



# SPARX Asset Management Co., Ltd.

## Form ADV Part 2A

### Firm Brochure

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(SPARX Group website)

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This brochure provides information about the qualifications and business practices of SPARX Asset Management Co., Ltd. (“SPARX”). 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.

Additional information about SPARX also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for SPARX is 134747. Registration does not imply a certain level of skill or training.

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## **1. Material Changes**

This brochure was prepared for SPARX's annual updating amendment. Our previous brochure was completed in June 2017. Neither SPARX's business activities nor this brochure have not changed materially since the time of that update but investors and clients are encouraged to review this updated brochure in its entirety.

## **2. Advisory Business**

SPARX Asset Management Co., Ltd. ("SPARX") was founded in April 2006 and is a wholly owned subsidiary of SPARX Group Co., Ltd. ("SPARX Group"), a listed company traded on JASDAQ (JASDAQ Code: 8739). As of March 31, 2017 Mr. Shuhei Abe, President and CEO of SPARX and SPARX Group, owned approximately 40% of SPARX Group.

Founded in 1989, SPARX Group is an independent financial services company headquartered in Tokyo. In 2006, the company renamed itself from SPARX Asset Management Co., Ltd. to SPARX Group Co., Ltd. and all asset management activities were transferred to the new company known as SPARX Asset Management Co., Ltd., which is registered with Japanese authority for Investment Management Business, Investment Advisory and Agency Business, Type 1 and Type 2 Financial Instruments Business.

SPARX provides portfolio management services and manages client accounts and funds on either a discretionary or non-discretionary basis subject to investment policies and restrictions established by our clients or funds, as the case may be. SPARX specializes in investing in Japanese equities, but can and does invest in other jurisdictions which may include common stocks and related derivative instruments, such as convertible bonds, warrants, future and options, swaps as well as shares in hedge funds and other privately offered investment vehicles. Equity index futures and equity index options may be utilized for liquidity, risk control and other purposes. Currencies, bonds, and related derivatives such as futures, options and swaps may be utilized for investments.

As of March 31, 2018, SPARX managed approximately USD 8.7 billion in regulatory assets under management, all of which are managed on a discretionary basis.

## **3. Fees and Compensation**

In general, fees are based on a percentage of the current market value of the assets under management ("Management Fee"). In certain situations, SPARX may receive fees based upon criteria other than a percentage of assets under management, including flat and performance fees. Management Fees may range as high as 2% of assets under management per annum, payable on a

monthly or quarterly basis or as negotiated with the client. A client's account may hold shares of mutual funds for which a separate management fee is charged.

In addition to Management Fees, SPARX may charge clients a performance fee based on the percentage of the total investment return over a fixed period of time and as of the date of any withdrawal or redemption of the investment ("Performance Fee"). Performance Fees range 20% and generally payable semi-annually or annually regarding the return above the high water mark.

Expenses related to the assets under management or funds such as custody, administration, legal, accounting, professional, and other incidental fees and expenses are payable by the clients and funds.

#### **4. Performance-Based Fees and Side-by-Side Management**

As stated in the Fees and Compensation section above, SPARX charges Performance Fees, which are based on a share of capital gain on or capital appreciation of client and fund assets. The fact that SPARX is compensated based on the trading profits may create an incentive for SPARX to make investments that are riskier or more speculative than would be the case in the absence of such compensation. In addition, SPARX may earn greater compensation under a performance-fee based arrangement than it otherwise would earn because the fee will be based on account performance instead of a percentage of assets under management.

For certain assets of clients and funds, SPARX charges Management Fees but not Performance Fees. These assets are generally exposed to long-only equity strategies, whereas the other assets that pay Performance Fees generally follow a long-short equity or some other different strategy. Accordingly, the incentive to favor assets that pay Performance Fees over assets that do not pay Performance Fees is limited due to the difference in strategies.

To the extent that assets are of similar strategy, SPARX has in place policies requiring that allocation of trades be effected across applicable assets in a fair and equitable manner.

#### **5. Types of Clients**

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

SPARX also offers investment advisory services to investment companies registered with the SEC, as a sub-adviser to their investment managers.

The requirement for opening an account or investing in a fund widely varies. In general, the minimum account size for a client is \$50 million while the minimum initial investment for a fund is \$1 million. Minimum initial investment for each strategy is described in the next section of Methods of Analysis, Investment Strategies, and Risk of Loss. Initial investments of a lesser amount may be accepted at the sole discretion of SPARX, a fund's board of directors, or a fund's trustee.

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

SPARX's investment philosophy emphasizes stock selection based on fundamental analysis. SPARX believes that meeting a company's management is a key step in its decision making process. In addition to evaluating the quality of management, SPARX considers various other factors such as market growth potential and earnings quality. SPARX then estimates the potential investment's intrinsic value and compares that figure to the current market price to determine whether a "Value Gap" exists.

