

# ASSET MANAGEMENT

## ASSET MANAGEMENT BUSINESS

Strengthening the Business Foundation to Expand Asset Management to a Global Scale, and to Secure Sustainable Profit Sources

### Principal Companies

Intermediate Holding Company: SBI Capital Management

SBI Investment  
SBI FinTech Incubation  
SBI Ven Capital  
SBI Investment KOREA  
SBI SAVINGS BANK

Intermediate Holding Company: SBI GLOBAL ASSET MANAGEMENT

Morningstar Japan  
SBI Asset Management  
SBI Bond Investment Management  
SBI Gold

### Full-year Performance of the Asset Management Business by Major Business Lines (based on IFRSs)

#### Private Equity Investment

SBI Investment and funds under its aegis (Billions of yen)

	FY2015	FY2016
Revenue	18.8	10.7
Profit before income tax expense	11.7	4.1

#### Overseas Financial Services Business

SBI SAVINGS BANK and other overseas companies (Billions of yen)

	FY2015	FY2016
Revenue	43.2	52.2
Profit before income tax expense	4.6	6.1

#### Asset Management Services Business

Morningstar Japan and other companies (Billions of yen)

	FY2015	FY2016
Revenue	4.1	4.3
Profit before income tax expense	1.4	1.4

### Principal Initiatives in FY2016 and Future Priority Measures

#### Venture Capital Business

- Expansion of investments in FinTech, and other new technology fields at SBI Investment through the FinTech Fund
- Total capital commitment of up to ¥25.0 billion for the jointly established corporate venture capital (CVC) funds, as well as the establishment of an anticipated new CVC fund in FY2017
- Promotion of investments abroad, utilizing the Group's established global network

#### Asset Management Services Business

- SBI Bond Investment Management established and operates a bond fund, with lower trust fees than the average bond fund of the same category
- Morningstar Japan provides investor-oriented financial information from a neutral, objective perspective as a business that supports customer-oriented business operations
- Promoting the enhancement of the asset management capabilities of partner regional financial institutions, through joint establishment of an asset management company that utilizes the SBI Group's expertise

#### SBI SAVINGS BANK

- SBI SAVINGS BANK of South Korea achieved a record high net income (KGAAP) for the fiscal year ended December 31, 2016
- In partnership with DAYLI Financial Group Inc. (formerly Yello Financial Group Inc.), introduced a screening model that utilizes FinTech technology

## VENTURE CAPITAL BUSINESS

### The Concept of “from Japan’s SBI to the World’s SBI” Being Realized through Investments. Establishing a Strategic Investment Structure to Ensure Future Investment Recovery

#### Katsuya Kawashima

SBI Investment Co., Ltd.  
Representative Director  
and President

SBI Capital Management  
Co., Ltd.  
Representative Director  
and President



### Expansion of Venture Investments Domestically and Abroad

SBI Investment is a core company of the Asset Management Business that operates and manages venture capital funds. Since its establishment in 1999, the SBI Group has expanded its venture investments, primarily in the IT, biotechnology and environmental/energy sectors, which are positioned as the core industries of the 21st century. The Group has invested in a cumulative total of 1,242 companies in Japan and abroad, as of March 31, 2017, of which 214 companies completed either IPOs or M&A deals, resulting in a high exit ratio of 17.2%. The cumulative number of investee companies of venture capital funds operated and managed by SBI Investment is 746, as of March 31, 2017, of which 143 companies had exited, resulting in an exit ratio of 19.2%.

The Group’s assets under management, including private equity, amounted to ¥147.6 billion (excluding both cash and committed amounts to be paid in), as of March 31, 2017. The proportion of overseas assets under management is 65%, indicating that the concept of “from Japan’s SBI to the World’s SBI” is being realized through investments.

The SBI Group as a whole currently operates 20 funds in Japan and 32 funds overseas (as of the end of June 2017). The Group executed investments totaling ¥42.5 billion in 133 companies in FY2016, including investments through these funds.

In Japan, the Group is actively investing in the FinTech field, primarily through the industry’s first FinTech Fund, established in December 2015 with a total commitment amount of ¥30.0 billion,

including participation by 28 regional financial institutions, Mizuho Bank, Ltd. and SoftBank Group Corp. The SBI Group has already decided to invest ¥15.0 billion from the Fund, and ¥11.0 billion from SBI Holdings and other funds (as of the end of June 2017), in a total of 49 FinTech venture companies. Also, the Group has jointly established CVC funds with a total of three companies, including INTAGE HOLDINGS Inc. and Nikon Corporation, and each partner company is actively investing in venture companies that offer promise of business synergies.

