Guidelines on Investment Restrictions to Avoid Concentration of Credit Risk

Established on July 17, 2014

1. Purpose

The purpose of these Guidelines is to state the basic principle of proper management and operation of a Member Management Company (Investment Trust Management Company as defined in Article 2, Paragraph 11 of the Act on Investment Trusts and Investment Corporations: Act No. 198 of 1951; the same shall apply hereafter) so that such Member does not infringe on the investment restrictions as provided for in Article 130, Paragraph 1, Item 8-2 of the Cabinet Office Ordinance on Financial Instruments Business (Act No. 52 of 2007; hereinafter referred to as the “Cabinet Office Ordinance”) and Articles 17-2 and 17-3 of the Rules on Management of Investment Trusts, etc. (hereinafter referred to as the “Rules”).

2. Basic Principle and Treatment

With regard to the method of management pertaining to investment restrictions for avoiding concentration of credit risk, the Member Management Company shall establish internal rules in advance with reference to the management methods as set forth in “3.” below, and shall appropriately manage and perform their operation so as not to commit any prohibited acts as provided for in the Cabinet Office Ordinance and the Rules.

In addition, the principle of complying with the Rules and relevant examples are provided in “4.” to serve proper management and operation thereof.

It should be noted that the management methods, etc. described in the Guidelines are merely examples and shall not preclude a Member Management Company from prescribing in its internal rules other management measures, etc. that are deemed appropriate by such Member.

3. Examples of Management Methods

As the management methods according to Article 17-2, Paragraph 5 of the Rules, the following control flow may be observed.

(i) Investment Trust Securities that exceed 10% of the total net asset are not incorporated into the relevant Fund of Funds (including an adjustment to be made to comply with such percentage restriction pursuant to Article 17-2, Paragraph 1 of the Rules).

(ii) If the provision of (i) above is not satisfied, it shall be ascertained in the investment trust contract of the Investment Trust Securities that account for more than 10% of the relevant fund’s total net asset, that investment restrictions similar to or stricter than those provided for in Article 17-2, Paragraph 1 of the Rules are being applied thereto.

(iii) If the provision of (ii) above is not satisfied, identify an asset mix or the upper limit of its exposure in relation to the relevant Investment Trust Securities that account for more than 10% of the relevant fund’s total net asset.

(iv) If the provision of (iii) above is not satisfied, bind the relevant Investment Trust Securities that account for more than 10% of the relevant fund's total net asset by the investment guidelines, and oblige them to report the compliance status thereof.

4. Principles and Examples of Complying with Rules

(1) The provisions of Article 17-2, Paragraph 2, Item 1 of the Rules make an exception for so-called sovereign and quasi-sovereign bonds issued in local currencies or by the countries specified by the Self-regulation Committee. Furthermore, the Self-regulation Committee specifies and lists the countries and regions with reference to the Notification No. 59 of the Financial Services Agency, "Establishment of Standards for Calculating Market Risk Equivalent, Counterparty Risk Equivalent, and Fundamental Risk Equivalent concerned with Financial Instruments Business Operators," where risk exposure to the bonds issued or guaranteed by the central government, central bank, local governments, etc. denominated in other than local currencies, is deemed nil.

(2) Regarding Article 17-2, Paragraph 3 of the Rules, foreign exchange contracts within 120 days shall be deemed an exception, while latent profit on long-term contracts and over-the-counter derivative contracts shall be considered to be an exposure.

(3) With regard to Article 17-2, Paragraph 4, Item 1 of the Rules, the issuer exposure shall be added to the actual securities (in case of purchase) in case of "Stock Future Transactions," while only the counterparty exposure shall be added in case of "Stock Index Futures Transactions" (nil in the case of listed future index).

(4) Regarding Article 17-2, Paragraph 4, Item 2 of the Rules, the unencumbered portion of over-the-counter derivative contracts, is calculated as a counterparty exposure, and in case of market derivatives, the counterparty exposure is deemed nil.

(5) Regarding Article 17-3, Paragraph 1, Item 2 of the Rules, exposure of an index fund to the shares that do not constitute the relevant index shall not exceed the prescribed limit, and investment in structured bonds shall not be an exception.

(6) Article 17-3, Paragraph 1, Item 3 of the Rules requires disclosure when holding in a specific share has a high weighting (specialized type).

* Examples of description in the "Purposes and Features of Fund" of a prospectus for delivery where the concerned fund holds or likely to hold dominant issue(s) in its portfolio weighting.

- ○ The Fund adopts the XX Stock Index as its benchmark. Since the XX Stock Index has a dominant issue that accounts for, or is likely to account for, more than 10% of the said index, investment in such dominant issue may occur, and as a result large losses may be incurred in the event of bankruptcy or deterioration in business operations or financial status concerned with such dominant issue.
- ○ The Fund uses a synthetic index as its benchmark that combines a XX index with YY index on an equal basis and converted into yen. Since this benchmark has a dominant issue which accounts for, or is likely to account for, more than 10% in its contribution to such a synthetic index, investment may concentrate on such a specific issue, and large losses may be incurred in the event of bankruptcy or deterioration in business operations or financial status concerned with such

dominant issue.

○ The Fund invests in the shares relevant to XX theme. Since there are dominant issues among the shares relevant to XX theme that may result in individually accounting for more than 10% of the portfolio, investment may be concentrated in such specific issues and large losses may be incurred in the event of bankruptcy or deterioration in business operations or financial status concerned with such dominant issues.

* Description examples of limiting holding ratio pursuant to the rules for investment diversification in investment trust contract.

<Diversified Fund> Case that conforms to the provisions of Article 17-2, Paragraph 1 of the Rules

The ratios of shares, etc. exposure, bond, etc. exposure, and derivatives, etc. exposure to a single entity to the total amount of net assets of the Investment Trust property prescribed in the Rules of the Investment Trusts Association, Japan, are to be, in principle, 10% at maximum respectively, and 20% at maximum in total. Where such ratio exceeds the above limits, adjustment is to be made so as to keep such ratio within the limits in accordance with the Rules of the Investment Trusts Association, Japan.

<Specialized Fund> Case to which the provisions of Article 17-3, Paragraph 1, Item 3 of the Rules apply

The ratio of exposure to a single entity prescribed in the Rules of the Investment Trusts Association, Japan, is to be 35% or below. Where such ratio exceeds the above limit, adjustment shall be made so as to keep such ratio within the limit in accordance with the Rules of the Investment Trusts Association, Japan.

(7) Article 17-3, Paragraph 1, Item 4 of the Rules defines a fund to which the name of issuer etc. is attached to its name such as the employee shareholding association fund.

* Examples of fund name that clearly indicate that its exposure to a certain issue is likely to exceed the prescribed limit.

○ XX Stock Fund (XX is a company name and could be multiple companies.)

○ Indonesian Government Bond Fund

○ World Bank Bond Fund

(8) In Article 17-3, Paragraph 2 of the Rules, securitization products of the same nature are assumed to be funds that invest in gold price-linked bonds issued by an investment corporation and investment trusts issuing beneficiary certificates that hold gold as assets.

Supplementary Provisions

The Guidelines shall come into effect on December 1, 2014.

However, this shall not apply to investment trusts in existence at the time when the Guidelines come into effect for the first five years after the effective date thereof. However, this shall not apply where reasonable measures as prescribed in Articles 17-2 and 17-3 of the Rules are provided for such investment trusts.