

# Tanaka Capital Management



60 East 42<sup>nd</sup> Street, Suite 4000  
New York, NY 10165  
Ph: 212-490-3380  
[www.tanaka.com](http://www.tanaka.com)

**December 1, 2021**

**Form ADV Part II  
Brochure**

**This brochure provides information about the qualifications and business practices of Tanaka Capital Management. If you have any questions about the contents of this brochure, please contact us at 212-490-3380. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Tanaka Capital Management is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Tanaka Capital Management is 109888.**

**Tanaka Capital Management is a Registered Investment Adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.**

**Item 2: There are no material changes since TCM's 2020 ADV Part II in this submission**

## Table of Contents

<i>Item 1</i>	<i>Cover Page.....</i>	<i>1</i>
<i>Item 2</i>	<i>Material Changes.....</i>	<i>1</i>
<i>Item 3</i>	<i>Table of Contents.....</i>	<i>2</i>
<i>Item 4</i>	<i>Advisory Business.....</i>	<i>3</i>
<i>Item 5</i>	<i>Fees and Compensation.....</i>	<i>3</i>
<i>Item 6</i>	<i>Performance-Based Fees and Side by Side Management.....</i>	<i>4</i>
<i>Item 7</i>	<i>Types of Clients.....</i>	<i>5</i>
<i>Item 8</i>	<i>Methods of Analysis, Investment Strategies, and Risk of Loss.....</i>	<i>6</i>
<i>Item 9</i>	<i>Disciplinary Information.....</i>	<i>8</i>
<i>Item 10</i>	<i>Other Financial Industry Activities and Affiliations.....</i>	<i>8</i>
<i>Item 11</i>	<i>Code of Ethics, Client Transactions, and Personal Trading.....</i>	<i>8</i>
<i>Item 12</i>	<i>Brokerage Practices.....</i>	<i>9</i>
<i>Item 13</i>	<i>Review of Accounts.....</i>	<i>10</i>
<i>Item 14</i>	<i>Client Referrals and Other Compensation.....</i>	<i>10</i>
<i>Item 15</i>	<i>Custody.....</i>	<i>11</i>
<i>Item 16</i>	<i>Investment Discretion.....</i>	<i>11</i>
<i>Item 17</i>	<i>Voting Client Securities.....</i>	<i>11</i>
<i>Item 18</i>	<i>Financial Information.....</i>	<i>13</i>

#### **Item 4            Advisory Business:**

Tanaka Capital Management (“TCM”) is a registered investment advisor with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. The firm was founded in 1986 and is partially owned by Graham Y. Tanaka (87% ownership) and Benjamin M. Bratt (13% ownership).

TCM provides investment management services to individuals, pension plans, foundations, endowments, and is advisor to the TANAKA Growth Fund (ticker: TGFRX).

Prior to each client’s account opening, Tanaka Capital Management obtains substantial background information about financial circumstances, investment objectives and risk tolerance, among other things, through an in-depth interview and information gathering process. TCM has multiple products with different risk profiles, and provides its advisory services consistent with client objectives and needs. Clients may impose restrictions on certain investments (e.g. tobacco companies) or request a more customized portfolio to fit their individual circumstances.

As of 02/28/2021, Tanaka Capital Management had assets under management of approximately \$67,000,000.

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

Tanaka Capital Management, in general, charges an annual fee amounting to a percentage of the appraised value of assets under management. In some cases, fees are negotiable if the account size is large enough or other circumstances warrant a change to the fee schedule.

