



# SPARX Capital Investments, Inc.

## Form ADV Part 2A Firm Brochure

50 California St., Suite 1511

San Francisco, CA 94111

<http://sparxgroup.com>

+1 (415) 439-5200

May 17, 2019

This brochure provides information about the qualifications and business practices of SPARX Capital Investments, Inc. ("SCI"). If you have any questions about the contents of this brochure, please contact us at [sparxreports@sparxgroup.com](mailto:sparxreports@sparxgroup.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.

SCI is a registered investment adviser. Registration does not imply a certain level of skill or training. Additional information about SCI is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for SCI is 301572.

## **Item 2. Material Changes**

This brochure was prepared for the initial registration of SPARX Capital Investments, Inc. (“SCI”). Accordingly, this item is not applicable.

SCI’s brochure may be requested, at any time without charge, by contacting SCI at [seiji.miyasaka@sparxgroup.com](mailto:seiji.miyasaka@sparxgroup.com).

### **Item 3 - Table of Contents**

<b>Item 1. Cover Page</b>	
<b>Item 2. Material Changes.....</b>	<b>2</b>
<b>Item 4 - Advisory Business.....</b>	<b>4</b>
<b>Item 5 - Fees and Compensation .....</b>	<b>4</b>
<b>Item 6 - Performance-Based Fees and Side-by-Side Management .....</b>	<b>5</b>
<b>Item 7 - Types of Clients.....</b>	<b>5</b>
<b>Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss.....</b>	<b>5</b>
<b>Item 9 - Disciplinary Information .....</b>	<b>8</b>
<b>Item 10 - Other Financial Industry Activities and Affiliations .....</b>	<b>8</b>
<b>Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading..</b>	<b>8</b>
<b>Item 12 - Brokerage Practices .....</b>	<b>9</b>
<b>Item 13 - Review of Accounts.....</b>	<b>10</b>
<b>Item 14 - Client Referrals and Other Compensation .....</b>	<b>10</b>
<b>Item 15 - Custody.....</b>	<b>10</b>
<b>Item 16 - Investment Discretion .....</b>	<b>10</b>
<b>Item 17 - Voting Client Securities .....</b>	<b>10</b>
<b>Item 18 - Financial Information .....</b>	<b>10</b>

## **Item 4 - Advisory Business**

SCI is a Delaware corporation founded on December 13, 2018. It is a wholly owned subsidiary of SPARX Group Co., Ltd. (“SPARX Group”), a listed company traded on the First Section of the Tokyo Stock Exchange. As of March 31, 2019, Mr. Shuhei Abe, President and CEO of SPARX Group, owned, directly or indirectly, approximately 51% of SPARX Group.

SCI provides non-discretionary portfolio management services on a sub-advisory basis to private investment pools that are exempt from registration in the United States. SPARX Asset Management Co., Ltd. (“SAM”), an affiliate of SCI, acts as investment manager to Mirai Creation Investment Limited Partnership (“Fund I”) and Mirai Creation Investment Limited Partnership II (“Fund II” and, collectively with Fund I, the “Funds”). Based upon and subject to the investment policies and restrictions established by such Funds and set forth in the Funds’ offering documents, SCI makes recommendations regarding potential portfolio investments to SAM. Once SAM decides whether to proceed with a proposed investment, SCI arranges the proposed transaction for execution by SAM. At the request of SAM, SCI will provide on-going monitoring of portfolio investments and recommends to SAM actions with respect to follow-on investments or the opportunity for divestment.

As of May 17, 2019, SCI managed US \$0 in regulatory assets under management (“RAUM”). SCI anticipates that its RAUM will exceed US \$100 million before June 30, 2019.

## **Item 5 - Fees and Compensation**

SCI receives management fees to cover administrative, management and investment advisory services it provides to SAM. SCI currently receives a fee calculated at the annual rate of 1.00% of (i) the amount of a Fund’s capital for which SCI is responsible for finding appropriate investment opportunities, plus (ii) the current value of such Fund’s assets over which SCI has ongoing analysis and reporting obligations (“Management Fee”). SCI’s fees are payable on a quarterly basis or as otherwise negotiated with a Fund. The specific payment terms and other conditions of the Management Fees are set forth in written sub-advisory agreements with SAM.

