

Please note that the following is an unofficial English translation of the Japanese original text of the Corporate Governance Report filed with the Tokyo Stock Exchange. SPARX Group provides this translation for reference and convenience purposes only and without any warranty as to its accuracy. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

Last Update: June 30, 2022  
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The following is an overview of corporate governance at SPARX Group Co., Ltd.

## I. Basic Philosophy of Corporate Governance, Capital Structure, Company Attributes, and Other Basic Information

### 1. Basic Philosophy (updated)

Since its founding in 1989, SPARX Group has managed investments using a thorough bottom-up approach grounded in the philosophy that “the Macro is the Aggregate of the Micro.” Thus the Company has offered asset management services that have earned the trust of numerous clients.

By achieving sustainable growth and improved corporate value over the medium to long term, SPARX Group keeps striving to realize its mission “to make the world wealthier, healthier, and happier,” as it becomes “the most trusted and respected investment company in the world.”

In its efforts to further improve corporate governance, the Company instituted an Audit and Supervisory Committee—composed of members of the Board of Directors—that audits the directors’ executive actions to delineate the boundary between audits and executive action and improve the supervisory function of the Board. This Committee’s creation also accelerates executive action by largely transferring authority from the Board to the directors themselves.

### Reasons for Non-compliance with the Principles of the Corporate Governance Code (updated)

(Supplementary Principle 2.3.1, Supplementary Principle 3.1.3, and Supplementary Principle 4.2.2)

Since its founding, SPARX Group has managed investments using an innovative and thoroughly bottom-up approach grounded in the philosophy that “the Macro is the Aggregate of the Micro.” Based on this experience, through the SPARX Japan Equity Sustainable Strategy and the Renewable Energy Investment Strategy, we have aggressively positioned sustainability and social and environmental issues within our solutions-focused investment strategies and fund schemes, which helps us address the growing social demands for responsible investment.

Currently, the CEO engages in dialogue with all employees and carries out a Group-wide project to reaffirm and strengthen the Group’s purpose, vision, and mission. Going forward, the Group will strive to improve medium- to long-term corporate value that is consistent with this purpose, vision, and mission.

With this, we have also identified and clarified key management issues (materiality), and formulated a Basic Sustainability Policy that reflects those important management issues (materiality) in order to enhance SPARX’s corporate value over the medium to long term.

(Materiality) [https://ssl4.eir-parts.net/doc/8739/ir\\_material4/187181/00.pdf](https://ssl4.eir-parts.net/doc/8739/ir_material4/187181/00.pdf)

(SPARX Group Basic Sustainability Policy) [https://ssl4.eir-parts.net/doc/8739/ir\\_material4/187250/00.pdf](https://ssl4.eir-parts.net/doc/8739/ir_material4/187250/00.pdf)

Going forward, the Group will reassess investments in human capital and intellectual property from a perspective that is particularly consistent with management operational strategies and management issues.

Furthermore, with regard to impacts on the Group’s business activities from risks and opportunities related to climate change, the Group has disclosed on the Task Force on Climate-related Financial Disclosures (TCFD).

(SPARX Group’s Commitment to TCFD Recommendations) [https://ssl4.eir-parts.net/doc/8739/ir\\_material4/187254/00.pdf](https://ssl4.eir-parts.net/doc/8739/ir_material4/187254/00.pdf)

We will further continue to address and put our efforts to resolve climate change issues and disclose information.

(Supplementary Principle 2.4.1)

Philosophy on Ensuring Diversity; Voluntary and Measurable Targets and their Progress

SPARX Group respects diverse experiences, knowledge, and attributes and believes that possessing perspectives and values reflecting this diversity is indispensable for creating new value, improving sustainable growth and corporate value, and also achieving the Group purpose “to make the world wealthier, healthier, and happier.”

Consequently, the Group has conducted hiring and promotions that do not take a person’s gender, nationality, or other similar attributes into account, but instead focus on experience, talent, and an ability to understand and support the values embodied in the Group’s purpose and vision.

The Group’s workforce primarily comprises mid-career professionals. Employees are hired for their personal character, ambition, and talent, irrespective of gender, nationality, or other similar attributes, and even inexperienced personnel are actively hired if they are gifted. Since mid-career professionals have diverse careers and backgrounds, the Group believes that they bring extraordinary diversity that extends beyond the Group’s set corporate values.

Furthermore, the Group is directing hiring activities toward personnel with experience outside the financial industry in order to bring in new hires and seconded employees from diverse industries. Our aim is to incorporate human resources with values and knowledge beyond the financial industry as we aim to build an even more diverse organization.

With the recognition that SPARX Group is a “professional firm,” the Group follows the policies above and hires employees based on character, such as experience and talent, regardless of gender, nationality, or other similar attributes. Since its founding, SPARX

Group has grown business with a workforce of mainly mid-career professionals, while promoting existing employees to management positions. SPARX Group believes that no disparity in promotions has emerged from factors such as gender, nationality, date of hire, age, or the like. Consequently, at present, the Group has not stipulated any particular criteria or formal, quantitative targets for a ratio of employees promoted to management positions based on specific attributes such as being female, being non-Japanese, or being a mid-career professional.

At the same time, the Group remains cognizant of the Japanese government's target to "promote initiatives aiming toward an approximately 30% ratio—achieved quickly and, to the extent possible, within the decade of 2020—of women in management positions." Rather than aiming to formally achieve this 30% ratio, the Group is moving forward with efforts to build a workplace environment that fully assumes as normal the active involvement of women. Specifically, this includes flexible support and revised HR programs suited to different life stages for employees, while also further clarifying the roles and responsibilities expected of management-level employees. By doing so, the Group aims to foster candidates for management positions and increase the number of employees who autonomously desire a leadership role. The expected outcome is an organic rise in the number of female employees involved with operational decision making, thanks to focused initiatives to help instill the requisite experience and foster career awareness. At present, because the foundation of the Group's business is centered in Japan, ratios for non-Japanese employees and managers have not risen above the figures given below (see "Notes"); however, the Group believes that these ratios will naturally rise going forward as we expand our business outside Japan.

(Supplemental note)

Figures as of March-end 2022 (SPARX Group employees: 178: including officers concurrently serving as an employee)

\* Female employees: 78 (ratio of SPARX Group employees: 43.8%)

\*Women in management positions: 9 (ratio of SPARX Group managers: 21.4%)

\* Non-Japanese employees: 46 (ratio of SPARX Group employees: 25.8%)

\*Non-Japanese managers: 10 (ratio of SPARX Group managers: 23.8%)

\* Mid-career hires: 168 (ratio of SPARX Group employees: 94.4%)

\*Mid-career hires in management positions: 40 (ratio of SPARX Group managers: 95.2%)

\*Employees with disabilities: 1 (ratio of SPARX Group employees: 0.6%)

("Employees in management positions" are defined as individuals who have responsibility for management of the organization and include individuals concurrently serving as an employee)

(Diversity-focused Human Resources Development Policies, Internal Workplace Environment Policies, and their implementation)

\*Going forward, the Group will continue hiring practices that are character focused, centered on highly diverse mid-career professionals, and are irrespective of a person's attributes such as gender, nationality, or the person's industry background.

\*The Group will continue offering support suited to employees' life stages (such as childbirth, childrearing, family nursing care, and the like), while enhancing policies that contribute to work-life balance. At the same time, the Group will investigate options for diverse work styles, such as working from home and working in the office in staggered shift.

\*By considering options such as delayed retirement, the Group will investigate organizational systems for better utilizing the experience of senior and veteran employees, while also helping them hand down their knowledge, experience, and skills to the next generation, including providing growth opportunities for young employees.

\*Through harassment awareness training and unconscious biases training, the Group will strive as an organization to improve receptivity toward diverse human resources and create a corporate culture that is both open and candid and that ensures psychological stability.

\*The Group will utilize the in-house recruitment system that is already in place and strive to provide workplaces conducive to all employees exercising their talents, while simultaneously making workplaces that allow employees to accumulate experience in order to move into management positions.

\*By enhancing measures that contribute to employees maintaining and enhancing their health, and by implementing what is called "health and productivity management," the Group will build an environment that allows diverse employees to energetically continue working in good health.