##### *Fee Schedule for Investment Management Services for Equity Accounts:*

<u>Assets under Management</u>	<u>Annual Management Fee</u>
Less than \$10,000,000	\$1,000 plus 1%
Between \$10,000,000 and \$25,000,000	1%
Between \$25,000,000 and \$50,000,000	0.75%

##### *Fee Schedule for Investment Management Services for Balanced Equity and Fixed Income Accounts:*

<u>Assets under Management</u>	<u>Annual Management Fee</u>
Less than \$10,000,000	\$1,000 plus 1% of Equity Value and 0.5% of Fixed Income Value
Between \$10,000,000 and \$25,000,000	1% of Equity Value and 0.5% of Fixed Income Value
Between \$25,000,000 and \$50,000,000	0.75% of Equity Value and 0.4% of Fixed Income Value

There is a minimum annual fee of \$5,000 for separately managed accounts. Prior to August 26, 1997, Tanaka Capital Management's standard fee schedule was the same as above, except the \$1,000 portion was waived for assets over \$1,000,000. Existing clients prior to this date have been grandfathered.

Fees are paid quarterly, in advance, and the clients decide whether they want the fee debited directly from the account or billed directly. For those clients who give authority to have payments directly debited from their accounts, Tanaka Capital Management notifies them in writing of the exact amount of the withdrawal and provides the manner and basis on which the fee is calculated.

The investment advisory agreements between Tanaka Capital Management and its clients provide that, subject to the provision of the Investment Advisors Act of 1940 relating to "assignment," such arrangements may be terminated by the client or Tanaka Capital at any time upon written notice and without penalty. Any fees paid but not earned (e.g. with respect to an account cancelled during the quarter) are refunded on a pro rata basis from the date of termination. In addition, it is Tanaka Capital Management's policy to prorate client's advisory fees for any capital inflows or outflows of \$10,000 or greater during a quarter.

Clients may incur expenses from other service providers separate from Tanaka Capital. These expenses may include custody fees and brokerage fees, which are described in "Item 12." In some instances, clients whose assets are invested in money market or mutual funds may be assessed an additional advisory fee by the respective fund advisor. These fees are separate and not related to Tanaka Capital Management's fee. Tanaka Capital Management and its employees have no control over nor receive a benefit or compensation from any of these fees. Tanaka Capital Management and its employees do not receive compensation from the sale of securities or any other investment products.

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

In certain circumstances, and at the request of the client, the advisory contract has been negotiated to reflect performance fees as provided for in Reg. 275.205-3 of the Investment Advisors Act of 1940. In the past, Tanaka Capital Management had the following performance based fee: for the initial twelve months of management, the annual fee is a flat 1.0% of the assets under management. In subsequent periods, for portfolios valued at less than \$1,000,000, the annual fee is \$1,000 per account plus 0.5% of assets per year if the "compound total return" measured from inception date to the date of fee calculation is less than 10.0% per annum. If the "compound total return" is greater than 10.0% per annum, but less than 16.0% per annum, the fee is \$1,000 plus 1.0% of assets per year. If the "compound total return" is greater than 16.0% per annum, the fee is \$1,000 plus 1.5% of assets. For portfolios valued at \$1,000,000 or more, after the first twelve months the above rate structure applies, however the \$1,000 per account per year portion of the fee is waived.

Currently, Tanaka Capital Management does not manage any accounts with performance-based fees.

## ***Item 7            Type of Clients***

Tanaka Capital Management provides investment management services to individuals, pension plans, foundations, endowments, and is advisor to a publicly traded mutual fund, the TANAKA Growth Fund (ticker: TGFRX). The preferred minimum separately managed account size is \$400,000. The minimum initial investment in the TANAKA Growth Fund is \$2,000.

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

Tanaka Capital Management's investment in equity securities will generally consist of issues which the portfolio managers believe have capital growth potential due to factors such as:

- rapid growth in demand in existing markets;
- expansion into new markets;
- new product introductions;
- reduced competitive pressures;
- cost reduction programs;
- changes in management; and
- other fundamental changes which may result in improved earnings growth or increased asset values.

Tanaka Capital Management relies on research, management meetings and industry contacts to identify:

- companies with above-average long-term earnings growth potential that could exceed market expectations;
- industries that are positioned to participate in strong demographic, societal or economic trends; and
- companies within those industries that have a particular competitive advantage or niche.