SCI and SAM generally bear their respective ordinary administrative costs and expenses relating to their operations. The Funds typically bear the costs and expenses relating to their operations including, without limitation: (i) legal, accounting, regulatory, compliance, administrator, valuation, custodial, depositary, auditing, banking and other external professional fees and expenses; (ii) out of pocket costs of sourcing and evaluating potential portfolio investments (including broken deal expenses); (iii) expenses associated with the preparation of the Funds’ financial statements and tax returns; (iv) expenses related to the organization or maintenance of any entity used to acquire, hold, or dispose of any portfolio investment; (v) taxes, fees or other governmental charges levied against a Fund, its assets or income; (vi) costs and expenses of litigation or other matters that are the subject of indemnification; and (vii) the costs of winding up and liquidating a Fund.

SCI has adopted a policy that seeks to allocate applicable fees and expenses among the Funds in a fair and equitable manner. SCI seeks to make judgments with respect to allocation of expenses in its good faith discretion, notwithstanding its interest in the outcome, and make corrective allocations after the fact should it determine that such corrections are necessary or advisable. A Fund generally bears only its proportional share of any such expenses incurred in connection with any portfolio investment to the extent the same portfolio investment is being made by more than one Fund. However, SCI or SAM may, in their sole discretion, allocate certain expenses between Funds differently if they determine any such expenses are solely or disproportionately attributable to one Fund over another. Any Fund-specific expenses will generally be allocated to the Fund incurring such expenses, however a Fund may indirectly benefit from products or services paid for by another Fund and the portion of an expense allocated to a Fund for a particular item or service may not reflect the relative benefit derived by such Fund from that item or service in any particular instance. The appropriate allocation between Funds managed by SAM and SCI of expenses and fees generated in the course of sourcing, evaluating and making investments which are not consummated, such as out-of-pocket fees associated with due diligence, attorneys' fees and the fees of other professionals, will be determined generally based on expected or actual participation.

SCI will reimburse SAM for partial salary and fringe benefit costs associated with SAM employees that work on SCI matters (including administrative services).

## **Item 6 - Performance-Based Fees and Side-by-Side Management**

SCI does not currently receive any performance-based fees from the Funds. SCI may, however, receive different amounts of compensation from one Fund versus another dependent upon the relative asset size of the Funds. SCI may therefore have an incentive to favor the Fund from which it receives higher compensation.

SCI has adopted allocation policies and procedures that require allocation of trades among the Funds and any other funds or accounts managed by SCI with investment objectives similar to the Funds to be effected across applicable accounts in a fair and equitable manner.

## **Item 7 - Types of Clients**

SCI offers non-discretionary portfolio management services on a sub-advisory basis. It does not currently directly manage any accounts or funds.

## **Item 8 - Methods of Analysis, Investment Strategies, and Risk of Loss**

### Methods of Analysis

SCI's investment philosophy emphasizes stock selection based on fundamental analysis. SCI believes that meeting a company's management is a key step in its decision making process. In addition face-to-face meetings to evaluate the quality of management, SCI considers various other factors, such as market

growth potential and earnings quality, and consults other sources, including annual reports, financial statements, and relevant independent reports on portfolio companies. SCI then estimates the potential investment's intrinsic value and compares that figure to the current market price to determine whether a "Value Gap" exists.

#### Major Investment Strategies

SCI provides non-discretionary sub-advisory services with respect to the Funds. Under the terms of its offering documents, Fund I focuses its investments, on a global basis, in intelligent technologies, robotics, and technologies that promote a hydrogen economy as core technologies of the future. Under the terms of its offering documents, Fund II focuses its investments, on a global basis, in intelligent technologies, robotics, and technologies that promote a hydrogen economy as core technologies of the future, as well as electrification and new materials.

#### Risk of Loss

Investing in the Funds involves substantial risks and, therefore, should be undertaken only by prospective investors capable of evaluating the merits and risks of such an investment and bearing the risks such an investment represents, including the risk of loss of the entire investment in a Fund. An investment in a Fund requires a long-term commitment, with no certainty of return. Additionally, there most likely will be little or no near-term cash flow available to investors in the Funds. Because of the lack of a public market in the United States for interests in a Fund, and restrictions on transfer of interests in the Funds, investment in the Funds is only suitable for sophisticated investors who are willing to hold their interests for the term of a Fund, and who understand that they may lose all or a significant portion of their invested capital.

Investments in the Funds are subject to a number of risks, including the risk that a portfolio company may not perform as expected over short or extended periods. Many of the Funds' underlying portfolio investments will be highly illiquid, and there can be no assurance that a Fund will be able to realize such investments in a timely manner. Consequently, dispositions of such investments may require a lengthy time period, may be required to be made at inopportune times or may result in distributions in kind to the investors in the Funds.

