

## Compliance with Japan's Stewardship Code

May 2014

Asuka Asset Management Co., Ltd.

Asuka Asset Management Co., Ltd. (hereinafter "we" or "us") hereby announces our decision for our managed fund, the Asuka Value Up Fund, to support the principles for responsible institutional investors under Japan's Stewardship Code. Our announcement regarding the Asuka Value Up Fund is as follows:

### Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>

**Principle 1 Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.**

- We invest through the Asuka Value Up Fund in small- to medium-cap listed companies in Japan. Our investments are carefully selected, taking a long-term, amicable approach that aims to increase investees' corporate values.
- Our intention is to increase corporate values of the investee companies through amicable and constructive communication with them. It is our goal to help accelerate mid- to long-term growth, as well as to realize the hidden value potential of an investee company through business relationships with major stakeholders, including the Asuka Value Up Fund and the investee companies. We regard investee companies of the Asuka Value Up Fund as partners with whom we work together to enhance corporate values, rather than mere financial assets.
- We believe that our investment philosophy hitherto discussed adheres to Japan's Stewardship Code's principles. We and our Advisory Partner, Asuka Corporate Advisory Co., Ltd. (hereinafter the "Advisory Partner") establish trust with our investee companies through in-depth discussions with the management. These "purposeful dialogues" bring awareness to, and empathy from, the investee's management. We believe that such a dialogue leads to an acceleration of the investee company's mid- to long-term sustainable growth, which in turn will achieve improvement of their corporate value and a fair valuation by the capital market.
- To fulfill our responsibilities under the Japan's Stewardship Code, we and our Advisory Partner engage in "wide-ranging and in-depth" research (hereinafter

“in-depth research”). We and our Advisory Partner evaluate a company’s competitiveness and business advantage, based on first-hand information obtained through discussions with top management, visits to various facilities owned by the company, research on companies in the same industry and speaking with customers of the company. We believe that our approach provides a solid foundation on which we can fulfill our stewardship responsibilities.

**Principle 2 Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.**

- Currently, we do not engage in proprietary trading, nor do we have any intention of doing so in the future. Therefore, any conflicts of interest with our clients/beneficiaries are considered to be limited.
- We understand that conflicts of interest under our stewardship responsibilities include conflicts that arise in relationships between clients/beneficiaries and ourselves, between our affiliates and our clients/beneficiaries, and between our clients/beneficiaries and other clients/beneficiaries.
- To prevent the interests of our clients/beneficiaries from being undermined unjustly, we have in place monitoring policies that guard against conflicts of interest and establish a framework for adherence to the law.

**Principle 3 Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities and support the sustainable growth of the companies.**

- When monitoring our investee companies, we focus both on their strategic and financial goals as well as their short term and mid- to long-term points of view. By doing so, we can reduce the risk of investee companies making shortsighted decisions and can develop strategic road maps for the sustainable growth.
- For the sake of proper monitoring, we believe in the indispensability of meaningful communication with an investee company's management. Communications by means of proposals to increase corporate values by our Advisory Partner and us enable in-depth discussions with investees' management teams regarding corporate strategies. Through these discussions, we deepen our convictions on the future of these companies as well as grasp their corporate information more accurately. Consequently, we believe that our clients/beneficiaries will enjoy higher and more consistent profits.
- In-depth research, which we and our Advisory Partner conduct, will provide a foundation that will lead to a more constructive communication with the management teams of our investee companies. Our in-depth research is achieved through methods such as telephone interviews with contacts at investee companies, in-person interviews or visits to facilities as well as peripheral investigations on competitors, industry interest groups, research institutions, related government agencies, client companies, sell-side analysts, members of the media, etc. We believe that it is particularly important to pay visits to investees as well as their facilities. We believe that doing legwork to get a feel for an investee company's "atmosphere" will be a significant part of properly fulfilling our stewardship responsibilities.
- When assessing an investee company's ability to achieve their strategic goals, we believe it is indispensable to confirm that their management strategy is on the right track as well as to confirm their organizational capabilities. For this, we conduct meetings with investee company's personnel coming from a wide range of strata. Through conducting meetings with a point of contact who is in line with each of our objectives, coming from the level of personnel directly in charge of each project to the management level, we strive to accurately comprehend conditions of our investees so that we can confirm their managing strategy and actual management practices are consistent.
- As a standard, meetings with investee companies are held every quarter when