Tanaka Capital Management may sell a security when:

- the fundamentals of the company are expected to decline;
- the security reaches a target price or price-to-earnings ratio; or
- TCM decides to reallocate assets to another security or sector with superior risk-adjusted capital growth potential.

While portfolios usually will diversify investments across a range of industry sectors, certain sectors are likely to be overweighted compared to others because TCM actively seeks the best investment opportunities regardless of sector. For example, a portfolio may be overweighted at times in the financial services, technology and/or pharmaceutical/health care sectors. The sectors in which portfolios may be overweighted will vary at different points in an economic cycle.

Tanaka Capital Management's methods of security analysis are heavily weighted towards a fundamental approach:

*Fundamental* - A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the

financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (underpriced = buy, overpriced = sell). This method of security analysis is considered to be the opposite of technical analysis. Fundamental analysis is about using real data to evaluate a security's value. Although most analysts use fundamental analysis to value stocks, this method of valuation can be used for just about any type of security.

However, Tanaka Capital Management may also use the following methods of security analysis:

*Charting* - The set of techniques used in technical analysis in which charts are used to plot price movements, volume, settlement prices, open interest, and other indicators, in order to anticipate future price movements. Users of these techniques, called chartists, believe that past trends in these indicators can be used to extrapolate future trends.

*Cyclical* - Analyzes the investments and sectors sensitive to business cycles and whose performance is strongly tied to the overall economy. For example, cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and higher demand during upswings. Examples include the automobile, steel, and housing industries. The stock price of a cyclical company will often rise just before an economic upturn begins and fall just before a downturn begins. Investors in cyclical stocks try to make the largest gains by buying the stock at the bottom of a business cycle, just before a turnaround begins.

*Technical* - A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

### Risk of Loss

Past performance is not indicative of future results. Different classes of investments have varying degrees of risk. Clients and prospective clients should be prepared to bear investment loss including loss of original principal. Because of the inherent risk of loss associated with investing, Tanaka Capital Management is unable to represent, guarantee, or even imply that our services and methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. Other risks associated with investing:

*Management Risk* - Tanaka Capital Management's undervalued growth-oriented investment approach may fail to produce the intended results.

*Smaller Company Risk* - To the extent that a portfolio invests in smaller capitalization companies, clients and shareholders will be subject to additional risks. These include:

- The earnings and prospects of smaller companies may be more volatile than larger companies.
- Smaller companies may experience higher failure rates than do larger companies.

- The trading volume of securities of smaller companies is normally less than that of larger companies and, therefore, may disproportionately affect their market price, tending to make them fall more in response to selling pressure than is the case with larger companies.
- Smaller companies may have limited markets, product lines or financial resources and may lack management experience.

*Single Company Investment Risk* - Some accounts may invest a larger portion of its assets in one or more companies than would a more diversified portfolio, and the value of those portfolios may disproportionately decrease in response to the activities and financial prospects of an individual company in a portfolio. The value of an individual company can be more volatile than the market as a whole.

*Market Risk* - Overall stock market risks may also affect the value of a portfolio. Factors such as domestic economic growth and market conditions, interest rate levels and political events affect the securities markets and could cause a portfolio's value to decrease.

*Foreign Risk* - To the extent that a portfolio invests in foreign securities, it could be subject to greater risks because the portfolio's performance may depend on issues other than the performance of a particular company. Changes in foreign economies and political climates are more likely to affect portfolios that invest in foreign companies than a portfolio that invests exclusively in U.S. companies. The value of foreign securities is also affected by the value of the local currency relative to the U.S. dollar. There may also be less government supervision of foreign markets, resulting in non-uniform accounting practices and less publicly available information.

Investment in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in securities of foreign issuers outlined in this section to a heightened degree. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the market for such securities and a low or nonexistent volume of trading, resulting in lack of liquidity and in price volatility; (iii) certain national policies which may restrict a Fund's investment opportunities; and (iv) in the case of Eastern Europe and in China and other Asian countries, the absence of developed capital markets and legal structures governing private or foreign investment and private property and the possibility that recent favorable economic and political developments could be slowed or reversed by unanticipated events.