\*In addition to the above human resources development policies and internal workplace environment policies, the Group will further disseminate its purpose, vision, and mission in order to unite diverse employees, and will increase employee engagement by sharing this ethos and corporate culture.

(Current Status)

\*No. of employees using the maternity leave system (domestic Group company totals)

FY2019 to FY2021: 10 (1 man, 9 women)

\*No. of mid-career hires (domestic Group company totals)

FY 2021: 13 (8 men, 5 women)

FY 2020: 18 (8 men, 10 women)

FY 2019: 22 (11 men, 11 women)

(Supplementary Principle 4.1.2)

Due to the highly market-influenced nature of SPARX Group's primary business of investment trust management, discretionary investment management and investment advisory, the Company does not disclose yearly performance forecasts or announce its (midterm) business plans. However, it does sufficiently explain to shareholders and investors the progress in its operational strategy, which includes practical initiatives that will help achieve, by March 31, 2026, the three trillion yen in assets under management (AUM) that the Company has set as its current objective.

If the Company does not produce the results it initially expected after executing its plans, it thoroughly analyzes the causes of this failure and applies the results of this analysis to its next practical strategy. Furthermore, SPARX Group sufficiently explains this process to shareholders and investors at the presentation of its financial statements or other occasions.

(Supplementary Principle 4.1.3)

SPARX Group will formulate and execute succession plans for its chief executive officer (CEO) and other positions in the future. The Nomination and Compensation Committee and Board of Directors play a key role in appropriately supervising this process to ensure that training for successor candidates receives adequate time and resources, and that it proceeds according to plan.

(Supplementary Principle 4.3.2 and Supplementary Principle 4.3.3)

Per the section on "Business Risks" in the annual securities report, Shuhei Abe—SPARX Group's founder, current CEO, and leading shareholder—has a crucial role in deciding the direction of the Company's business operations and investment strategies. The Company strives to reduce its dependence on CEO Abe by creating a more organized administrative structure and training human

resources responsible for management. However, in the event that CEO Abe can no longer perform his regular duties for any reason, there is a risk that such a situation could have a somewhat negative impact on the Company's performance. With an awareness of this reality, the Group sees appointing the next Group CEO as a crucial management issue. Therefore, the Board of Directors is establishing objective, timely, and transparent procedures to give sufficient time and resources to appointing the next CEO. Furthermore, through these operations, the Group will establish a suitable process for dismissing a CEO based on adequately evaluating corporate performance and other metrics.

(Principle 5.2 Formulating and Disclosing Management Strategies and Plans)

Due to the highly market-influenced nature of SPARX Group's primary business of investment trust management, discretionary investment management and investment advisory, the Company does not disclose yearly performance forecasts or announce its (midterm) business plans. However, it does sufficiently explain to shareholders and investors the progress in its operational strategy, which includes practical initiatives that will help achieve, by March 31, 2026, the three trillion yen in assets under management (AUM) that the Company has set as its current objective. During such explanations, the Company may, to whatever degree possible, briefly mention other specific details of its plans, including earning power, capital efficiency, any reviews of its business portfolio, and the allocation of business resources.

## Disclosure Based on the Principles of the Corporate Governance Code (updated)

(Principle 1.4 Political Cross-Shareholdings)

At present, SPARX Group does not hold any political cross-shareholdings.

(Principle 1.7 Transactions Between Relevant Parties)

In the event that SPARX Group conducts transactions with its executives or leading shareholders, the Board of Directors will sufficiently deliberate whether such transactions are reasonable and necessary for business, as well as whether the parties to the transaction are fungible and will ensure that the terms do not deviate from those of general third-party transactions. After confirming that these transactions do not harm the interests of the Company or its shareholders, the Board of Directors will approve and otherwise issue its decisions on such transactions.

These transactions are also subject to auditing by the external auditor and the Audit and Supervisory Committee. Furthermore, once a year, the Company collects directly from the executives of the Company or its principal subsidiaries letters of confirmation on any transactions with relevant parties. Then it reviews and investigates the extent of such transactions and the need for public disclosure. In the event that such transactions exist, the Company will disclose the required information through its annual securities reports or other financial documents, per the law.

(Principle 2.6 Functioning as the Corporate Pension Asset Owner)

SPARX Group does not have a corporate pension plan.

(Principle 3.1 Enhancing Information Disclosure)

Since its founding in 1989, SPARX Group has managed investments using a thorough bottom-up approach grounded in the philosophy that "the Macro is the Aggregate of the Micro." Thus the Company has offered asset management services that have earned the trust of numerous clients.

By achieving sustainable growth and improved corporate value over the medium to long term, SPARX Group keeps striving to realize its mission "to make the world wealthier, healthier, and happier," as it becomes "the most trusted and respected investment company in the world."

To achieve these goals, SPARX Group strives to put an effective corporate governance framework in place. Per a June 9, 2020 vote at the Company's 31st ordinary general meeting of shareholders, SPARX Group transitioned from a company with a Board of Auditors to a "Company with Committees" (including an Audit and Supervisory Committee). In its efforts to further improve corporate governance, the Company instituted an Audit and Supervisory Committee—composed of members of the Board of Directors—that audits the directors' executive actions to delineate the boundary between audits and executive action and improve the supervisory function of the Board. This Committee's creation also accelerates executive action by largely transferring authority from the Board to the directors themselves. The Company also has a compliance committee to ensure thorough compliance with the Financial Instruments and Exchange Act and all related laws, ordinances, and regulations, as well as other committees that investigate, deliberate, formulate, and report on all inquiries concerning directives from the Board of Directors.

Due to the highly market-influenced nature of SPARX Group's primary business of investment trust management, discretionary investment management and investment advisory, the Company does not disclose yearly performance forecasts or announce its (midterm) business plans. However, it does sufficiently explain to shareholders and investors the progress in its operational strategy, which includes practical initiatives that will help achieve, by March 31, 2026, the three trillion yen in assets under management (AUM) that the Company has set as its current objective.

The Company regards its director compensation system as an essential part of corporate governance. The Company has established this system to determine compensation so that those who resonate with the Group's purpose and vision, share the values of empirical research and the importance of communication, and have above-average knowledge, insight, and human qualities will be motivated—both monetarily and non-monetarily—to achieve sustainable growth and increase corporate value over the medium to long term.

Compensation for Directors consists of three components: a base salary, short-term performance bonuses, and medium- to long-term performance bonuses. Economic and market conditions greatly influence performance in the Group's primary business of investment trust management, discretionary investment management and investment advisory, so the Company ensures that short-term and medium- to long-term performance-based compensation is weighted more heavily than base salary to align with its stakeholders' interests. Specifically, the compensation system is designed to have a target ratio of 3:7 for base salary to performance bonuses. The Company also takes care to ensure that the total compensation is attractive compared to other investment firms and competitive enough to draw talented people. These decisions are based on data on executive remuneration at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive remuneration at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties.

At the 31st ordinary general meeting of shareholders held on June 9, 2020, the Company voted to set the maximum amount of compensation for directors (excluding the Audit and Supervisory Committee directors) at JPY 1.5 billion per year. Separately, at the

33<sup>rd</sup> ordinary general meeting of shareholders held on June 10, 2022, the Company passed its resolution to set the limiting compensation under the performance-based stock compensation plan to JPY1.8 billion for four fiscal years or 200,000 points per fiscal year (1 point = 5 shares; 1 point = 1 share after the reverse stock split, which will take effect on October 1, 2022.)

The Nomination and Compensation Committee, comprised of the CEO and all outside directors, discusses compensation levels at other companies in the industry, the responsibilities directors have to the Group, and the degree to which each director contributes. The Committee then decides on the specific compensation package for each director (any director excluding the Audit and Supervisory Committee members), creates a proposal outlining these decisions, and sends the proposal to the Board of Directors for consideration.

At the 31st ordinary general meeting for shareholders held on June 9, 2020, the Company voted to set the maximum compensation for Audit and Supervisory Committee directors at JPY 300 million per year. The Audit and Supervisory Committee directors deliberate to determine the compensation for all other committee directors.