financial data is released, though meetings are often conducted more frequently. The “purposeful dialogues” mentioned in the principle 4 do not necessarily coincide with the company’s disclosure cycles, and therefore, our goal is to conduct as many interviews as possible, regardless of the timing of the publication of quarterly financial data.

- We believe that our investment style of careful selection, which takes a long-term, amicable approach, is extremely effective to monitor our investee companies, as it makes it possible to concentrate our resources on a limited number of investee companies for the mid to long term, stockpile our knowledge, and be sensitive to corporate transformations within the investee company.
- We feel certain that our investing process and style will let us effectively monitor the investee companies and properly fulfill our stewardship responsibilities.

**Principle 4 Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies .**

- We understand that, in order to further augment our clients' and beneficiaries' interests, improving investment and research skills of ourselves and conducting "purposeful dialogues" with our investees is undividable and integral. It is our understanding that "value up activities" and "purposeful dialogues," upon which we and our Advisory Partner are embarking, are synonymic.
- Our "value up activities" are propositions of hypothesis to improve corporate values, based on in-depth research. As part of our "value up activities," we provide hypotheses to strengthen advantages of our investee companies, while also helping them improve their weaknesses. Those hypotheses we provide fall under a wide range of areas, such as management methods, finance/capital, governance, PR/IR, etc. We share these hypotheses with the investee company's management and have a sincere dialogue with them to reach mutual understandings that will promote an increase in corporate value in the medium to long run. We are also proactive in our support of their management with their problem solving.
- From the managerial standpoint, our interests are aligned with those of the management, and we focus on how to strengthen the investee company's mid to long-term competitive sustainability and from what kinds of methods it could be fortified. From a financial standpoint, we focus on improving ROIC (Return on Invested Capital), as that often reflects a company's competitive ability and is tolerant to influences of capital strategies. We also consider it important that ROE (Return on Equity) improves in the medium to long term. We strongly believe that our value up recommendations will be understood and implemented by our investee companies, and as a result, financial indicators mentioned above will improve.
- Our value up suggestions are not limited by the short-term view of the capital markets nor would we repeat standardized academic theories, but rather, we provide custom-tailored suggestions based on things such as each company's history, personnel, and position in the industry, and intent to augment corporate value in the mid to long term.
- It is not our intention to have "purposeful dialogues" with companies in which we own shares on the premise Acts of Making Important Suggestion. That notwithstanding, we will not hesitate to execute Acts of Making Important Suggestion in cases we determine that management's policies could be detrimental to shareholders' values (client/beneficiary values) as well as when executing such

acts are deemed effective in improving shareholders' values. Contrariwise, when we conclude that our Acts of Making Important Suggestion will not lead to positive results, we may decide not to make such proposals and even consider withdrawing our investment.

- We do not believe that shareholder meetings provide the best opportunities to introduce our suggestions. When an issue is detected, we arrange meetings with the management and discuss with them possible solutions. We will also consider exchanging views with other shareholders as well.
- Our "purposeful dialogues" are mainly conducted based on public information that does not include "undisclosed material facts." We will, though, when requested by an investee company, consider engaging in activities that may involve obtaining undisclosed material facts, in cases where managerial advice making use of our Advisory Partner's and our insights are requested, and such advice is deemed to be the most effective means to improve corporate values and shareholders' values. However, we will only follow this course if, in our or our Advisory Partner's opinion, it will improve corporate value. When engaging in such activities, we not only abide by the law, but we also, through our internal company policies, ensure that confidential information is properly protected and segregated. We also set a time limit on retaining material facts, and we do not trade shares of the investee company during that period.