In addition to brokerage commissions, custodial services and other costs relating to investment in emerging markets are generally more expensive than in the United States. Such markets historically have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions.

*Non-Diversification Risk* - A portfolio may at times focus on a limited number of companies and will be subject to substantially more investment risk and potential for volatility than a diversified fund.

*Sector Risk* - If a portfolio is overweighted in a certain industry sector, any negative development affecting that sector will have a greater impact on the Fund than a fund that is not overweighted in that sector. For example, to the extent a portfolio is overweighted in the financial services sector, the technology sector or the pharmaceutical/health care sector, it will be affected by developments affecting

the applicable sector. All three sectors are subject to changing government regulations that may limit profits and restrict services offered. Companies in these sectors also may be significantly affected by intense competition. In addition, the profitability of companies in the financial services industries can be significantly affected by the cost of capital and changes in interest rates, and technology and pharmaceutical/health care products may be subject to rapid obsolescence.

*Volatility Risk* - Common stocks tend to be more volatile than other investment choices. The value of an individual company can be more volatile than the market as a whole.

### ***Item 9           Disciplinary Information***

There have been no criminal or civil actions against Tanaka Capital Management or any of its personnel. Tanaka Capital Management and its personnel have never had any violations of investment-related statutes or regulations.

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

Tanaka Capital Management is the investment advisor for a publicly-traded mutual fund, the TANAKA Growth Fund (ticker: TGFRX), pursuant to an investment advisory agreement dated December 14, 1998 and renewed annually. Tanaka Capital Management has policies and procedures in place to ensure that trading programs are fair and equitable to all clients with no particular group or client(s) being favored or disfavored over any other clients. These procedures eliminate any conflicts of interest.

Tanaka Capital Management does not recommend or select other investment advisors for its clients.

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

Tanaka Capital Management has a Code of Ethics that all employees sign upon commencement of employment and annually thereafter.

Although this Code contains a number of specific standards and policies, there are three key principles embodied throughout the Code:

- 1) The Interests of Clients and Shareholders Must Always Be Paramount - Tanaka personnel have a legal and fiduciary duty to place the interests of clients first. In any decision relating to their personal investments, Tanaka personnel must make sure to avoid serving their own interests ahead of those of any client.
- 2) Tanaka Personnel May Not Take Inappropriate Advantage of Their Relationship to Clients and Shareholders - personnel should avoid any situation (unusual investment opportunities, perquisites, and accepting gifts of more than token value from persons seeking to do business with TCM or the Company) that might compromise, or call into question, the exercise of their fully independent judgment in the interests of clients and shareholders.



3) All Personal Securities Transactions Should Avoid Any Actual, Potential or Apparent Conflicts of Interest - All personal securities transactions by Tanaka personnel must be conducted in a manner consistent with the Code of Ethics, and the Code itself is based upon the premise that Tanaka personnel owe a fiduciary duty to clients, and should avoid any activity that creates an actual, potential or apparent conflict of interest.

Tanaka Capital Management personnel are permitted to invest in the same securities as clients, though they may not sell a security within three calendar days before, or on the same day as, the execution of a trade in the same security or an equivalent security by the TANAKA Growth Fund unless the transaction is approved in advance in accordance with the Code. Tanaka personnel are allowed to execute transactions on the same day as separately managed account clients, provided that pre-clearance is obtained for the transaction and the employees' trades are executed after the clients' trades.

In some circumstances, approved in advance, Tanaka personnel are allowed to participate in offerings alongside clients and the Fund (e.g. registered direct offerings) provided that the allotment does not negatively impact the clients and Fund's ability for full allotment or affect execution price.

A copy of the Code of Ethics is available to any client or prospective client upon request.