Client accounts and funds may also, depending on investment strategy being pursued, short securities. In these transactions, SPARX would sell a security it does not own in anticipation of a decline in the market value of the security.

### Major Investment Strategies

#### ***Japan Equity Mid and Small Cap Strategy:***

*(Minimum investment for Separate account - USD 50 million)*

The primary objective of SPARX's Mid and Small Cap Strategy is to achieve long term capital appreciation by primarily investing in publicly-listed securities of Japanese Mid and Small Cap companies. The strategy employs a bottom-up investing strategy to construct a diversified portfolio of securities using fundamental analysis. The strategy is not constrained by any particular investment style, though there is an emphasis on reasonable valuation in view of a company's expected growth rate. Portfolio construction is unconfined to a benchmark or tracking error. Furthermore, the strategy does not limit the percentage of assets invested in any particular industry or sector. There is no pre-defined universe for this strategy.

#### ***Japan Equity Long-Short Strategy :***

*(Minimum investment for Separate account - USD 50 million)*

The primary objective of SPARX's Long-Short Strategy is to preserve capital and maximize capital appreciation by maintaining a diversified portfolio using minimal leverage. The strategy employs a bottom-up investing strategy and selects both long and short publicly-listed securities of Japanese

companies using fundamental analysis. The strategy proactively manages both market exposure levels and sector allocations. Futures and options may also be used for hedging purposes and non-Japanese yen exposure is typically fully hedged.

***Japan Equity Focus All Cap Strategy:***

*(Minimum investment for Separate account – USD 100 million)*

The primary objective of SPARX's Focus All Cap Strategy is to achieve long term capital appreciation by primarily investing in publicly-listed securities of Japanese companies. The strategy employs a bottom-up investing strategy to construct a diversified portfolio of securities using fundamental analysis, with an emphasis on a long-term view. The strategy is focused on a core group of 10 to 20 securities that enable high-conviction names to have a meaningful impact on the strategy's performance. Portfolio construction is unconfined to a benchmark or tracking error. Furthermore, the strategy does not limit the percentage of assets invested in any particular industry or sector. There is no pre-defined universe for this strategy.

***Japan Equity Clean Tech. Strategy***

*(Minimum investment for Separate account – USD 50 million)*

The primary objective of SPARX's Clean Tech Strategy is to achieve mid- to long-term capital appreciation by primarily investing in publicly-listed securities of Japanese companies that possess technologies, systems or know-how that would become key components of the Smart Grid. These technologies include renewable energy related technologies, photovoltaic panels, hybrid/electric vehicles, batteries, power condensers, sensors, high-efficiency air conditioners, LED lights and more. The term "Smart Grid" is broadly defined as encompassing not only traditional electricity infrastructure such as power generation facilities and transmission and distribution networks, but also buildings, homes, automobiles, battery systems, electric appliances and others that help reduce the emission of carbon dioxide gases.

***Japan Equity Value Impact Strategy***

*(Minimum investment for Separate account – USD 50 million)*

The primary objective of SPARX Japan Equity Value Impact Strategy is to achieve mid- to long-term capital appreciation. The strategy is a concentrated activist one focused on a limited number of core investments. The investment team intends to identify Japanese listed companies that are not only trading at a considerable discount to their intrinsic value, but have clear means to improve their return on equity, or ROE. The Fund intends to acquire significant (typically 5% to 20%) ownership stakes in companies and the investment team will generally work with management to create value for shareholders in a collaborative manner. The investment team seeks to unlock

hidden value through encouraging balance sheet restructurings, strategy changes, partnerships, divestitures, and sales of companies.

#### Risk of Loss

Investments in client accounts and funds are subject to a number of risks, including the risk that securities prices may decline, or appreciate in the case of a short position, over short or even extended periods, economic, political and financial market risks, and interest rate fluctuations. The risks may significantly affect the performance of a strategy. There can be no assurance that a strategy will be able to achieve its investment objectives or the investors will receive a return of their capital.

### **7. Disciplinary Information**

Neither SPARX nor any of its management persons or employees have had any legal or disciplinary events that would be material to a client's evaluation of the company or its personnel.

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

SPARX is registered with Japanese regulators to conduct Type 1 and Type 2 Financial Instruments Business which allows SPARX mainly to distribute its funds to Japanese investors, real estate broker or dealer and insurance agency which allows SPARX to make deals for Japanese customers. Neither SPARX 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.

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

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

- Each access person and associated person of SPARX (i) owes a fiduciary obligation to the company'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 SPARX must comply at all times with applicable rules and regulations.
- Each access person of SPARX must provide periodic personal holdings and transaction reports to the Chief Compliance Officer or his/her designee.
- Each access person and associated person of SPARX must report violations of the code of ethics to the Chief Compliance Officer or his/her designee.
- Each access person and associated person of SPARX 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.