**Principle 5 Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklists; it should be designed to contribute to sustainable growth of investee companies.**

- We consider voting to be one of the most important responsibilities of stewardship fulfillment. We and our Advisory Partner conduct thorough research on every agenda and discuss our voting amongst our entire team. We generally vote on all of our shares held.
- Our voting activities are regularly made public after being organized and summarized for each category in the forms of memos for investors or posted on our website. If there is any content or policies we gave particular consideration upon voting, we will separately report that matter, but the names of individual companies will principally be not disclosed.
- Our voting activities should not be considered separately from our stewardship responsibilities, but rather as an integral part of them, including “purposeful dialogues.” We will thus take our previous stewardship activities and the current condition of the investee company into account. We will also confirm the management’s views prior to the shareholders’ general meeting, and take their opinions into consideration upon exercising our voting rights.
- We do not plan to have any conditions placed on our voting. We continue to review each agenda individually. We are long-term investors and we take pride in understanding the medium- to long-term corporate strategies of investee companies through our “purposeful dialogues” with their management. We make our decisions based upon these understandings, aggregating all possible information regarding the companies.
- We emphasize that the purpose of our proposals is to sustain the capital efficiency of an investee company and not to be to the detriment of corporate value. Even though a proposal may have a negative impact on the company’s profit or corporate value in the short-term, we might not simply object to it as long as we believe that the proposal will have an additional positive impact on medium- to long-term corporate value during the period we intend to invest. On the other hand, if we judge that a particular proposal chiefly prioritizes the management’s private benefits and recognize conflicts with the interests of shareholders (clients/beneficiaries), we will object to it.



**Principle 6 Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.**

- We consider our clients/beneficiaries' understanding of stewardship activities to be an extremely important factor for the Asuka Value Up Fund. We report on activities engaged in by our Advisory Partner and us, including voting status, to our clients/beneficiaries to the extent that is possible to us, through monthly reports, quarterly reports or shareholder meetings.
- The extent of reporting and the format should be decided upon giving consideration to the related regulations and our relationship with investee companies. Depending on the content, reporting could be done verbally or written, as deemed appropriate. That said, we will also attempt to report on details of our value up suggestions individually to the extent possible. Additionally, we will also strive to provide opportunities in which our investee companies and clients/beneficiaries can enjoy direct discussions with each other.

**Principle 7 To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge on the investee companies and their business environment and capabilities to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.**

- It is our practice to conduct thorough research in order to reduce unnecessary burdens on investee companies during our meetings and to have productive and effective meetings. We understand that there are different types of meetings. Meetings with our contacts are for fact checking purposes, while those with management are for constructive “purposeful dialogues” purposes. Our research and discussions are designed according to the purpose of each individual meeting.
- We and our Advisory Partner are capable of conducting research for the purpose of investee company selection and of providing consulting services for the purpose of value up activities. These abilities of ours are combined to fulfill our stewardship responsibilities. Our team, which comprises specialists with various backgrounds, such as private equity, management consulting and fund management, is working on stewardship activities and improving their quality.
- We constantly re-examine our abilities in research consulting and we strive to expand our capabilities. In addition to individual self-improvement by our team members, we offer activities as an organization such as providing training given by outside specialists, offering participation in external seminars, and taking part in on-the-job training.. We strive to improve capabilities of our staff through these opportunities where they can study methods of assessing the most advanced technologies, the newest theories of management strategies, investment methods, and financial theories.
- We understand that stewardship activities are not only for the purpose of increasing corporate value, but also for upgrading institutional investor quality. To reduce the burden on investee companies and provide better quality engagements to companies, we believe it is important to exchange views with other investors in the industry, and we will continue our endeavors in this area.