

# SPARX Asset Management Korea Co., Ltd.

## Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of SPARX Asset Management Korea Co., Ltd. (“SPARX Korea”). If you have any questions about the contents of this brochure, please contact us at [hyeseon.lee@sparxkorea.com](mailto:hyeseon.lee@sparxkorea.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training. Additional information about SPARX Korea is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for SPARX Korea is 139179. Registration does not imply a certain level of skill or training.

## Material Changes

SPARX Korea's business activities have not changed materially since the time of that update.

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## Advisory Business

SPARX Korea was founded in 1999 and is a subsidiary of SPARX Group Co., Ltd., a listed company traded on JASDAQ (Code: 8739). Mr. Shuhei Abe owns approximately 52% of SPARX Group. As of 2 Feb 2015, “SPARX Korea Asset Management Co., Ltd” has changed its company name to “SPARX Asset Management Korea Co., Ltd.”.

SPARX Korea provides investment advisory services to various clients and pooled investment vehicles (each a “Fund”) based on the investment objectives, policies, strategies, and guidelines established by clients and Funds. SPARX Korea specializes in investing in Korean equities, but can invest in other jurisdictions which may include common stocks and related derivative instruments, such as convertible bonds, warrants, futures and options. Equity index futures and equity index options may be utilized for liquidity, risk control and other purposes. Currencies, bonds and related derivatives may be also utilized for investments and other purposes.

As of March 31, 2017, SPARX Korea managed approximately US\$1.22 billion in assets on a discretionary basis.

## Fees and Compensation

Fees generally consists of two components: (1) a management fee based on a percentage of assets under management, which may range as high as 2% of assets under management per annum (“Management Fee”); and (2) with respect to certain client accounts and Funds, a performance fee based on a percentage of the total investment return (“Performance Fee”). Management Fees are generally payable monthly or quarterly in arrears. Performance Fees, which range between 10% and 20%, are generally payable annually in arrears and as of the date of any withdrawal or redemption of an investment from a client account and a Fund.

In addition to Management Fees and Performance Fees, expenses such as custody, administration, legal, accounting, professional, and other incidental fees and expenses are payable by the clients and Funds.

## Performance Based Fees and Side-by-Side Management

As stated in the **Fees and Compensation** section above, certain client accounts and Funds are charged a Performance Fee, which is a fee based on capital appreciation of assets in those client accounts and Funds. The fact that SPARX Korea is compensated based on trading profits may create an incentive for SPARX Korea to make investments on behalf of clients accounts and Funds that are riskier or more speculative than would be the case in the absence of such compensation. In addition, the performance on which performance-based fees are calculated includes unrealized appreciation and depreciation of investments that may not ultimately be realized.

Certain client accounts and Funds do not pay Performance Fees. These Funds are generally exposed to long-only equity strategies, whereas the client accounts and Funds that pay Performance Fees generally follow a long-short equity or some other strategy. Accordingly, the incentive to favor the client accounts and Funds that pay Performance Fees over the client accounts and Funds that do not pay Performance Fees is limited due to the difference strategies. To the extent that client accounts and Funds are of similar strategy, SPARX Korea has in place policies requiring that allocation of trades be effected across applicable client accounts and Funds in a fair and equitable manner.

## **Types of Clients**

SPARX Korea offers investment management services to institutional investors, including banking and thrift institutions, pension and profit sharing plan businesses, private investment partnerships and companies, sophisticated high-net worth individuals, and certain government organizations.

The requirement for opening an account or investing in a fund widely varies. In general, the minimum size for a separately managed account is US\$300,000, while the minimum initial investment amount for each Fund is generally US\$500,000. Initial investments of a lesser amount may be accepted at the sole discretion of SPARX Korea.