The availability of investment opportunities generally will be subject to market conditions and competition from other groups as well as, in some cases, the prevailing regulatory or political climate. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by a Fund or considered for prospective investment. These risks may significantly affect the performance of a Fund. There can be no assurance that a Fund will be able to achieve its investment objectives or that investors will receive a return of their capital.

The Funds may focus their investments in a particular geographic region and therefore will be particularly vulnerable to events affecting companies in such region. The economy of a particular

country in which a geographically focused fund may invest is influenced by economic and market considerations in other countries in the relevant region. Investors' reactions to events in one country can have adverse effects on the securities of companies and the value of property and related assets in other countries in which a geographically focused fund may invest. The performance of a geographically focused Fund may be worse than the performance of other funds that invest more broadly geographically.

The Funds may utilize leverage. The use of leverage will magnify the volatility of changes in the value of portfolio investments. Any gain in the value of assets in excess of the cost of the amount borrowed to acquire such assets would cause the borrower's net asset value to increase more than if the assets had been bought without utilizing leverage. Conversely, any decline in the value of its assets to below the cost of the borrowing utilized to fund their purchase would cause the net asset value to decline more sharply than would be the case if debt had not been used to purchase such assets. Accordingly, although the use of leverage may increase a borrower's returns, it will also increase its exposure to risk. In addition, the use of leverage may, and likely would, delay the need for investors to make capital contributions to a Fund, which would likely enhance a Fund's performance and thereby benefit SAM and SCI.

The Funds may also invest in portfolio companies that are significantly debt-financed by third parties. While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. As a result of the use of leverage, economic downturns, operating problems, and other general business and economic risk may have a more pronounced effect on a company's profitability or survivability. Moreover, rising interest rates may significantly increase portfolio company interest expense, causing losses and/or the inability to service debt. In addition, cash flow from operations or investment that could otherwise be available to a leveraged portfolio company to fund growth may instead be diverted to repay the company's debt obligations. If a portfolio company cannot generate adequate cash flow to meet debt obligations, a Fund may suffer a partial or total loss of its invested capital. A portfolio company's obligations to these lenders will likely be senior to a Fund's investment in the company and may also be secured by the assets of the company. The junior status of a Fund could result in a loss of the Fund's investment in liquidations or sale transactions. It may also be necessary from time to time for a leveraged portfolio company to seek refinancing or restructuring of its debt financing, and there can be no assurance that any needed refinancing or restructuring may be available on terms that are favorable to a Fund's investment in the portfolio company.

SCI conducts due diligence to an extent deemed reasonable and appropriate based on the facts and circumstances applicable to each investment, before recommending a potential investment to SAM. The objective of the due diligence process is to identify attractive investment opportunities based upon the facts and circumstances surrounding an investment. When conducting due diligence, SCI expects to evaluate a number of important issues in determining whether or not to recommend an investment to SAM. These issues will vary depending on the kind of investment opportunity presented, but may include business, financial, tax, accounting, environmental, and legal issues. Outside consultants, legal advisers, accountants, and investment banks may also be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making

an recommendation regarding an investment, SCI will be required to rely on resources available, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence process may at times be subjective with respect to newly organized funds or companies for which only limited information is available. In light of the foregoing, there can be no assurance that the due diligence investigations undertaken by SCI will reveal or highlight all relevant facts that may be necessary or helpful in evaluating a particular investment opportunity. There can also be no assurance that such an investigation will result in an investment being successful.

## **Item 9 - Disciplinary Information**

SCI has no information applicable to this Item.

## **Item 10 - Other Financial Industry Activities and Affiliations**

As described above in Item 4, SCI provides non-discretionary subadvisory service to SAM, which is an affiliate of SCI. SAM is an investment adviser registered with the SEC (CRD Number 134747). In addition, SAM is registered with Japanese regulators to conduct, in addition to Discretionary Investment Management Business and Investment Advisory Business concerning securities, Type 1 and Type 2 Financial Instruments Business, which allows SAM mainly to distribute its funds to Japanese investors, real estate brokers or dealers and insurance agencies. As a result, SAM can make deals for Japanese customers. Neither SAM nor any of its management persons are registered, or have an application pending to register as a broker-dealer or registered representative of a broker-dealer.

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

In accordance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) SCI maintains a Code of Ethics. The Code of Ethics sets forth a standard of conduct expected of all SCI employees, and addresses certain other matters including the misuse of nonpublic information, insider trading, outside business activities, gifts and entertainment, and political contributions. Each employee is required to acknowledge receipt of the Code of Ethics and certify compliance with the Code of Ethics on an annual basis. A copy of the Code of Ethics is available upon request.

