

Compliance with Japan's Stewardship Code

November 2017 Revised

Asuka Asset Management Co., Ltd.

Asuka Asset Management Co., Ltd. (hereinafter “we” or “us”) hereby announces our decision for our management 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.

- Based on suggestions to improve corporate values, we make “long-term, carefully selected and amicable investments” in small- to mid-cap listed companies in Japan through the Asuka Value Up Fund.
- We intend to increase corporate values of the investee companies through amicable dialogues. It is our goal to help accelerate the strengths of an investee company and advance its mid- to long-term growth as well as to realize the hidden value potential of a company through cooperative 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 our partners to jointly enhance corporate values through communication, rather than stocks that are mere financial assets with no personalities.
- We believe that our investment philosophy hitherto discussed adheres to the spirit of Japan's Stewardship Code. 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. With awareness and empathy from the investee's management by these “purposeful dialogues,” we and our Advisory Partner believe that the investee company will accelerate its mid- to long-term sustainable growth, which in turn will achieve improvement of its 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 “broad 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 the management team including the top management, visits to various facilities owned by the company, research on companies in the same industry and interviewing customers of the company. We believe that these approaches provide a solid foundation to fulfill our stewardship responsibilities.
- In the investment chain, we aim to bring asset owners unique returns by finding the hidden value potential of a company through our unique approach and help realization of such value through dialogues. We also recognize that we undertake a role to enhance the wealth for Japan as a whole and improve the quality of the stock market through such activities.

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.

- Conflicts of interest which should be managed to fulfill our stewardship responsibilities are considered to include conflicts ① between our asset owners and ourselves, ② between our affiliates and our asset owners and ③ between our asset owners and other asset owners.
 - With regard to ①, we do not engage in proprietary trading, nor do we have any intention of doing so in the future. Therefore, there is no transaction which causes conflicts of interest between our asset owners and us.
 - With regard to ②, officers and employees at our affiliates are not involved in the process of making investments and exercise voting rights. Our independent investment committee decides investments and exercises voting rights based on objective advices from our Advisory Partner. Our affiliates do not offer a securities brokerage business so no conflicts of interest also arise from ②.
 - With regard to ③, we always take actions not for the benefit of a specific asset owner but to maximize returns on the Asuka Value Up Fund that we manage. In addition, there is a mechanism to avoid making a decision to prioritize a benefit to a specific asset owner, because making investments and exercising voting rights are decided by our independent investment committee as stated above.

Principle 3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

- When monitoring our investee companies, we and our Advisory Partner focus both on their strategic and financial perspectives as well as their short term and mid- to long-term views. By doing so, we attempt to eliminate the risk of investee companies making shortsighted decisions and develop hypotheses for sustainable growth.
- We believe it is indispensable to have meaningful communication with an investee company's management to assess the situation properly. Communications through proposals to increase corporate values by our Advisory Partner and us enable in-depth discussions with investees' management teams. Through these discussions, we and our Advisory Partner deepen our convictions on the future of these companies as well as grasp their corporate information more accurately, and consequently benefits generated for our asset owners will be more stable and be in the higher level.
- In-depth research, which we and our Advisory Partner engage in, will provide a foundation to make communication with the management teams of our investee companies more meaningful. 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 and our Advisory Partner believe that it is especially important to pay visits to investee companies 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 its strategic goals, we and our Advisory Partner believe it is essential to confirm validity of its management strategy and its organizational capabilities. For this reason, we and our Advisory Partner conduct

meetings with an investee company's personnel coming from a wide range of strata in compliance with laws and regulations. Through meetings with an appropriate point of contact ranging from the level of personnel directly in charge of a project to the management level, we strive to accurately comprehend conditions of our investee companies so that we can confirm that their management strategy and actual management practices are consistent.

- As a standard, meeting with investee companies is scheduled more than once every quarter when financial data is released, though there is no limit to this. We do not restrict frequency of "the purposeful dialogues" described below, as our goal is to conduct as many meetings as necessary.
- We believe that our investment style with "long-term, carefully selected and amicable approaches" is extremely effective to monitor our investee companies, as we can concentrate our resource on a limited number of investee companies for the mid to long term, stockpile our knowledge about the companies, and be sensitive to corporate transformations within the investee companies.
- We feel certain that we can fulfill our stewardship responsibilities through our investing process and style of effectively monitoring the investee companies.

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.

- In order to further augment our asset owners' interests, we understand that improving investment and research skills of our Advisory Partner and ourselves and conducting "purposeful dialogues" with our investees are undividable. It is our understanding that "value up activities" and "purposeful dialogues," upon which we and our Advisory Partners are embarking, are synonymic.
- Our Advisory Partner's and our "value up activities" are primarily propositions of hypothesis to improve corporate values, based on in-depth research. As part of value up proposals we and our Advisory Partner provide hypotheses to strengthen advantages of our investee companies, while also helping them improve on their weakness. Those hypotheses cover a wide range of areas, such as management methods, finance/capital, governance, PR/IR, etc. We and our Advisory Partner share these hypotheses with the investee company's management and have sincere dialogues with them to reach a mutual understanding that will promote an increase in corporate value in the mid to long term. We and our Advisory Partner are also proactive in our support of their management with their problem solving.
- From the managerial standpoint, we and our Advisory Partner focus on whether the investee company's competitiveness is sustainable in the mid- to long-term and how to strengthen it. From a financial standpoint, we focus more on improving ROIC (Return on Invested Capital), as that often reflects a company's intrinsic competitive ability and is tolerant to influence of capital strategies. We also consider it important that ROE (Return on Equity) improves in the mid to long term. We and our Advisory Partner 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 intend to augment corporate value in the mid to long term by providing custom-tailored suggestions based on each company's history, personnel, and position in the industry.