Details concerning applicable investor suitability criteria are set forth in each Fund's private placement memorandum and subscription materials. Each Fund investor is required to meet certain suitability qualifications, such as being a "qualified purchaser" as defined in the Investment Company Act or being a non-U.S. person as defined in Regulation S under the Securities Act.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of Analysis

The investment strategy and style differ across client accounts and Funds, but SPARX Korea generally utilizes a "bottom-up" approach with a "top-down" overlay in seeking to identify investment opportunities. The investment process combines fundamental analysis of the Korean economy, industrial sectors and in-depth analysis of companies' fundamentals and risks with broad-based quantitative research and risk management. SPARX Korea's local research capabilities and its substantial expertise in the Korean markets are an advantage in both performing "top-down" analysis of the markets as well as "bottom-up" analysis of particular companies.

SPARX Korea also use screening models to analyze companies according to their abilities to generate stable future cash flow and above average returns on capital. These models rank companies on a relative value basis and help optimize stock selection in an ever-changing price environment by channeling the constant flow of information which floods the market. The focus will be on real-time changes in the risk/reward profile of companies with an emphasis on the following criteria:

- Companies with a high market share in their industry;
- Return on capital employed;
- Earnings momentum;
- Capital structure;
- Quality of management and processes; and
- Management commitment to enhance shareholder value.

### Investment Strategies

#### **Equity Active Strategy:**

The primary focus of the Equity Active Strategy is to seek modest returns and continuously outperform the benchmark through stock selection and sector allocation. Typically, our Equity Active Strategy maintains a minimum of 70% equity exposure, typically holds 50 to 70 names, a minimum number of 5 sectors, and a minimum market capitalization of KRW 500 billion.

#### **Absolute Long-Only Strategy:**

The primary focus of the Absolute Long-Only Strategy is to generate absolute return through stock picking. The majority of the client accounts under this strategy do not have specific constraints or limitations in actively managing the portfolio, such as cash exposure levels, sector allocations, and equity exposures. This strategy does not use a benchmark in constructing portfolios or in evaluating performance. This strategy is a customized strategy where mandates vary depending on clients.

#### **Strategic Investment Strategy:**

The primary focus of the Strategic Investment Strategy is to generate returns over an investment horizon of 1 to 3 years through a concentrated all-cap portfolio typically holding 10 to 25 positions. This strategy is similar to the Absolute Long-Only Strategy, but with a more concentrated focus and longer holding period.

#### **Long Short Equity Strategy:**

The primary focus of the Long Short Strategy is to generate, over a mid-term horizon, absolute return through selective stock-picking in a risk-controlled environment, regardless of the direction of the underlying market over a mid-term horizon. In addition, irrespective of long term fundamentals, the Long Short Strategy will also seek to take advantage of both rising and falling share prices by applying a diversified range of quantitative strategies engineered to identify securities which are believed to be undervalued or overvalued on a short term basis. This approach may result in portfolios which will typically be long in those shares which are fundamentally attractive and short in those which may be overvalued or where the business model is flawed. The hedged strategy may be complemented by the use of futures and options which will be used to round out exposure.

### Risk of Loss

Investment into the aforementioned strategies entails a high degree of risk and is suitable only for sophisticated investors who fully understand and are capable of bearing the risks. Investing in securities involves a risk of loss that all investors should be prepared to bear. Specific risks include, but are not limited to fluctuations in interest rates, emerging market risk, country risk, liquidity risk, currency risk, the use of derivative instruments, the use of financial leverage and counterparty risk.

**There can be no assurance that each investment strategy will be able to achieve its investment objectives or that investors will receive a return of their capital.**

## **Disciplinary Information**

SPARX Korea and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

SPARX Korea, as an asset management company registered in Korea, is managing an open-ended mutual fund open to public in Korea. Also, SPARX Korea is affiliated with SPARX Asia Capital Management Limited, SPARX Asia Investment Advisors Limited and SPARX Asset Management Co., Ltd. all of which are registered with the U.S. SEC.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

SPARX Korea permits its employees to engage, on a limited basis, in personal securities transactions. To avoid any potential conflicts of interest involving personal trades, SPARX Korea has adopted a code of ethics, which includes the following provisions, among others:

1. Each access person and associated person of SPARX Korea: (a) owes a fiduciary obligation to the company's clients; (b) has the duty at all times to place the interests of the clients first; (c) must conduct all personal securities transactions in such a manner as to avoid any actual or potential conflicts of interest or abuse of an individual's position of trust and responsibility; (d) should not take inappropriate advantage of their positions in relation to clients; and (e) must safeguard non-public information about clients and their accounts, securities, instructions and interests.
2. Each access person and associated person of SPARX Korea must comply at all times with applicable U.S. federal securities laws.
3. Each access person of SPARX Korea must provide periodic personal holdings and transaction reports to the Chief Compliance Officer.
4. Each access person and associated person of SPARX Korea must report violations of the code of ethics to the Chief Compliance Officer.

5. Each access person and associated person of SPARX Korea must receive a copy of the code of ethics (and any amendments) and must provide a written acknowledgement of his or her receipt of the code of ethics (and any amendments) to the Chief Compliance Officer.

SPARX Korea will provide a copy of its code of ethics to any investor or perspective investor upon request.

## Brokerage Practices

The process of selecting or recommending a broker is intended to determine which broker is best able to execute the particular transaction (taking into account the market for the securities and the size of order) at the best combination of price and quality of execution that is most favorable to the client for whose account the trade is being executed. In selecting or recommending brokers, no factor is necessarily determinative and seeking to obtain best execution for all client trades takes precedence. Selection or recommendation will occur after review of all relevant criteria, including the following:

1. Price of securities – The actual price to be paid for the securities. The ability of a broker to obtain the best overall price for a transaction and to buy and sell securities with minimal disruption in the market place.
2. Market familiarity – The broker's knowledge of the market for the particular security.
3. Reliability – Whether the broker has been able to provide support to the trader when placing a difficult trade in this security or similar securities in the past. If a broker has successfully assisted with past trades, that broker is more likely to be selected for future trades.
4. Integrity (ability to maintain confidentiality) – When executing block orders, traders do not want to divulge their interest to the market. If a broker has demonstrated the ability to provide discreet execution of block orders, that broker is more likely to be selected.
5. Research budget/rankings – All other relevant factors being equal, the research capabilities of brokers may be considered when choosing a broker. In making this determination, all other variables must be equal and the broker must be capable of providing best execution in order for this factor to play a role in the selection of a broker. Analyst rankings may also be used to ascertain which brokerage research departments have the strongest track record.
6. Commission rates – Commission rates and other brokerage costs are considered.
7. Trade settlement (settlement risk) – The trader may take into account a broker's ability to ensure that the securities will be delivered on settlement date.
8. High volume transaction – The trader may select a broker that specializes in block orders.
9. Financial condition – The trading desk may take into account the financial condition of a broker and may choose not to utilize a particular broker due to uncertainty regarding the broker's financial status.
10. Technology infrastructure and operational capabilities – A trader generally selects a broker only if he or she believes that the broker has the infrastructure and operational capabilities to execute and settle the trade.

11. Willingness to commit capital – If an account holds a thinly-traded issue and there is limited interest in the securities, a broker may be selected based on its willingness to purchase or sell securities for or from its own inventory.

In addition to above, certain brokers and dealers who provide quality brokerage and execution services also furnish research services. Together, SPARX Korea adopted a brokerage allocation policy that permits SPARX Korea to cause an account to pay commission rates in excess of those another broker or dealer would have charged for effecting the same transaction if SPARX Korea determines in good faith that the commission paid is reasonable in relation to the value of the brokerage and research services provided. The determination may be made in terms of either a particular transaction or the overall responsibilities of SPARX Korea with respect to the client accounts and Funds over which it exercises investment discretion. Research so received will be shared in the management of the client accounts and Funds but may not necessarily benefit all client accounts and Funds paying commissions to such brokers or all such Funds equally.

SPARX Korea intends to comply with the “safe harbor” provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, which permits the use of soft dollars to obtain brokerage and research services that provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision-making responsibilities. Research services may include, among other things, information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibilities issues.