Under the Code of Ethics, SCI employees are permitted to engage, on a limited basis, in personal securities transactions. To avoid any potential conflicts of interest involving personal trades, the Code of Ethics includes the following provisions, among others:

- Each access person and associated person of SCI (i) owes a fiduciary obligation to SCI’s clients; (ii) has the duty at all times to place the interests of the Funds and their respective shareholders, if any, first; (iii) 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; (iv) should not take inappropriate advantage of their positions in relation to clients;



and (v) must safeguard non-public information about clients and investors and their accounts, securities, instructions and interests

- Each access person and associated person of SCI must comply at all times with applicable rules and regulations including, without limitation, the Advisers Act and its related regulations.
- Each access person of SCI must provide periodic personal holdings and transaction reports to the Chief Compliance Officer or his/her designee.
- Each access person and associated person of SCI must report violations of the Code of Ethics to the Chief Compliance Officer or his/her designee.
- Each access person and associated person of SCI 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) on an annual basis.

### Conflicts of Interest

Possible conflicts of interest may arise with respect to SCI's business. A summary of how SCI addresses such conflicts of interest is set forth below. This discussion does not describe all conflicts that may arise, certain of which may be disclosed throughout this document, which should be read in its entirety.

SCI deals with all conflicts of interest using its good faith judgment, but in its sole discretion. In resolving conflicts that may arise among the Funds, Fund investors, SCI, or SAM, SCI may consider various factors, including the immediate and/or longer term interests of the Funds and their investors. Certain conflicts of interest may be resolved by investment guidelines set forth in the Fund's operating documents. In the case of all conflicts involving the Funds, the determination as to which factors are relevant, and the resolution of such conflicts, will be made in the sole discretion of SCI and SAM, except as required by law, or the governing documents of the relevant Fund.

In mitigating or resolving conflicts, SCI seeks to treat the Funds fairly and equitably over time. SCI and its affiliates will attempt to resolve any such conflicts of interest in good faith, but there can be no assurance that such conflicts of interest or actions taken by SCI or its affiliates with respect to a Fund will not have an adverse effect on the investments made by that Fund or another client.

## **Item 12 - Brokerage Practices**

SCI provides sub-advisory services solely on a non-discretionary basis and therefore does not execute trades on behalf of the Funds. SCI does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

### **Item 13 - Review of Accounts**

SCI prepares monthly net asset value (“NAV”) reports for each Fund. SCI monitors and reviews the performance of the Funds’ portfolios and the underlying portfolio companies on a continual basis as set forth in Item 8 above.

Fund investors generally receive a monthly performance reports. In general, the performance report includes details of assets under management, monthly and accumulated returns, performance returns, portfolio manager review and outlook, and statistical analyses covering the performance of the portfolio. Fund investors will also receive annual audited financial statements.

### **Item 14 - Client Referrals and Other Compensation**

SCI does not utilize arrangements with third-party placement agents to refer potential investors to the Funds. However, SAM and/or other affiliates of SCI may enter into agreements with third parties pursuant to which they directly or indirectly compensate these third parties for obtaining investors for the Funds or creation of a client account. Any placement fees will be borne by SAM or an affiliate and not by SCI or the Funds.

### **Item 15 - Custody**

As a non-discretionary sub-adviser, SCI does not have custody over any client assets.

### **Item 16 - Investment Discretion**

As noted above in Item 4, SCI provides only non-discretionary sub-advisory services to SAM in its capacity of investment manager to the Funds.

### **Item 17 - Voting Client Securities**

In general, as a non-discretionary sub-adviser, SCI will not vote proxies on any of the Fund’s portfolio holdings. Any such proxies will be voted by SAM. Nonetheless, in accordance with Rule 206(4)-6 under the Advisers Act, SCI has adopted proxy voting policies and procedures to address how SCI would vote proxies on behalf of a Fund (if any). The policy is designed to ensure that proxies are voted in the best interest a Fund and its, including when there may be material conflicts of interest in voting proxies. A Fund investor may obtain a copy of SCI’s proxy voting policies and procedures, and information about how SCI voted proxies (if any) by sending an e-mail to [seiji.miyasaka@sparxgroup.com](mailto:seiji.miyasaka@sparxgroup.com).

### **Item 18 - Financial Information**

SCI has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to conduct its sub-advisory business.