## ***Item 12 Brokerage Practices***

In the past year, TCM used client brokerage commissions to obtain research reports on both industries and individual companies, and to gain access to brokerage-firm sponsored conferences, dinners, lunches, and one-on-one meetings with exposure to management of potential investments.

Tanaka Capital Management periodically reviews the firm's brokerage relationships, budget, and allocations. It is firm policy not to make any formal or contractual commitments for any obligations, and to make a good faith determination of the value of the research product or services in relation to the commissions paid.

When a firm uses client brokerage commissions to obtain research, it receives a benefit by not having to produce or pay for the research. In some cases, there may be an incentive to select a broker based on the firm's interest in obtaining research, rather than achieving most favorable execution for clients.

Brokers are primarily selected on the basis of a judgment on the part of the principals of TCM as to their ability to execute particular transactions on a timely basis at satisfactory prices.

The overall reasonableness of brokerage commissions paid is evaluated on the basis of such factors as the rate of commissions prevailing in the market generally for brokerage services, the size of the transactions involved, the prices obtained as well as the quality of any additional services, such as research services, rendered by such brokers.

In recognition of the value of research services provided by a particular broker, Tanaka Capital Management may from time to time pay a broker's commission in excess of that which another broker

may have charged, although, generally, TCM attempts to negotiate commission rates that are believed to be at or about the level being charged generally for common rendered brokerage and research services.

Given the number of securities transactions involved, the varying sizes of the different orders and number of accounts, it is not practicable to isolate and identify the research services and information which may have been received on account of commissions paid by a particular account as solely attributable to that account. Accordingly, the benefit of research services and information obtained through the execution of securities transactions for one account may also accrue to other accounts; any such services and information arising out of execution of securities transactions for such other accounts may in turn accrue to the first account.

Tanaka Capital Management may accept client instructions for directing the client's brokerage transactions to a particular broker-dealer. In such cases, TCM will notify the client that that such an arrangement may cost the client more money due to higher commission costs or less favorable pricing. TCM does not pay brokerage for client referrals.

For accounts held at a custody bank, when possible, TCM will aggregate trades in a block for the purchases and sales to obtain better execution, volume discounts and lower per-share commissions. TCM has procedures in place to allocate block orders amongst participating clients so that no one client is favored. A computer generated random number assigns the starting point of each allocation, then proceeds alphabetically down the participating client list. Each participating client has the opportunity to be filled first. In the event a block order is not completed on the first day, the same allocation order is continued on the second day and thereafter until the order is completed.

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

Tanaka Capital Management regularly reviews client accounts. Review may start with information on a specific company and then move to examining the data in connection with the accounts which hold the securities, or it may proceed with a general review of all accounts, or the accounts in certain categories. Because the organization is intended to remain small in order to foster quicker decision-making and better communication with clients, there is no "formal" procedure for review.

Generally, every account is reviewed once a week when the Tanaka Capital Management "Position Matrix" reports are distributed to the portfolio managers. When trading programs are pending, reviews may be daily.

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

Tanaka Capital Management may offer and compensate individuals for referring clients to the firm. Compensation agreements may reflect fixed fees, a percentage of the TCM's fees, or a combination thereof. Such compensation agreements are disclosed to prospective accounts to which they would apply prior to acceptance for investment management.

### ***Item 15 Custody***

New clients are generally offered the choice of having portfolio custody at a custody bank or a brokerage firm. The costs and benefits of each are explained, and depending on such factors as portfolio size, location, service levels and trading activity, a specific recommendation is often provided. All transactions of broker-resident accounts are directed to that broker. Broker-resident portfolios are usually charged a nominal custody fee and generally enjoy discounted commissions. In addition, some brokerage firms charge minimum commissions on smaller trades ranging anywhere from \$17.00 to \$85.00 depending on the firm. The minimum ticket charges may affect the cents per share commissions on these trades. However, the overall commissions for broker-resident accounts may be higher than for custody accounts which benefit from block trading volume discounts. Custody bank accounts are generally subject to higher custody fees, but transactions for custody-resident accounts are blocked together to achieve volume discounts which, in general, provides lower commission costs. Block placed orders have very little beneficial differences, on average, in realized execution price versus individually placed orders on a sequential and random basis.