Overseas, the SBI Group is investing aggressively, and in FY2016 the Group started operations of No. 2 Funds in Taiwan and Brunei, and the operation of a new fund in partnership with Vertex Ventures in Israel. In South Korea, SBI Investment KOREA is increasing the commissioned fund management business.

### The SBI Group’s Assets Under Management <sup>\*1,2</sup> (As of March 31, 2017)

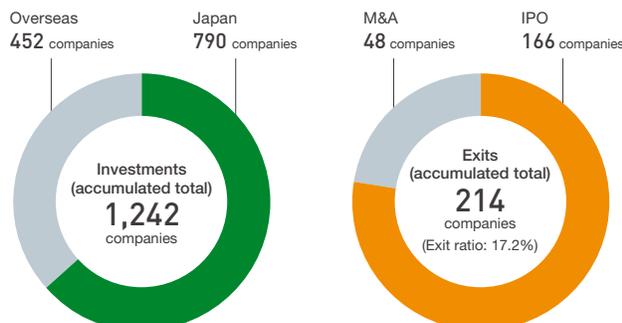
#### Private equity, etc. ¥253.7 billion

(Including ¥106.1 billion of both cash and commitment amount to be paid in<sup>\*3</sup>)

(Billions of yen)

Breakdown by industry		Breakdown by region	
IT / Internet	38.0	Japan	51.4
Biotechnology / Health / Medical	15.0	China	20.6
Services	10.8	South Korea	33.2
Materials / Chemicals	1.4	Taiwan	1.0
Environmental / Energy	13.9	Southeast Asia	8.4
Retail / Food	8.9	India	4.6
Construction / Real estate	1.0	U.S.	20.8
Machine / Automobile	6.2	Europe	1.5
Finance	37.5	Others	6.0
Others	14.9		
<b>Total</b>	<b>147.6</b>	<b>Total</b>	<b>147.6</b>

### Number of SBI Group’s Investments and Exits



#### Investment trust, etc. ¥282.1 billion<sup>\*4</sup>

(Billions of yen)

Investment trusts	188.9
Investment advisories	88.6
Investment companies	4.6

<sup>\*1</sup> Calculated by the exchange rate as of the end of March 2017.

<sup>\*2</sup> Amounts are rounded to the nearest ¥100 million.

<sup>\*3</sup> Composed of cash in funds and unpaid capital, which is to be paid on a capital call.

<sup>\*4</sup> As for the funds that SBI Asset Management provides investment instruction to, if Morningstar Asset Management provides investment advisory services, assets are recorded in both “Investment trusts” and “Investment advisory,” respectively, and such overlapping amounts totaled ¥30.0 billion.

## Focusing on the Enhancement of Investee Companies' Value, to Realize High Fund Management Performance

SBI Investment has also been enhancing its system to effectively support the growth of its investee companies. Following the investment, the company takes a full hands-on approach to help develop the investee companies, with proposals of strategies appropriate to their business stage to help build internal controls, as well as by dispatching executives as directors.

When an investee company reaches the IPO stage, SBI Investment leverages SBI SECURITIES and SBI MONEY PLAZA's operations, with their overwhelming customer base, and for overseas expansion it will call upon the Group's overseas offices and network of prominent local partners, to proactively assist in

the value enhancement of the investee company, through to its public offering stage.

In the FinTech field in particular, the SBI Group seeks to increase the corporate value of both the regional financial institutions and FinTech investee companies, by supporting the introduction of FinTech to regional financial institutions, through SBI FinTech Incubation, a joint venture established with IBM Japan, Ltd. We believe that the utilization of FinTech will strengthen the earning power of regional financial institutions. At the same time, FinTech venture companies can expect an increase in the number of users of their services that will lead to higher sales, which will contribute to the improvement of the FinTech Fund's performance.

The IPO market in Japan was firm in FY2016, and the SBI Group's investee companies completed ten IPOs and four M&A deals.