The Board of Directors appoints or dismisses the members of the Company's executive management team. The Nomination and Compensation Committee, comprised of the CEO and all outside directors, discusses and deliberates on the appointment of directors (excluding Audit and Supervisory Committee directors) from the perspective of candidates' diversity and skills, and whether candidates are "individuals with a strong benevolence who have the track record and experiences needed to fulfill all their duties as officers of the Company, and who are qualified to further grow and expand the businesses of the Group in the future." The Committee then creates a proposal outlining specific appointments and sends the proposal to the Board of Directors.

With the approval of the Audit and Supervisory Committee, the Board of Directors determines Audit and Supervisory Committee director appointments based on the same perspective as above, while also ensuring that these directors are individuals who possess sufficient knowledge of financial matters and accounting.

An explanation of processes for electing, dismissing, and appointing director candidates will be included in the convocation notice for the general meeting for shareholders.

(Supplementary Principle 4.1.1)

The Company's Board of Directors consists of four highly experienced directors (excluding the Audit and Supervisory Committee directors) and four (outside) directors who are Audit and Supervisory Committee members (of whom three are independent outside directors). It regularly meets once a month and holds emergency sessions as necessary to promptly make decisions on management operational issues. Moreover, the three Audit and Supervisory Committee directors are independent outside directors to improve the Company's governance framework. These outside directors offer the Board of Directors independent, objective expertise and further expand its decision-making and supervisory functions.

Per the Company's transition to a corporation with an Audit and Supervisory Committee, the Articles of Incorporation allow the Company to delegate decisions on essential business operations to the directors. This shift accelerates executive action by largely transferring said authority from the Board to the directors themselves.

Matters decided by a Board of Directors' vote include (1) matters stipulated by law (specifically the Companies Act); (2) critical business-related matters, as outlined in the Regulations for the Board of Directors; and (3) issues outlined by the Articles of Incorporation.

The Board of Directors also establishes the specific scope of responsibilities assigned to the management team in the various corporate regulations it creates, including the Regulations on Segregation of Duties, the Regulations of Job Authorization, and the Regulations on Management Meeting.

(Principle 4.9 Criteria for Evaluating the Independence of Outside Directors and Their Qualifications)

SPARX Group selects independent outside directors based on the criteria for independence established by the Tokyo Stock Exchange. As of the date of this document, the Company has notified the Tokyo Stock Exchange of the three outside directors (out of 4) who serve as the Company's independent directors.

The Board of Directors selects candidates for outside directors based on whether they are equipped with extensive knowledge and experience in corporate management and with the qualifications, abilities, and expert knowledge that will contribute to improved corporate value. Candidates should also be able to actively participate in the diverse, constructive discussions held by the Board of Directors, and they should be "individuals with a strong benevolence who have the track record and experiences needed to fulfill all their duties as officers of the Company, and who are qualified to further grow and expand the businesses of the Group in the future."

(Supplementary Principle 4.10.1)

The Board of Directors has established the Nomination and Compensation Committee as an advisory body for the purpose of "strengthening the independence, objectivity, and accountability of the Board's functions with regard to the nomination and compensation of directors and Group executive officers, while also helping ensure the transparency of SPARX Group management."

The committee is composed of at least three directors selected by resolution of the Board of Directors, the majority of which must be independent outside directors. The committee stipulates that these independent outside directors are those who are registered as independent directors with the Tokyo Stock Exchange, among our outside directors. Specifically, the Group President chairs the committee, and all outside directors (of which are 3 independent outside directors) participate as committee members.

In addition, the committee discusses matters that are particularly important, such as nomination and compensation, including in terms of diversity and skills, and appropriately engages and advises the Board of Directors. Specifically, in response to the Board of Directors, the committee provides advice and recommendations on the following matters.

- (1) Proposal for a general meeting of shareholders concerning the election and dismissal of candidates for directors (excluding directors who are Audit and Supervisory Committee members; the same shall apply hereinafter), and a proposal for a board of directors meeting concerning the election and dismissal of candidates for group executive officers
- (2) Establishment, change, or abolishment of basic policies, rules, procedures, etc. required to resolve the previously mentioned (1)
- (3) Other matters deemed necessary by the Nomination and Compensation Committee with respect to the election and the dismissal of both director candidates and group executive officer candidates
- (4) Policy on Determination of Details of Individual Compensation for Directors and Group Executive Officers
- (5) Details of Individual Compensation for Directors and Group Executive Officers
  - Remunerations in a fixed amount: The amount for each individual person
  - Remunerations the amount of which is not fixed: The specific method for calculating that amount for each individual person

- Specific content of non-monetary individuals
- (6) Establishment, change, or abolishment of basic policies, rules, procedures, etc. necessary for resolving the previously mentioned (2)
- (7) Other matters deemed necessary by the Nomination and Compensation Committee with respect to the compensation of directors and Group executive officers, and so forth.

(Supplementary Principle 4.11.1)

The Board of Directors remains cognizant of the diversity and international acumen necessary for growing the business of SPARX Group and therefore selects director candidates based on whether they are equipped with extensive knowledge and experience in corporate management and with the qualifications, abilities, and expert knowledge that will contribute to improved corporate value. Candidates should also be able to actively participate in the Board's diverse, constructive discussions, and they should be "individuals with an excellent sense of humanity who have the track record and experiences needed to fulfill all their duties as officers of the Company, and who are qualified to further grow and expand the businesses of the Group in the future." Procedures for selecting director candidates are outlined in Principle 3.1 Enhancing Information Disclosure.

To facilitate supervision and the provision of advice on the formulation of basic management policies, as well as decision making for particularly material management decisions, and the execution of tasks by directors and executive officers, appointments are made to ensure that the Board has a good overall balance of knowledge, experience, and abilities, while also accounting for the balance—in light of the scale, etc. of the Group's business—between Board size and diversity. Reflecting on operational strategies, the Board identifies the skills required of its members, who possess a range of knowledge and experience. Especially essential abilities that the Board expects in this regard are noted on the page 23 of the notice of the 33<sup>rd</sup> Ordinary General Meeting of Shareholders. [https://ssl4.eir-parts.net/doc/8739/ir\\_material4/183203/00.pdf](https://ssl4.eir-parts.net/doc/8739/ir_material4/183203/00.pdf)

(Supplementary Principle 4.11.2)

In its notice of 33<sup>rd</sup> ordinary general meeting of shareholders, the Company lists key matters related to its directors, including outside directors, and their concurrently held positions at other companies. Please refer to page 7 and 12 on the notice of the 33<sup>rd</sup> Ordinary General Meeting of Shareholders.

[https://ssl4.eir-parts.net/doc/8739/ir\\_material4/183203/00.pdf](https://ssl4.eir-parts.net/doc/8739/ir_material4/183203/00.pdf)

At present, the Company's directors remain within reasonable limits in terms of their concurrently held positions at other companies, and they have sufficient time and energy to adequately fulfill their roles and responsibilities as officers of the Company.

(Supplementary Principle 4.11.3)

To improve the Board of Directors' effectiveness, the Company surveys all directors regarding the Board's efficacy using a standard questionnaire prepared by an external evaluation body, with the addition of customized questions pertaining to SPARX Group (see below for details).

- Composition of the Board of Directors
- Operation of the Board of Directors
- Discussions of the Board of Directors
- Board of Directors' monitoring functions
- Support structures (including the Audit & Supervisory Committee) for directors
- Training
- Dialogue with shareholders (investors)
- Individual director initiatives
- Audit and Supervisory Committee

A high degree of anonymity is preserved by having the questionnaires directly collected by the external evaluation body from all directors.

Questionnaire results summarized by the external evaluation body are reported to and deliberated by the Board of Directors. With regard to the following evaluation item for which the Company was comparatively below the average for other companies and the countermeasures for the future are described as followed.

- Whether the number of items to be discussed at the Board of Directors is appropriate: Efforts will be made to clarify the points to be discussed, and more innovative so that they can be grasped and discussed in a short period of time. We will also devise ways to facilitate discussions from a larger and broader perspective as well as medium to long-term perspective.

- Are there exchanges of opinions among outside directors on occasions other than Board of Directors' meetings: Depending on the situation of COVID-19, we will provide a forum for the exchange of opinions between outside directors, in addition to the Board of Directors and committees.