Clients receive monthly statements from their custodian, and quarterly statements from Tanaka Capital Management. TCM encourages clients to compare the account statements that they receive from their custodian to those received from Tanaka Capital.

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

Once the client signs the investment advisory agreement, Tanaka Capital Management maintains full discretionary authority to determine the type and amount of securities to be bought and sold, the broker or dealer to be used and the commission to be paid. In unusual circumstances, a client may require prior notification and approval of securities bought and sold and may also determine the broker to be used.

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

Tanaka Capital Management has adopted the following policies and procedures for proxy voting with regard to companies in investment portfolios of our clients. It should be noted, however, that due to differing circumstances among clients, some clients receive and vote their proxies themselves.

#### **KEY OBJECTIVES:**

The key objectives of these policies and procedures recognize that a company's management is entrusted with the day-to-day operations and longer term strategic planning of the company, subject to the oversight of the company's board of directors. While "ordinary business matters" are primarily the responsibility of management and should be approved solely by the corporation's board of directors, these objectives also recognize that the company's shareholders must have final say

over how management and directors are performing, and how shareholders' rights and ownership interests are handled, especially when matters could have substantial economic implications to the shareholders.

#### DECISION METHODS:

Tanaka Capital Management generally believes that the individual portfolio managers and analysts that invest in and track particular companies are the most knowledgeable and best suited to make decisions with regard to proxy votes. Therefore, TCM relies on those individuals to make the decisions on how to cast proxy votes. The research staff will then physically vote the proxies in a timely manner, and keep the required records.

In some instances, a proxy vote may present a conflict between the interests of a client, on the one hand, and our interests or the interests of a person affiliated with us, on the other. In such a case, we will abstain from making a voting decision and will forward all of the necessary proxy voting materials to the client to enable the client to cast the votes.

#### SUMMARY OF VOTING GUIDELINES FOR COMMON ISSUES:

In general, barring any unusual circumstances, we will tend to vote in the following manner.

ROUTINE ELECTION OF THE BOARD OF DIRECTORS	FOR
APPROVAL OF INDEPENDENT AUDITORS	FOR
ISSUANCE OF AUTHORIZED COMMON STOCK	FOR
EQUITY-BASED COMPENSATION PLANS	CASE BY CASE
STOCK REPURCHASE PLANS	FOR
STOCK SPLITS	FOR
CLASSIFIED BOARDS	AGAINST
REQUIRE SHAREHOLDER APPROVAL OF GOLDEN PARACHUTES	FOR
REQUIRE SHAREHOLDER APPROVAL OF POISON PILL	FOR
SHAREHOLDERS' RIGHT TO ACT BY WRITTEN CONSENT	FOR
SHAREHOLDERS' RIGHT TO CALL SPECIAL MEETINGS	FOR

A copy of these Proxy Voting Policies and Procedures is available to our clients, free of charge, upon request, by calling 212-490-3380. We will send a copy of these Proxy Voting Policies and Procedures within three business days of receipt of a request, by first-class mail or other means designed to ensure equally prompt delivery.

In addition, we will provide each client, upon request and without charge, information regarding the proxy votes cast by us with regard to the client's securities.

***Item 18 Financial Information***

Tanaka Capital Management is not required to provide a balance sheet since it does not have custody of client funds or securities nor does it require prepayment of more than \$1,200 in fees per client, six months or more in advance.

Due to the unprecedented uncertainty caused by COVID-19, Tanaka Capital Management applied for and received a loan from the Payroll Protection Plan in the amount of \$36,107.00. TCM undertook this action to ensure that extreme market dislocations would not cause undue economic stress to the firm. The proceeds were applied in accordance with the terms of the loan.