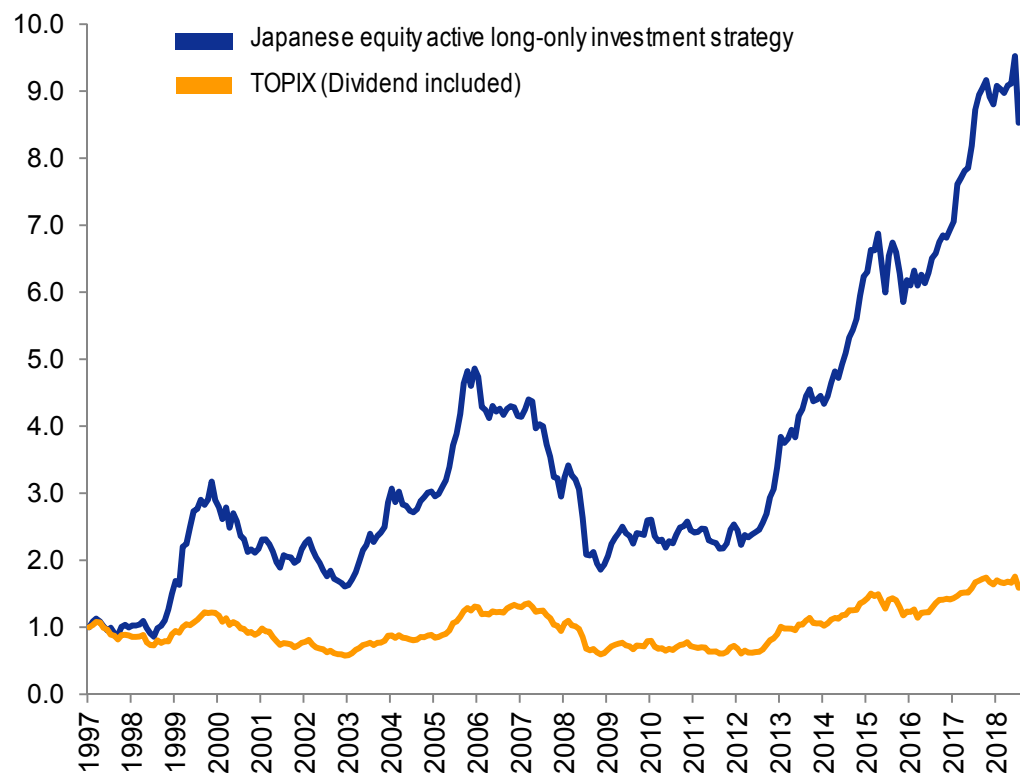
(Note1) Figures above are truncated.

(Note2) Investment securities include the seed money of the Company funds.