(Supplementary Principle 4.14.2)

The Company invites internal and external experts to provide training as necessary to teach directors what they need to learn in response to social change.

Furthermore, when appointing outside directors, the Group promotes an understanding of its management philosophy and corporate culture, and it provides the information they need for their duties as the Company's officers, including through individual meetings with the Group CEO and detailed explanations of the tasks performed by key front-line managers.

The Company also provides opportunities to take part in periodic internal training held to cover crucial topics related to compliance and labor management, and it shares the content of such training.

The fees for the training listed above are appropriately added to the budget created at the start of each fiscal year, and the Company approves additional funds for training as needed.

(Principle 5.1 Policy Regarding Constructive Engagement with Shareholders)

SPARX Group remains reasonably positive about engaging with shareholders and investors, to the extent that such engagement contributes to continuing corporate growth and improved corporate value over the medium to long term.

The Company has put a framework for engagement in place under the leadership of the CEO and the managing executive officer who is in charge of information disclosure at corporate headquarters. The Finance and Management Control Division is primarily responsible for carefully coordinating the relevant internal departments to provide sufficient information to shareholders and investors.

In addition to posting related materials on the SPARX Group website, the Company also posts accessible videos to improve understanding of the status of quarterly and annual financial results. They are posted on our website promptly after its quarter and fiscal year-end. When asked, and to the extent possible, the Company also holds individual discussions with institutional investors in Japan and abroad, and we also respond to inquiries by email or telephone from individual investors as needed. The Company has also formulated its IR Disclosure Policy(\*) to ensure that all shareholders and market participants understand and accurately evaluate the Company, as it strives to disclose accurate, fair, and timely information. The Company thoroughly manages insider information. It maintains disciplined IR activities by establishing a silent period that extends from five business days before the last day of each quarter until the day it presents its earnings report.

(\*) The IR Disclosure Policy is available on the SPARX Group website via the following URL:

<https://www.sparxgroup.com/ir.html>

Regarding any constructive opinions that the Company hears through the above engagement and that contribute to continuing corporate growth or corporate value improvement over the medium to long term, the managing executive officer at corporate headquarters shares, as necessary, these opinions with the relevant departments as feedback and also reports any crucial matters to the Board of Directors.

## 2. Capital structure (updated)

Foreign Shareholding Ratio

More than 10% and Less than 20%

## Major shareholders (updated)

Full or official name	Number of shares held	Percent of total
Shuhei Abe	77,868,600	38.57
Abe Capital Co., Ltd.	30,370,000	15.04
The Master Trust Bank of Japan, Ltd. (in trust accounts)	11,635,600	5.76
State Street London c/o State Street Bank and Trust Boston SSB TC A/C UK London Branch Clients - United Kingdom	6,394,777	3.17
Yu Shimizu	6,002,000	2.97
CITI Bank UK Limited as Depositary for Quilter Investors Japanese Equity Fund A sub fund of Quilter Investors OEI C	5,520,200	2.73
Custody Bank of Japan, Ltd. (in trust accounts)	2,956,800	1.46
The Master Trust Bank of Japan, Ltd. (in 76,095 stock-granting ESOP trust accounts) 2,466,900	2,466,900	1.22
State Street Bank and Trust Company for State Street Bank International GmbH Luxembourg Branch on Behalf of its Clients: Client OMNI OM25	1,720,700	0.85
Masatoshi Fukami	1,473,900	0.73

Controlling shareholders (excluding the parent company)

Shuhei Abe

Parent company

None

## Supplementary explanation (updated)

The information on the major shareholders is current as of March 31, 2022.

In addition to the shares listed above, SPARX Group holds treasury stock of 7,699,210 shares.

## 3. Company Attributes

Listed exchange and market segment (updated)	Tokyo Stock Exchange, Prime Market
Fiscal year-end	March
Business Sector	Securities & commodity futures trading industry
Number of (consolidated) employees at the end of the last fiscal year	100 or more and fewer than 500 employees
Net Sales (consolidated) at the end of the last fiscal year	JPY 10 billion or more and less than JPY 100 billion
Number of consolidated subsidiaries at the end of the last fiscal year	10 or more and fewer than 50 companies

## 4. Policy on Measures to Protect Minority Shareholders When Conducting Transactions with Controlling Shareholders

SPARX Group CEO Shuhei Abe is the controlling shareholder, as defined by the Tokyo Stock Exchange's regulations, because he holds a majority of voting rights for the Company in terms of the total voting rights derived from Company shares owned by himself, his immediate family, or a company he owns.

As a general rule, the Company does not expect to conduct business with CEO Abe, his family members, or the company he owns, other than in paying him his executive remuneration. However, the directors, including outside directors, must oversee such transactions if they were to occur. In the event that conflicts of interest or self-dealing transactions occur between CEO Abe and the Company, after deliberation by the Special Committee, the Board of Directors will vote on whether to approve such transactions, per the provisions of the Companies Act, and will appropriately watch to ensure that the transaction does not harm the interests of the Company or its shareholders.



## 5. Other Special Circumstances that May have Material Impact on Corporate Governance

None

## II. Business Management Organizations and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

#### Corporate Governance System

Company with an Audit and Supervisory Committee

#### Directors

Number of directors in the Articles of Incorporation	10
Term of directors in the Articles of Incorporation	1 year
Chairperson of the Board of Directors	CEO
Number of directors (updated)	8
State of outside director appointments	Appointed
Number of outside directors	4
Number of outside directors designated as independent officers	3

#### Directors' Relationship with the Company (1)

Name	Attributes	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Kazuyoshi Kimura	From another company												
Kimikazu Noumi	From another company												
Toshihiko Nakagawa	From another company												
Eiko Hakoda	Lawyer												



\*Options regarding the relationship with the Company

\* If an item applies to the individual "now or recently," the "○" symbol is used; if an item applies "in the past," the "△" symbol is used.

\* If an item applies to a close relative "now or recently," the "●" symbol is used; if an item applies "in the past," the "▲" symbol is used.

a A managing executive of a listed company or the subsidiary of one;

b A managing executive or a non-managing executive director of a listed company's parent company;

c A managing executive of a listed company's sister company;

d An individual who has listed companies as key business partners or a managing executive of a company that does so;

e A key business partner of a listed company or a managing executive of such a company;

f A consultant, accounting expert, or legal expert who earns significant fees or other assets other than director remuneration from a listed company;

g A primary shareholder of a listed company (or a managing executive of a corporation if the corporation is said primary shareholder);

h A managing executive of a business partner of a listed company (when d, e, and f do not apply; only applies to the individual);

i A managing executive of a company in which an outside director concurrently has a post (only applies to the individual);

j A managing executive of an organization that receives donations from a listed company (only applies to the individual);

k Other

## Outside Directors' Relationship with the Company (2) (updated)

Full name	Audit & Supervisory Committee member	Independent officer	Supplementary explanation related to applicable items	Reason for Appointment
Kazuyoshi Kimura	○	○	—	The Company appointed Kazuyoshi Kimura to take advantage of his broad range of insight based on his extensive experience in management in the financial industry. The Company expects that he will continue to monitor overall management, including his perspective not only on the financial industry, but also other industries, and provide effective guidance, and therefore appointed him as an outside director and a member of the Audit and Supervisory Committee. There are no conflicts of interest between the Company and Mr. Kimura, and none of the items to be checked regarding the criteria for independence or director attributes that the Tokyo Stock Exchange stipulates apply. The Company believes that there is no risk that a conflict of interest will arise with general shareholders, so it has designated Mr. Kimura as an independent director.
Kimikazu Noumi	○	○	—	The Company appointed Kimikazu Noumi as an outside director and a member of the Audit and Supervisory Committee to take advantage of his broad range of insight based on his extensive experience in management in the financial industry in addition to his extensive experience as an outside officer in other industries to the Company's management from the perspective of promoting sustainable growth and enhancing corporate value over the medium to long term. There are no conflicts of interest between the Company and Mr. Noumi, and none of the items to be checked regarding the criteria for independence or director attributes that the Tokyo Stock Exchange stipulates apply. The