In addition, the code of ethics contains policies and procedures concerning the misuse of material non-public information, political activities and contributions. It also contains restrictions on the receipt of gifts and entertainment.

SPARX will provide a copy of the company's code of ethics to any client or investor or perspective client or investor upon request.

## **10. Brokerage Practices**

SPARX does not have any soft-dollar arrangements and does not receive any soft-dollar benefits.

Generally, SPARX provides portfolio management services and manages client accounts and funds on a discretionary basis. SPARX may therefore, without first obtaining client consent, determine securities to be bought or sold, the amount of the securities to be bought or sold, the broker-dealers to be used, the commission rate to be paid, and the markets on which the transactions will be executed. In order for SPARX to exercise investment discretion over a particular client account or fund, that client or fund must execute an investment advisory or management agreement, each of which gives SPARX the express authority to conduct discretionary trades on behalf of the client or fund.

When placing trades for clients, SPARX allocates brokerage transactions to such broker-dealers for execution on such markets at such prices and commission rates as is in the best interests of the clients. However, a broker-dealer is selected not only based on its trade execution capabilities, but also its administrative processing capabilities, research services including market information, company meeting arrangements, and its compliance attitude.



SPARX recognizes its fiduciary obligation to manage client's accounts and funds fairly and equitably. The aggregation or blocking of client transactions allows SPARX to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients. SPARX may utilize aggregate trading where possible and when beneficial to our clients. Instances where a price limit is different from portfolio to portfolio or where a redemption occurs and cash must be raised quickly, will make it difficult to aggregate client orders and therefore may not be done. In these instances, transactions will have to be made individually.

## **11. Review of Accounts**

Daily and/or monthly net asset value ("NAV") reports are prepared for each client account and fund advised by SPARX. Client and fund portfolios are monitored and reviewed on a continual basis by the relevant portfolio manager, risk management team, and Legal & Compliance. The portfolios of client accounts and funds are also reviewed at the Investment Policy Committee, comprised of the director who is responsible for the Investment & Research division, portfolio managers, risk manager and compliance officer, on a regular basis. At each committee meeting, discussions and analysis concerning portfolio positions, market trends, investment opportunities as well as compliance of investment restrictions will take place.

Clients and fund investors will receive daily and/or monthly confirmation of their net asset value per share from the clients' or funds' administrators. A monthly performance report is also sent to fund investors, and if requested, to clients. 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.

## **12. Client Referrals and Other Compensation**

SPARX may enter into certain arrangements with third-party placement agents under which SPARX 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 or an affiliate.

## **13. 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 for and on behalf of the clients or the Fund investors provide the account statements to the clients typically monthly or at the frequency so 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.

## **14. Investment Discretion**

SPARX has discretionary authority to determine the securities to be bought or sold, the amount of such securities to be bought or sold, the broker or dealer to be used, and the commission rate to be paid with respect to the client accounts and funds. Limitations on this authority are outlined in each investment management and advisory agreement and fund's offering memorandum.

## **15. Voting Client Securities**

SPARX typically perform proxy rights directly or through the custodians as part of its discretionary authority to manage accounts, unless the client has explicitly reserved the authority for itself. When voting proxies, SPARX's primary objective is to make voting decisions including abstain solely in the best interests of its clients, without regard to the interests of SPARX. SPARX will act in a manner that it deems prudent and diligent and which is intended to enhance the value of the securities in the clients' portfolio. Whereas if the clients reserve the proxy voting authority, the clients themselves make a decision and perform the proxy rights. In this case the clients will receive the proxy directly from the custodians or their agents.

SPARX has adopted written Proxy Policy Guidelines and Procedures (the "Proxy Guidelines") that are reasonably designed to ensure that SPARX is voting in the best interest of its clients. The Proxy Guidelines reflect SPARX general voting positions on specific corporate governance issues. In general, SPARX make voting decision in accordance with the Proxy Guidelines, however, upon receipt of a client's written request, SPARX may also vote proxies for that client's account in a particular manner that may differ from the Proxy Guidelines. Deviation from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Investment Advisers Act of 1940. There may be times when SPARX will not vote proxies with respect to securities of any issuer if it determines that it would be in the client's overall best interests not to vote.

For the purpose of the efficient management of the entire proxy voting process, the Investment Policy Committee has been established and delegated ultimate authority to make any decision on the proxy voting including update of Proxy Guidelines..

To streamline the proxy voting process and support efficient decision making, SPARX may retain an independent third party service provider to assist in providing research, analysis and voting

recommendations on corporate governance issues as well as assist in the administrative process.

## **16. Financial Information**

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