Annualized Performance by Strategy Since Inception ①



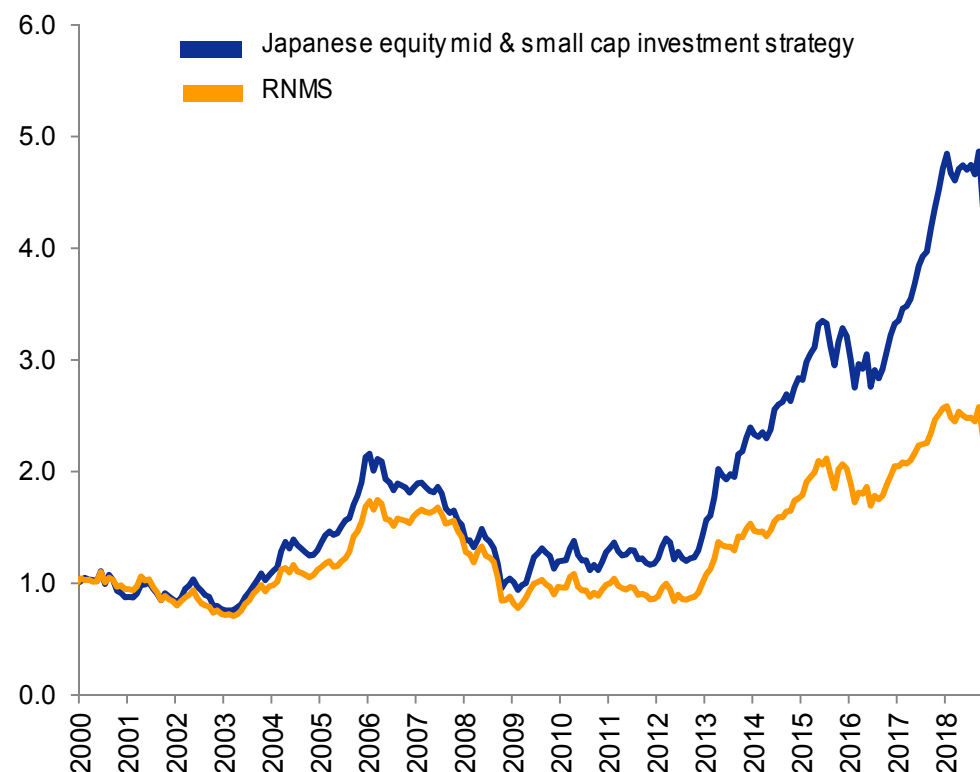
Japanese equity active long-only investment strategy



(Annualized Return)

Japanese equity active long-only investment strategy	9.98%	Reference Index	TOPIX (Dividend included)
Reference Index	1.72%	Measurement Period	1997/5 ~2018/12
Excess Return	8.26%	Volatility of Composite Return (Annualized)	20.61%

Japanese equity mid & small cap investment strategy



(Annualized Return)

Japanese equity mid & small cap investment strategy	7.54%	Reference Index	Russell/Nomura Mid-Small Cap Index
Reference Index	4.07%	Measurement Period	2000/1 ~2018/12
Excess Return	3.47%	Volatility of Composite Return (Annualized)	17.84%

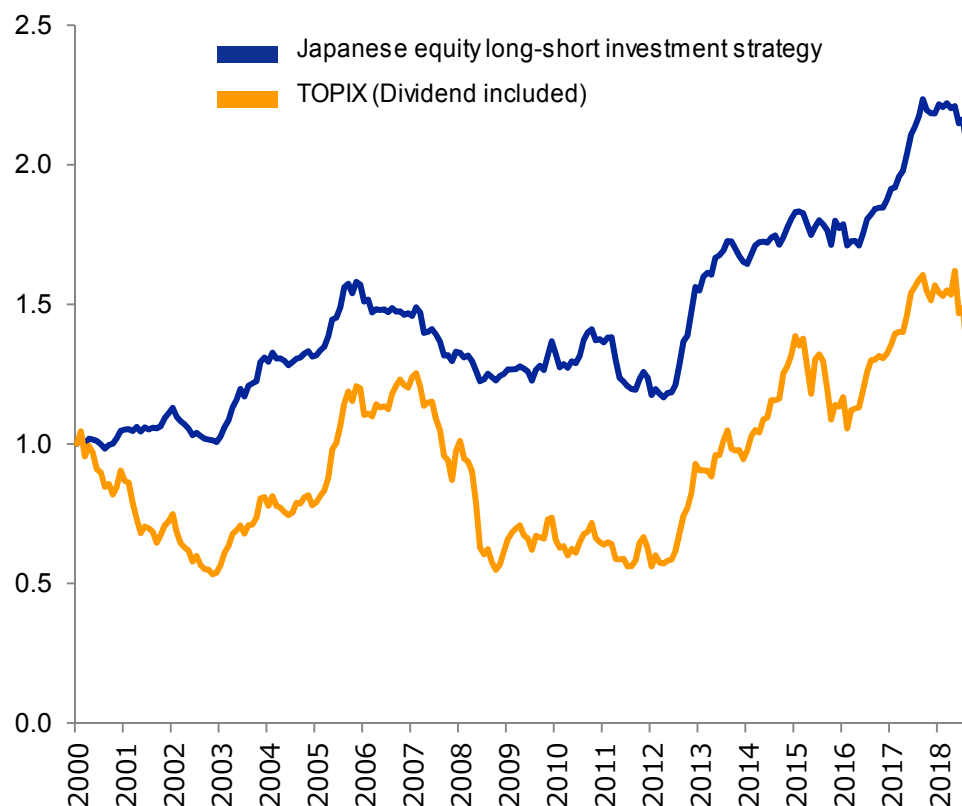
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Source: SPARX Group Co., Ltd (Tokyo, Japan), as of December 31, 2018. 38