				Company believes that there is no risk that a conflict of interest will arise with general shareholders, so it has designated Mr. Noumi as an independent director.
Toshihiko Nakagawa	○	○	—	The Company appointed Toshihiko Nakagawa as an outside director and a member of the Audit and Supervisory Committee to take advantage of his broad range of insight based on his extensive experience in management in the financial industry to the Company's management from the perspective of promoting sustainable growth and enhancing corporate value over the medium to long term. There are no conflicts of interest between the Company and Mr. Nakagawa, and none of the items to be checked regarding the criteria for independence or director attributes that the Tokyo Stock Exchange stipulates apply. The Company believes that there is no risk that a conflict of interest will arise with general shareholders, so it has designated Mr. Nakagawa as an independent director.
Eiko Hakoda	○	○	—	The Company appointed Eiko Hakoda as an outside director and a member of the Audit and Supervisory Committee to take advantage of her specialized knowledge as a lawyer and a broad range of insight based on her extensive experience in different industries, and its expected to provide useful advice and recommendations to the Company from the perspective of promoting sustainable growth and enhancing corporate value over the medium to long term. According to the Tokyo Stock Exchange's handbook on practical issues for securing independent directors/auditors, it is not said that a legal counsel is always a person who has obtained a large amount of money or other assets. However, Ms.Hakoda is not registered as an independent director from conservative point of view because she is a partner attorney at our corporate counsel law firm.

## Audit and Supervisory Committee

Committee members, and committee chair attributes (updated)

	Total number of committee members	Number of regular members	Number of corporate directors	Number of outside directors	Committee chair
Audit and Supervisory Committee	4	0	0	4	An outside director
Are there directors and employees meant to assist the Audit and Supervisory Committee in its duties?	Yes				

### Matters concerning the independence from the managing executive directors of the Audit and Supervisory Committee directors and employees

The Internal Audit division assists the Audit and Supervisory Committee with its duties. The Company shall obtain the Audit and Supervisory Committee's prior consent for all Internal Audit division personnel matters, including the transfer and evaluation of employees in the Office. It shall ensure that these employees are independent from the corporate directors (excluding the Audit and Supervisory Committee directors). Furthermore, the Internal Audit division employees who receive instructions from the Audit and Supervisory Committee that are necessary in the conduct of their auditing duties shall not receive instructions or orders from the corporate directors (excluding Audit and Supervisory Committee directors).

### Status of coordination among the Audit and Supervisory Committee, the external auditor, and the Internal Audit Division

The Audit and Supervisory Committee works closely with the Internal Audit division and the external auditor. This collaboration allows them to promptly receive reports on occasional internal audits from the Internal Audit division and on periodic audits from the external auditor.

## Voluntary Committees

Does the Company have voluntary committees corresponding to Nomination or Compensation Committees?	Yes
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### Establishment status of voluntary committees, committee members, and committee chair attributes(updated)

	Committee name	Total number of committee members	Number of regular members	Number of corporate directors	Number of outside directors	Number of outside experts	Number of other members	Committee chair
Voluntary committee equivalent to a nominating committee	Nomination and Compensation Committee	5	0	1	4	0	0	A corporate director
Voluntary committee equivalent to a compensation committee	Nomination and Compensation Committee	5	0	1	4	0	0	A corporate director

### Supplementary explanation

The Nomination and Compensation Committee, which is an advisory body to the Board of Directors, deliberates on compensation matters and submits results to the Board of Directors, which determines compensation, etc. for each director.

The committee is composed of at least three directors selected by resolution of the Board of Directors, the majority of which must be independent outside directors. The committee stipulates that these independent outside directors are those who are registered as independent directors with the Tokyo Stock Exchange, among our outside directors. Specifically, the Group President chairs the committee, and all outside directors (of which are 3 independent outside directors) participate as committee members.

In addition, the committee discusses matters that are particularly important, such as nomination and compensation, including in terms of diversity and skills, and appropriately engages and advises the Board of Directors. Specifically, in response to the Board of Directors, the committee provides advices and recommendations on the following matters.

- (1) Proposal for a general meeting of shareholders concerning the election and dismissal of candidates for directors (excluding directors who are Audit and Supervisory Committee members; the same shall apply hereinafter), and a proposal for a board of directors meeting concerning the election and dismissal of candidates for group executive officers
- (2) Establishment, change, or abolishment of basic policies, rules, procedures, etc. required to resolve the previously mentioned (1)
- (3) Other matters deemed necessary by the Nomination and Compensation Committee with respect to the election and the dismissal of both director candidates and group executive officer candidates
- (4) Policy on Determination of Details of Individual Compensation for Directors and Group Executive Officers
- (5) Details of Individual Compensation for Directors and Group Executive Officers
  - Remunerations in a fixed amount: The amount for each individual person
  - Remunerations the amount of which is not fixed: The specific method for calculating that amount for each individual person
  - Specific content of non-monetary individuals
- (6) Establishment, change, or abolishment of basic policies, rules, procedures, etc. necessary for resolving the previously mentioned (2)
- (7) Other matters deemed necessary by the Nomination and Compensation Committee with respect to the compensation of directors and Group executive officers, and so forth.

The Company's outside directors utilize their abundant experience as corporate managers and as outside directors of other public companies to ensure constructive and highly insightful discussions that meet the expectations of capital markets with regard to director compensation.

## Independent director-related matters

Number of independent directors	3
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### Other matters concerning independent directors

The Company designates all outside directors who are eligible to be independent officers as such. According to the Tokyo Stock Exchange's handbook on practical issues for securing independent directors/auditors, it is not said that a legal counsel is always a person who has obtained a large amount of money or other assets. However, Ms. Hakoda is not registered as an independent director from conservative point of view because she is a partner attorney at our corporate counsel law firm.

### Incentive-related matters

Implementation of incentive policies for directors

Implementing a performance-based compensation system

### Supplementary explanation for this topic (updated)

The Company regards its director compensation system as an essential part of corporate governance. The Company has established this system to determine compensation so that those who resonate with the Group's mission and vision, share the values of empirical research and the importance of communication, and have above-average knowledge, insight, and human qualities will be motivated—both monetarily and non-monetarily—to achieve sustainable growth and increase corporate value over the medium to long term.

Specifically, this compensation system consists of three components: a base salary, short-term performance bonuses, and medium- to long-term performance bonuses. Economic and market conditions greatly influence performance in the Group's primary business of investment trust management, discretionary investment management and investment advisory, so the Company ensures that short-term and medium- to long-term performance-based compensation is weighted more heavily than base salary to align with its stakeholders' interests. Specifically, the compensation system is designed to have a target ratio of 3:7 for base salary to performance bonuses. The Company also takes care to ensure that the total compensation is attractive compared to other investment firms and competitive enough to draw talented people. These decisions are based on data on executive remuneration at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive remuneration at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties.

At the 31st ordinary general meeting of shareholders held on June 9, 2020, the Company voted to set the maximum amount of compensation for directors (excluding the Audit and Supervisory Committee directors) at JPY 1.5 billion per year. Separately, at the 33<sup>rd</sup> ordinary general meeting of shareholders held on June 10, 2022, the Company passed its resolution to set the limiting compensation under the performance-based stock compensation plan to JPY1.8 billion for four fiscal years or 200,000 points per fiscal year (1 point = 5 shares; 1 point = 1 share after the reverse stock split, which will take effect on October 1, 2022.)

In the case that certain events are identified, such as material fraud or violation by the persons eligible for executive compensation or material accounting errors, by a resolution of the board of Directors after the Nomination and Compensation committee's questioning and advisory, a clawback clause may be stipulated whereby all or part of the compensation has paid for directors may be reimbursed. Directors subjects to this includes those

who have already retired from the company. In addition, applicable directors' compensation includes those already paid in the fiscal year in which material fraud, violation, and material accounting errors occurred.