### Results of Investee Company IPOs and M&A Deals in FY2016

Number of companies	Date	Company	IPO / M&A	Business description	Head office location
Japan: 4 companies Overseas: 10 companies	July 2016	SKCS Co., Ltd.	IPO (KONEX)	Manufacture of optical films	South Korea
	August 2016	Kadmon Holdings LLC	IPO (NYSE)	Manufacture and sales of therapeutics for hepatitis C; development and sales of therapeutics for psoriasis, pulmonary fibrosis, lung cancer, and type 2 diabetes	U.S.
	August 2016	Carver Korea Co., Ltd.	M&A	Manufacture of cosmetics	South Korea
	August 2016	GL PharmTech Corp.	M&A	Development of generic drugs and improved versions of marketed drugs	South Korea
	September 2016	Taraashna Services Private Limited	M&A	Bank agency services	India
	September 2016	Youcel Inc.	IPO (KONEX)	Manufacture of cosmetics	South Korea
	November 2016	Sugentech Inc.	IPO (KONEX)	Research and development of pharmaceuticals	South Korea
	December 2016	Sinqi Pharmaceutical Co., Ltd.	IPO (ChiNext)	Pharmaceutical company	China
	December 2016	Sincere Co., Ltd.	IPO (TSE Mothers)	Manufacture and sales of contact lenses	Japan
	December 2016	ReNet Japan Group, Inc.	IPO (TSE Mothers)	Door-to-door purchase type reuse business, recycling business of "urban mine" resources (small appliances)	Japan
	December 2016	Grace Technology, Inc.	IPO (TSE Mothers)	Production, digitization, and online distribution of product manuals and other technical documents	Japan
	January 2017	Creative & Innovative System Corporation	M&A	Manufacture and sales of rechargeable batteries	South Korea
	January 2017	EuBiologics Co., Ltd.	IPO (KOSDAQ)	Contract research and manufacture of cholera vaccine therapeutics and biologics	South Korea
February 2017	RENOVA Inc.	IPO (TSE Mothers)	Power generation business utilizing sunlight, wind, geothermal, biomass, and other renewable energy sources	Japan	

## ASSET MANAGEMENT SERVICES BUSINESS

### In Light of the “Customer-oriented Business Operations” as Required for Financial Institutions, Enhancing Investment Products and Investment Services

#### Supporting the Adherence to the “Customer-oriented Business Operations”

In the asset management services business, the SBI Group is enhancing various investor-oriented investment products and services, to ensure “customer-oriented business operations” as called for by the Financial Services Agency. SBI Bond Investment Management, a bond investment company established jointly with U.S.-based Pacific Investment Management Company, LLC (PIMCO), started operations of a publicly offered investment trust, SBI-PIMCO Japan Better Income Fund (short name: Beta-In), in June 2016. The fund’s trust fee of 0.572% is substantially lower than the category average of 1.01%\*. As a result, the fund ranked 1st in initial investment amount in the bond division, for the period from April to September 2016. The Group also partnered with U.S.-based Gold Bullion International LLC (GBI), to jointly establish SBI Gold, a company that provides information services related to gold and platinum. In July 2017, SBI SECURITIES initiated a service that enables individual investors in Japan to engage in real-time 24-hour, spot physical gold trading using a precious metals trading platform provided by GBI.

Morningstar Japan provides valuation information on financial products from a neutral, objective perspective and supports

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financial institutions in ensuring “customer-oriented business operations.” The utilization of the tools that Morningstar Japan provides enables financial institutions and their sales personnel to propose products that truly contribute to the benefit of customers, and to strengthen their sales capabilities as well. For this reason, Morningstar Japan’s applications are the most frequently utilized apps by investment trust sales professionals, as a tool for gathering financial information and providing explanations to customers. In addition, the number of major financial institutions and companies introducing Morningstar Japan’s robo-advisor investment tools, which apply AI to provide asset management advice, is dramatically increasing. As a result of these developments, Morningstar Japan’s revenue in FY2016 increased for five consecutive years, rising 2.6% year-on-year to ¥4.8 billion, and achieved higher operating income, ordinary income and net income for eight consecutive years.

Furthermore, the SBI Group will contribute to regional revitalization in the area of asset management, by strengthening the asset management capabilities of regional financial institutions through high capital efficiency and performance, along with establishing a joint asset management company that utilizes the Group’s accumulated expertise in asset management, with regional financial institutions.

\* Average for the international bond active fund category (based on Morningstar Japan)

## SBI SAVINGS BANK

### Substantive Improvement in Business Performance Since becoming a Subsidiary, and Developing into an Operation that Underpins Segment Performance

SBI SAVINGS BANK, which became a consolidated subsidiary in March 2013, merged with three affiliated banks in October 2014, to become the largest savings bank in South Korea in terms of assets. Its main customers are individuals, self-proprietors and small- to medium-size enterprises. Since becoming a subsidiary, it has steadily accumulated performing loans, mainly in the retail sector, and its delinquency rate declined sharply to 8.8% overall

and to 5.0% for retail loans only, as of the end of March 2017, and the soundness of its operating base is continuing to improve. As a result, the bank achieved a record high net income (KGAAP) of KRW 74.0 billion in the fiscal year ended December 31, 2016, becoming South Korea’s largest savings bank in terms of profit.

In April 2017, the bank introduced a new initiative, a screening model that utilizes AI, developed in collaboration with DAYLI Financial Group Inc. (formerly Yello Financial Group Inc.), a South Korean digital financial services company, which is also a portfolio company of the Group. This model uses machine learning to more elaborately discriminate the creditworthiness of customers, making it possible to uncover potential high-value customers from among customers deemed ineligible for loans under the existing model.