Annualized Performance by Strategy Since Inception ②



Japanese equity long-short investment strategy

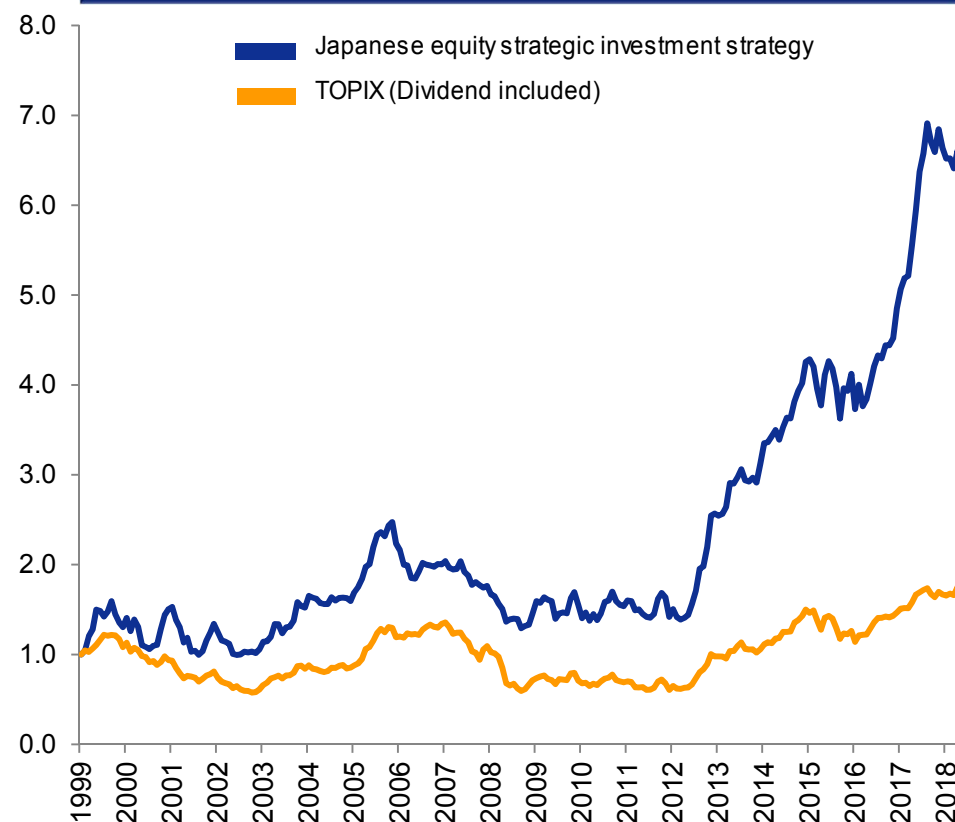


(Annualized Return)

Japanese equity long-short investment strategy	3.96%
Reference Index	1.57%
Excess Return	2.40%

Reference Index	TOPIX (Dividend included)
Measurement Period	2000/6 ~2018/12
Volatility of Composite Return (Annualized)	7.30%

Japanese equity strategic investment strategy



(Annualized Return)

Japanese equity strategic investment strategy	8.84%
Reference Index	1.90%
Excess Return	6.94%

Reference Index	TOPIX (Dividend included)
Measurement Period	1999/7 ~2018/12
Volatility of Composite Return (Annualized)	20.23%

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Source: SPARX Group Co., Ltd (Tokyo, Japan), as of December 31, 2018. 39



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