Individuals eligible for the stock option program

Supplementary explanation for this topic

#### Director remuneration-related matters

Disclosure (of individual director remuneration)

SPARX Group only partially discloses individual compensation packages

Supplementary explanation for this topic (updated)

#### Total Compensation by Type of Director, Total Compensation by Type, and Number of Eligible Directors (FY2021)

	Total Remuneration	Base salary	Performance-based Compensation	Severance pay	Non-monetary Compensation	No. of eligible directors
Directors (excluding Audit and Supervisory Committee members and outside directors)	JPY 30 million	JPY 30 million	—	—	—	3
Audit & Supervisory Committee members (excluding outside directors)	—	—	—	—	—	—
Outside directors	JPY 24 million	JPY 24 million	—	—	—	3

(Notes) 1. In addition to the above figures, in FY 2021, the compensation received by directors holding concurrent roles at Group subsidiaries was JPY 236 million (of which, JPY 92 million yen was base salary and JPY 144 million yen was performance-based compensation).

2. In addition to the above figures, in FY 2021, the compensation received by outside directors holding concurrent roles at Group subsidiaries was JPY 4 million (all of which was base salary).

#### Total Compensation (consolidated compensation, etc.) (FY 2021) for individuals receiving a total of JPY 100 million yen or more in consolidated compensation, etc.

	Total consolidated remuneration	Type of director	Company	Base salary	Performance-based compensation	Severance pay	Non-monetary compensation
Masatoshi Fukami	JPY 100 million	Director	The Company	JPY 10 million	—	—	—
		Director	SPARX Asset Management Co., Ltd.	JPY 30 million	JPY 59 million	—	—

Is there a policy determining the amount of compensation and how compensation is calculated? (updated)

Yes

#### Amount of compensation and disclosed details of the policy for its calculation

##### (i) Base salary

Because SPARX Group is a holding company, its directors' primary duty is to focus on maintaining and improving Group governance. As a result, as a general rule, only the base salary portion of the compensation paid by the Company should be determined by position and whether directors are full-time or not.

When the SPARX Group directors who concurrently hold director positions at its Group companies and assume responsibility for their operations, the Company determines the total compensation for each director in light of his or her overall duties to the Group. These decisions are based on data on

executive compensation at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive compensation at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties. These Group companies subtract the base salary given above and pay the remainder as the base salary for each director's concurrent role at a Group subsidiary. Said base salary is paid in cash each month in 12 equal portions.

(ii) How short-term performance-based compensation (i.e., performance-based bonuses) is determined

The Company analyzes the Group's business performance figures and comprehensively considers returns to shareholders, retained earnings, and the outlook for the next fiscal year and beyond with regard to the operating environment, operating plans, capital plans, and expected performance. After comparing these figures to the previous fiscal year's bonus payments, the Company determines what percentage of the Group's total profit for a fiscal year will be allocated as reserves for paying bonuses to all Group directors, managers, and employees.

In the process, the Company also determines what percentage of these reserves will be allocated for bonuses to directors.

Next, the Company conducts qualitative and quantitative evaluations for each director, judging factors that include comparisons with important Group operational indicator targets and actual results (see below), directors' contributions to the Group's business execution, and their achievement of personal goals. Evaluation factors are weighted differently according to each director's position and responsibilities.

- Efficiency: ROE

- Stability: core earning power

- Profitability: operating profit

- Most fundamental operating indicator: AUM net inflow

Finally, using these evaluations' results with data on executive compensation at companies listed on the Tokyo Stock Exchange's Prime Market, data on executive compensation at asset management companies located in Japan, and other data provided by remuneration consultants and other third parties, the Company will determine the total performance bonus for each director and pay these bonuses through the Group subsidiaries at which each director also serves.

Said bonuses are paid in cash at the beginning of the subsequent fiscal year.

(iii) How medium- to long-term performance-based compensation is determined

To further encourage a commitment to the medium- to long-term growth of SPARX Group, the Company provides performance-based stock compensation. Specifically, each director's stock compensation for the current fiscal year is determined based on the degree of achievement of the medium- to long-term goals related to both the Company's performance and the individual's goals, and by changing the allocation of those goals by position. In addition, after three years, the number of shares to grant as compensation which Company decided at the end of a consolidated fiscal year is finally paid. Moreover, in order for the Company to withhold funds for the payment of withholding income tax and other taxes, a certain percentage of the total number of share granted may be sold and paid in cash.

The Company believes that this remuneration is consistent and in-line with the medium- to long-term interests of its shareholders and other stakeholders. It is subject to a three-year holding period, from when the Company decides the number of shares to grant as compensation at the end of a consolidated fiscal year until the compensation is finally paid. The final payment depends on the share price after these three years have passed, and the payment assumes that the receiving director will acquire the shares at that time. Furthermore, during the holding period, if it is found that the director has violated any compliance requirements or other obligations stipulated in the Group's various regulations, or if the director resigns or is dismissed from the Board of Directors, the Company will not pay all or part of this compensation (so-called malus clause). Because the current CEO Abe has already acquired more than a sufficient number of shares, he shall not be eligible for this form of compensation.

In the case that certain events are identified, such as material fraud or violation by the persons eligible for executive compensation or material accounting errors, by a resolution of the board of Directors after the Nomination and Compensation committee's questioning and advisory, a clawback clause may be stipulated whereby all or part of the compensation has paid for directors may be reimbursed. Directors subjects to this includes those who have already retired from the company. In addition, applicable directors' compensation includes those already paid in the fiscal year in which material fraud, violation, and material accounting errors occurred.

## Outside director support framework

SPARX Group does not assign dedicated staff to outside directors; however, as directors who are members of the Audit and Supervisory Committee, outside directors sit on the Committee, whose work is supported by the Internal Audit division. Additionally, the Company does distribute, in advance, to outside directors materials for the Board of Directors' meetings.

Furthermore, for particularly vital issues, the Board of Directors takes a vote after several meetings of deliberation to give board members a deeper understanding of the issues and allow them to make more pertinent judgments.

## 2. Matters Related to Operations, Auditing, Supervision, Nomination, and Compensation Decisions (Outline of the Current Corporate Governance Framework) (updated)

(Board of Directors & Directors)

The Company's Board of Directors consists of eight highly experienced directors. It regularly meets once a month and holds emergency sessions as necessary to promptly make decisions on operational issues. SPARX Group sets its directors' (excluding Audit and Supervisory Committee directors) terms to one year to more clearly delineate their administrative responsibilities, to improve the Company's operational structure, and to dynamically form an operational framework in response to changes in the business environment. The Audit and Supervisory Committee directors' terms are for two years. Moreover, the Company invites four outside directors to improve its governance framework. These outside directors offer the Board of Directors independent, objective expertise and further expand its decision-making and supervisory functions.

(Management Meeting)

The Company has established an Management Meeting—consisting of representative directors, executive directors, executive officers, and so forth—to deliberate on important business execution decisions delegated by the Board of Directors to the CEO.

(Audit and Supervisory Committee)

The Company's Audit and Supervisory Committee consists of four independent outside directors (of which are 3 independent outside directors). It monitors the compliance and appropriateness of the Company's operations.

(Internal Audit Division)

The Company has established an internal auditing system led by the Internal Audit division's general manager. Under the direct supervision of the Board of Directors and independent from business execution, the Internal Auditing Office consists of the general manager and one other staff member, and it may use outside vendors as necessary to perform its internal audits. Following the annual auditing plan approved by the Board of

Directors, the Internal Audit division audits all divisions' business execution to find whether they are appropriate and efficient in light of the law, the Articles of Incorporation, corporate regulations, and corporate ethics. It reports its findings to the Board of Directors.

(External auditor)

The Company has entered into an agreement for auditing services with Ernest & Young ShinNihon LLC. The names of the certified public accountants who perform these audits, the number of years of continuous auditing, and the team of assistants involved in the audits are as follows:

Designated Limited Liability Partner, Managing Partner, and CPA Toshio Iwabe;  
Designated Limited Liability Partner, Managing Partner, and CPA Katsuya Ichikawa;

Term of continuous auditing: 11 years;

Team of assistants involved in the audits: 16 CPAs and 16 other staff members

(Other)

In addition, the Company has established the Nomination and Compensation Committee as an advisory body for the purpose of strengthening the independence, objectivity, and accountability of the Board's functions with regard to the nomination and compensation of directors and Group executive officers, while also helping ensure the transparency of SPARX Group management. Also Special Committee deliberates on significant transactions and actions in which the interests of conflict occur between the controlling shareholder and minority shareholder. The committee also watches to ensure that the transaction does not harm the interests of the Company or its shareholders and verify the appropriateness of such transactions and actions. The Company also has a group risk management committee to manage groupwide risk management through analysis and evaluation based on the results of risk surveys; a compliance committee to ensure thorough compliance with the Financial Instruments and Exchange Act and all related laws, ordinances, and regulations; and other committees that investigate, deliberate, formulate, and report on all inquiries concerning directives from the Board of Directors. Furthermore, compliance managers, including those at subsidiaries abroad, remain in close contact with each other and review, from a global perspective, legal compliance and risk management concerning Company operations.