Research services provided by brokers and dealers are supplemental to SPARX Korea’s own research efforts and, when utilized, are subject to internal analysis before being incorporated into the investment process. As a practical manner, it would not be possible for SPARX Korea to generate all of the information presently provided by brokers and dealers. SPARX Korea may pay cash for certain research and technical services received from external sources.

## **Review of Accounts**

Daily or monthly NAV reports are prepared for each client account and Fund advised by SPARX Korea. Portfolios are monitored and reviewed on a continual basis by the relevant Portfolio Manager, Head of Risk Management, the Chief Operating Officer, the Chief Investment Officer and Chief Executive Officer. Each review includes an analysis of portfolio positions, market trends, and investment opportunities.

Clients or fund investors receive daily or monthly confirmations of their net asset value per share from the clients’ or Funds’ administrator. A monthly performance report is also sent to investors. The performance report includes details of assets under management, monthly and accumulated returns, performance returns, manager review and outlook, and statistical analyses covering the performance of the portfolio. Fund investors will also receive annual audited financial statements.



## **Client Referrals and Other Compensation**

SPARX Korea may enter into certain arrangements with third-party placement agents under which SPARX Korea or an affiliate will directly or indirectly compensate these third parties for obtaining investors for the Funds or creation of a client account. Placement fees will be borne by SPARX Korea or an affiliate and neither the clients nor the Funds.

## **Custody**

All the assets of the clients or the Funds are held in custody by qualified broker-dealers or custodian banks. The custodians appointed by the clients or by SPARX Korea on behalf of Funds provide the account statements to the clients or SPARX Korea typically monthly or at the frequency otherwise agreed. Although the Fund investors do not receive the account statements directly from the custodians, appropriate disclosure on the Funds' investments or audited financial statements will be available. It is recommended for the clients and Fund investors to carefully review those statements.

## **Investment Discretion**

SPARX Korea has discretionary authority to determine the securities to be bought or sold and the amount of such securities to be bought or sold, with respect to client accounts and the Funds. Limitations on this authority are outlined in each Fund's private placement memorandum and investment management and advisory agreements.

## **Voting Client Securities**

With respect to separately managed accounts, SPARX Korea does not exercise voting rights attached to client assets, on behalf of those clients. The following proxy voting policy (the "Policy") adopted by SPARX Korea apply only to Funds:

1. SPARX Korea generally makes voting decisions pursuant to its Voting Guidelines (the "Guidelines"), unless as otherwise permitted by the Policy (such as when specific interests and issues require that a Fund's vote be cast differently from SPARX Korea's decision in order to act in the best economic interests of Funds).
2. Where a material conflict of interest has been identified and the matter is covered by the Guidelines, proxies are voted in accordance with the Guidelines. Where a conflict of interest has been identified and the matter is not covered in the Guidelines, SPARX Korea will disclose the conflict and the determination of the manner in which to vote to the board.
3. SPARX Korea may determine not to vote proxies in respect of securities of any issuer if it determines it would be in its Funds' overall best interests not to vote.

The Guidelines address proxy voting on particular types of matters such as elections for directors, adoption of option plans and anti-takeover proposals. For example, SPARX Korea's decisions generally will:

1. Support management in most elections for directors, unless there are clear concerns about the past performance of the company or the board fails to meet minimum corporate governance standards;
2. Support option plans that motivate participants to focus on long-term shareholder value and returns, encourage employee stock ownership and more closely align employee interests with those of shareholders; and
3. Vote for mergers, acquisitions and sales of business operations, unless the impact on earnings or voting rights for one class or group of shareholders is disproportionate to the relative contributions of the group or the company's structure following the acquisition or merger does not reflect good corporate governance, and vote against such actions if the companies do not provide sufficient information upon request concerning the transaction.

Investors may obtain information about how SPARX Korea voted Fund proxies, as well as a copy of SPARX Korea's proxy voting policies and procedures upon request by contacting the number on the cover of this brochure or by email at: [hyeseon.lee@sparxkorea.com](mailto:hyeseon.lee@sparxkorea.com).

## **Financial Information**

SPARX Korea has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.