- We and our Advisory Partner have no 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 (asset owners’ 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 Suggestions will not lead to positive results, we may decide not to make such proposals and even consider withdrawing our investment.
- We and our Advisory Partner do not believe that shareholder meetings provide the best opportunities to introduce our suggestions. When an issue is detected, we and our Advisory Partner place a priority on arranging a meeting with the management and discussing with them possible solutions to the issue.
- We and our Advisory Partner mainly engage in “purposeful dialogues,” based on disclosed information. When requested by an investee company, we and our Advisory Partner consider taking part in activities that may involve obtaining material facts, in cases where an investee company asks for managerial advice utilizing our insights at a deeper level, and that is regarded as the most effective way to improve corporate and shareholders’ values. When engaging in such activities, we not only abide by laws and regulations, but we also ensure that confidential information is strictly managed with our internal company policies. We also do not trade shares of the investee company while we retain such information.
- We and our Advisory Partner intend to contribute to improving corporate values of investee companies through our unique proposals, and at the same time, we also recognize that there are cases where joint dialogues with other institutional companies can be beneficial. Therefore, we also consider jointly holding dialogues in compliance with laws and regulations, when it is recognized as necessary.

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 place voting as one of the most important activities to fulfill stewardship responsibilities. We and our Advisory Partner generally vote on all of our shares held, after we thoroughly study every agenda item and discuss our votes with our entire team.
- We take the standpoint that our voting activities should not be separated from our stewardship responsibilities, but rather should be decided through a series of stewardship activities including “purposeful dialogues.” We and our Advisory Partner will thus take our previous stewardship activities and the current condition of the investee company into account. We will also consider confirming the management’s views prior to the shareholders’ general meeting as a necessity, and take their opinions into consideration upon exercising our voting rights.
- We do not place any external conditions on our voting. We always make a decision after examining each agenda individually. As a long-term investor, we take pride in deeply understanding the mid- to long-term corporate strategies set by the management at investee companies through our “purposeful dialogues.” We make our decisions based on these understandings, aggregating all possible information regarding the companies.
- We emphasize that our proposals are meant to sustain the capital efficiency of an investee company and not damage corporate values. Even as a proposal may damage

the company's profit level and corporate values in the short term, we will not simply oppose to it as long as it is intended to create a possibility to additionally improve mid- to long-term corporate values during our intended investment period. In contrast, we will object to these proposals, when we consider that they solely prioritize the management's benefits to cause conflicts of interest with shareholders (interest of asset owners).

- We regularly release the result of our voting by organizing and summarizing each type as documents for investors on our website. We separately disclose any details and policies especially taken into account for voting, but we will not provide the name of individual companies in principal. The reasons are stated below.
 - The Asuka Value Up Fund is a fund that invests in a limited number of companies and conducts a wide range of value up activities and engagement activities for these companies.
 - Therefore, information on the companies invested by the Asuka Value Up Fund is important for the fund's asset owners, and we believe that making this information public through individual disclosures of voting activities may damage benefits of the fund's asset owners.
 - Notwithstanding the above, we will respond to a request for individual disclosures from an asset owner of the Asuka Value Up Fund.

Principle 6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their asset owners.

- We believe that it is extremely important for the Asuka Value Up Fund to obtain understanding of our stewardship activities from our asset owners. We report to our asset owners on our activities and voting status to the greatest extent possible through monthly reports, quarterly reports or investors meetings.
- The scope and form of reporting is determined with consideration to relevant regulations and our relationship with investee companies. Depending on the content, we make the report in an appropriate manner such as verbally or in writing. We will also report on details of proposals in our individual value up activities to the greatest extent possible, so that it can provide opportunities for our asset owners to have direct discussions with our investee companies.

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.

- We and our Advisory Partner attempt to improve quality and efficiency of meetings with investee companies by conducting thorough research on the companies to reduce their additional burdens prior to meetings. With regard to individual meetings, we understand that meetings to confirm facts with staff in charge of projects are different from meetings for constructive "purposeful dialogues" with the management. We thus aim to conduct appropriate research and discussions, depending on the purpose of each meeting.
- We and our Advisory Partner have capabilities to conduct research for selecting

companies and provide consulting services for value up activities. We and our Advisory Partner combine these abilities to fulfill our stewardship responsibilities. Our team, whose members are specialists with various backgrounds including private equity, management consulting and fund management, engages in stewardship activities to improve their quality.

- We and our Advisory Partner constantly review our abilities in research and consulting and consider it necessary to continue to expand our capabilities. In addition to self-improvement in skills of each member in our team, we offer organizational engagements such as training by outside specialists, participating in external seminars, and taking part in on-the-job training. Through such activities, we study methods to assess the leading technologies, the latest management strategy theories, investment methods and financial theories to improve our capabilities.
- We and our Advisory Partner understand that stewardship activities are not only for the purpose of increasing corporate value, but also for enhancing the quality of institutional investors. For this purpose, we and our Advisory Partner also deliver our philosophy and activities to society through external activities and engage in raising the level of institutional investors and the overall stock market.
- We and our Advisory Partner arrange training sessions to regularly make a self-assessment on the implementation status of each principle in the stewardship code.