Under the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with each outside director as provided for in Article 423, Paragraph 1 of the Companies Act. The maximum amount of the liability for damage based on said contracts is the minimum liability amount prescribed in laws and regulations. The purpose of this is to establish an environment conducive to outside directors fully exercising their capacities and fulfilling their expected roles in the course of executing their work tasks. However, recognition of this limitation of liability is restricted to cases in which the work causing the liability was carried out in good faith and with no gross negligence.

### 3. Reasons for the Current Corporate Governance Framework

SPARX Group has shifted from having a board of auditors to having an Audit and Supervisory Committee, per the approval of the Company's 31st ordinary general meeting of shareholders held on June 9, 2020. The Company made this decision in an effort to further improve its corporate governance. The Company believes that instituting an Audit and Supervisory Committee—composed of members of the Board of Directors—that audits the directors' executive actions will delineate the boundary between audits and executive action and improve the supervisory function of the Board, while also accelerating executive action by largely transferring authority from the Board to the directors themselves.

## III. Implementing Measures for Shareholders and Other Stakeholders

### 1. Measures to Vitalize the General Shareholder Meetings and Facilitate the Exercise of Voting Rights (updated)

	Supplementary explanation
Promptly sending notice of general meeting of shareholders	In addition to sending shareholders general shareholders' meeting notices 22 days before the meetings, the Company posts these notices on its website 28 days before the meetings.
Scheduling general meeting of shareholders to avoid the day on which most companies hold such meetings	To have as many shareholders attend its general shareholders' meetings as possible, SPARX Group annually holds its meeting before the day most companies hold such meetings.
Exercising voting rights through electromagnetic means	SPARX Group uses an electromagnetic system for shareholder voting. It also simultaneously participates in the voting platform for institutional investors operated by ICJ, Inc. and provides various options for shareholders to exercise their voting rights, including through attendance or in writing.
Participating in an electromagnetic voting platform and other efforts to improve voting for institutional investors	SPARX Group uses an electromagnetic system for shareholder voting. It also simultaneously participates in the voting platform for institutional investors operated by ICJ, Inc. and provides various options for shareholders to exercise their voting rights, including through attendance or in writing.
Providing an English version (summary) of general shareholders' meeting notices	The Company prepares English translations of the general shareholders' meeting notices and reference materials for general shareholders' meetings and makes them available on TD-net and the Company website.



## 2. IR-related activities

	Supplementary explanation	Availability of explanations through president
Creating and publishing disclosure policies	The Company publishes its disclosure policies on its website. (in Japanese and English)	Yes
Holding regular briefing sessions for individual investors	For the purpose of fair disclosure, the Company posts quarterly videos of its earning presentations online	
Holding regular briefing sessions for analysts and institutional investors	For the purpose of fair disclosure, the Company posts quarterly videos of its earning presentations online	Yes
Holding regular briefing sessions for foreign investors	For the purpose of fair disclosure, the Company posts quarterly videos (in English) of its earning presentations online	Yes
Posting of IR materials on website	In addition to posting annual securities reports and quarterly reports—legally mandated documents—SPARX Group periodically publishes earnings summaries and explanations of its earnings	
Establishing an IR department (or manager)	The finance and management control division is in charge of IR	

## 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary explanation
Internal corporate regulations on respecting the position of stakeholders	SPARX Group regularly conveys to all its stakeholders its clear corporate philosophy of “becoming the most trusted and respected investment company in the world.” It also has in place a code of conduct and corporate values in the SPARX Vision Statement.
Engaging in environmental protection and CSR activities	To further promote an understanding of renewable energy among primarily elementary school children in the regions where it develops and invests in renewable energy power plant stations, SPARX Group sponsors the Child Energy Summit. This educational program aims to draw out “creative thinking involving the future of energy.” (The program is currently on hold due to the impact of COVID-19.) SPARX Group’s CEO, CIO, and other management team members, through numerous lectures and writing books in Japan and abroad, continually strive to increase interest in, further the understanding of, and raise awareness about investment under the Company’s corporate vision and investment philosophy.
Forming policies related to providing information to stakeholders	The Company strives to round out the information it discloses, including legally mandated documents, on its website

## IV. Matters Concerning Internal Control Systems

### 1. The basic approach and practical installations regarding internal control systems

1. Framework for ensuring that directors’ executive actions comply with the law and the Articles of Incorporation

(1) The Board of Directors retains independent outside directors to improve and flesh out its ability to monitor its decision-making and administrative operations’ legality and appropriateness. The Audit and Supervisory Committee, whose majority of members are independent outside directors, conducts audits to monitor compliance and appropriateness in the Company’s operations.

(2) As a general rule, SPARX Group notifies securities exchanges of its outside directors who meet the requirements for independent officers, as defined by the securities exchanges’ regulations.

(3) The Company’s executive directors strictly adhere to the law, the Articles of Incorporation, and corporate regulations, and they act per the SPARX Vision Statement, the Compliance Manual, and the SPARX Group Code of Ethics, which are in place to help SPARX Group achieve its vision of “becoming the most trusted and respected investment company in the world.” Furthermore, the Company requires that its executive directors attend compliance training at least once a year to further their understanding of the law and various regulations.

(4) To ensure compliance with international laws and regulations, the Company established a Compliance Division directly under the Board of Directors’ control. This division regularly reports to the Board on the state of legal compliance, based on discussions held by a committee that the division leads.

(5) Regarding unlawful or illegal conduct by Company directors, SPARX Group has an internal reporting system. The Compliance Division head, the general counsel, and the Secretariat of the Audit and Supervisory Committee serve as the internal contacts for reports and consultations from directors, managers, and employees. In contrast, the Legal Office serves as the contact for external reports.

## 2. Systems for storing and managing information related to the directors' executive actions

(1) Based on its Documentation Rules, SPARX Group stores and manages the following documents (including electromagnetic records; this also applies below) and related materials:

- a) General shareholders' meeting minutes;
- b) Board of Directors' meeting minutes;
- c) Audit and Supervisory Committee meeting minutes;
- d) Other documents stipulated in the Documentation Rules and Accounting Rules.

(2) In the event that the directors ask to see documents, the relevant department manager shall provide the requested documents or information for inspection or copying, whenever such requests occur.

## 3. Rules and other systems for managing the risk of loss

(1) In light of the importance of having a risk management system in place, the executive directors establish various risk management rules and a risk management system.

(2) The risk management department strives to anticipate and manage risk. It also reports the results of its efforts to the Board of Directors as necessary.

(3) As needed, the Board of Directors discusses potential responses and takes appropriate measures to address individual risks.

(4) To address potential harm caused by earthquakes, wind, floods, or other natural disasters, as well as by fires, power outages, and terrorist attacks, the Board of Directors puts an advanced business continuity plan in place and strives to be prepared to effectively respond during emergencies.

## 4. Framework for ensuring that directors' executive actions remain efficient

(1) Per the Regulations for the Board of Directors, the Board discusses and addresses vital operational matters related to operational policy and strategy. It also establishes organizational rules and rules on the segregation of duties that concern executive directors' authority and responsibilities to ensure a system through which they can work efficiently.

(2) To enable ad hoc responsiveness to business developments, directors (excluding Audit and Supervisory Committee directors) serve a term of one year. The directors monitor each other to confirm that decision making is conducted with the sufficient duty of care of a good manager, as they strive to ensure efficiency and soundness in their actions.

(3) The Board of Directors meets at least once a month; decides on executive operational policy, legally mandated matters, and other crucial operational issues; and monitors the state of business operations. The Board of Directors receives and reviews reports on monthly performance at its regular meetings.

(4) The Board of Directors establishes various committees to serve as advisory bodies on technical matters. These committees investigate, deliberate, formulate, and report on such issues.

## 5. Framework for ensuring that employees' actions comply with the law and the Articles of Incorporation

(1) The Company's employees strictly adhere to the law, the Articles of Incorporation, and corporate regulations, and they act per the SPARX Vision Statement, the Compliance Manual, and the SPARX Group Code of Ethics, which are in place to help SPARX Group achieve its vision of "becoming the most trusted and respected investment company in the world." They also attempt to spread the Company's operational vision through all meetings and other events they attend.

(2) The Company occasionally reviews and revises corporate regulations to comply with updates to and repeals of laws and ordinances, and it thoroughly informs all employees of these revisions. Furthermore, the Company requires that its employees attend compliance training—when they join the Company and at least once per fiscal year—to further their understanding of various laws, regulations, and corporate regulations.

(3) To ensure compliance with international laws and regulations, as well as with corporate regulations, the Compliance Division establishes committees to review the Company's compliance systems and to investigate and verify various legal issues. The Board of Directors then decides how the Company will respond to these issues.

(4) For any compliance-related issues that occur within the Company, the divisions submit incident reports to the Compliance Division and the Internal Audit division, and the compliance committee discusses the incidents and reports them to the Board of Directors and the Audit and Supervisory Committee. In the event that the Company must investigate the need for disciplinary action, it will have a separate committee discuss and issue an internal penalty per the Employee Handbook.

(5) Regarding unlawful or illegal conduct by employees, SPARX Group has an internal reporting system. The Compliance Division head, the general counsel, and the Secretariat of the Audit and Supervisory Committee serve as the internal contacts for reports and consultations from directors, managers, and employees. In contrast, the Legal Office serves as the contact for external reports.

(6) The Internal Audit division under the control of the Board of Directors, audits employee actions to find whether they are appropriate and efficient in light of the law, the Articles of Incorporation, corporate regulations, and corporate ethics. It reports its findings to the Board of Directors and the Audit and Supervisory Committee.

(7) To ensure that internal controls involving financial reporting function effectively, the Board of Directors successively monitors all related activities. These activities include those related to the documentation of entity-level controls, IT controls, and operational process controls. The Board's activities also involve evaluating internal controls, judging their effectiveness, and addressing any deficiencies.

## 6. Framework for ensuring appropriate operations in the business group consisting of SPARX Group and its subsidiaries

(1) The division manages its subsidiaries monitors the operations of all Group subsidiaries per the Regulation on Subsidiary Manage. The division investigates the state of operations for significant subsidiaries and reports their findings to the Board of Directors as necessary.

(2) When required, the Board of Directors receives business reports directly from significant subsidiaries' representatives.

(3) To ensure compliance with the law and various regulations among the significant subsidiaries, the Company reviews, from a global perspective, legal compliance and risk management in their business operations, and depending on the size and form of their businesses, has these subsidiaries formulate their own corporate rules that include the required provisions based on the SPARX Group Code of Ethics Protocol.

## 7. Ensuring the independence for employees from directors meant to assist the Audit and Supervisory Committee in its duties and the effectiveness of instructions given to these employees

(1) The Internal Audit division will assist the Audit and Supervisory Committee in its duties.

(2) The Company shall obtain the Audit and Supervisory Committee's prior consent for all Internal Audit division personnel matters, including the transfer and evaluation of employees in the division. It shall ensure that these employees are independent from the corporate directors (excluding the Audit and Supervisory Committee directors).

(3) Employees of the Internal Audit division who receive instructions from the Audit and Supervisory Committee that are necessary in the conduct of their auditing duties shall not receive instructions or orders from the corporate directors (excluding Audit and Supervisory Committee directors).

## 8. Framework for directors, auditors, and employees of the business group consisting of SPARX Group and its subsidiaries to report to the Group's Audit and Supervisory Committee

- (1) If a Group director (excluding Audit and Supervisory Committee directors), auditor, or employee discovers facts that could cause considerable harm to SPARX Group or its domestic subsidiaries, he or she will immediately report these facts to the Audit and Supervisory Committee.
- (2) If the Audit and Supervisory Committee or the Internal Audit division asks a Group director (excluding Audit and Supervisory Committee directors), auditor, or employee to report on SPARX Group or its domestic subsidiaries' businesses and assets, he or she will immediately report these facts.
- (3) The Internal Audit division will periodically report on the findings of its internal audits of the Group and other related activities to the Audit and Supervisory Committee.

9. Framework for ensuring that individuals who report to Audit and Supervisory Committee do not receive unfavorable treatment due to their reports  
 The Company prohibits the unfavorable treatment of SPARX Group directors and employees who (directly or indirectly) submit reports to the Audit and Supervisory Committee, resulting from the submission of whistleblower reports. The Company also informs the directors and employees about this prohibition.

10. Policies concerning prepaying expenses and handling liabilities resulting from Audit and Supervisory Committee members executing their duties (when limited to those actions related to the Committee's duties)

- (1) If the Company receives an invoice for the prepayment of expenses resulting from Audit and Supervisory Committee members executing their duties, per the provisions of the Companies Act, the relevant division will discuss the matter and promptly handle these expenses or liabilities, except in the event that said expenses or liabilities are proven to be unnecessary for the execution of their duties.
- (2) The Company establishes a fixed budget every year to pay for expenses that arise from Audit and Supervisory Committee members executing their duties.

11. Other frameworks for ensuring that audits by the Audit and Supervisory Committee remain efficient

- (1) The Audit and Supervisory Committee regularly meets with the CEO to discuss the state of the Committee's capacity for conducting audits, crucial matters concerning audits, and other issues the Company should address.
- (2) The Audit and Supervisory Committee works with the Internal Audit division to conduct audits and amend audit-related procedures. The Committee also periodically receives reports on audits from the external auditor. Furthermore, to conduct audits efficiently and effectively, the Audit and Supervisory Committee strives to share information by holding meetings with all relevant parties.
- (3) The members chosen for the Audit and Supervisory Committee occasionally browse the minutes of important meetings and ask for explanations, as necessary.
- (4) The Audit and Supervisory Committee works to share information and exchange ideas involving all Group companies' auditing operations.

12. Framework for ensuring reliability in financial reports

To ensure reliability in its financial reports, SPARX Group has established its Basic Rules for Executive Evaluations of Internal Controls Concerning Financial Reports. The Company develops, operates, and evaluates internal controls concerning effective and efficient financial reporting, per the annual basic policy the Board of Directors has approved.

## 2. The basic approach and practical installations regarding the elimination of antisocial forces

As a basic policy, the Company will not have any relationship whatsoever with antisocial forces that threaten public order or sound corporate activities, nor provide any economic benefits to these forces. It resolutely refuses to respond to illegal or inappropriate requests from these forces. To fulfill this policy, the Company will provide thorough compliance training through the appropriate division and partner with external expert institutions, including police departments with jurisdiction or attorneys.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	None
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Supplementary explanation for this topic

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### 2. Other matters concerning the corporate governance frameworks

The Company's internal systems concerning the timely disclosure of corporate information are as follows:

#### 1. Basic policy for timely disclosure

To ensure that all shareholders and market participants understand and accurately evaluate the Company, SPARX Group aims to disclose, in a timely manner, trustworthy information that is fair, prompt, and objective.

#### 2. Internal framework for timely disclosure

At SPARX Group, the division responsible for IR (the Finance and Management Control division) closely partners with related divisions to share information in a timely manner, create and publish disclosure materials, and respond to inquiries from investors and market participants. The division responsible for IR conducts disclosure procedures for corporate information in line with the following categories:

##### (1) Breaking news

The managers of all departments, including subsidiaries, report crucial breaking news to the division responsible for IR. The information management manager and the IR division investigate the need for timely disclosure and, in the event that such disclosure is necessary, immediately disclose the breaking news.

##### (2) Company decisions

During its meetings, the Board of Directors votes on Company decisions of a material nature and the Company discloses information on these decisions immediately after adjournment of the meeting during which the vote took place.

##### (3) Financial data

The Board of Directors decides on the content of financial data, including those subject to disclosure, and the Company discloses said data immediately after adjournment of the meeting during which the vote took place.

Corporate governance framework

