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September 26, 2022

Hironao Fukushima
Representative Director
City Index 11 Co., Ltd.

To the Board of Directors of JAFCO Group Co., Ltd.

We would like to engage in continued constructive dialogue foster mutual understanding and realize improvements in shareholder value at your Company.

We believe that taking your Company private through a management buyout would contribute to improvements in shareholder value at your Company, and as such, sent you a memorandum on September 12. We have not received a response to this memorandum, but we believe that you are, as a publicly traded company, considering various measures for the improvement of shareholder value.

We have been explaining our position and our ideas about your Company through meetings and memorandums, but for the sake of easier understanding, we have prepared the attached materials for your attention.

Your Company operates under zero debt, and your assets consist almost entirely of easily liquidatable assets such Nomura Research Institute shares, equity investments into JAFCO funds, and cash/cash equivalents. Therefore, given that your share prices trade at under 1x PBR, if you conduct a share buyback, it means that you will essentially be purchasing ownership interest in the JAFCO funds that you have previously invested in at a price that is far cheaper than when said investments were initially made. Given this distorted situation, we believe the sale of Nomura Research Institute shares and a share buyback will contribute significantly to the improvement of shareholder value at your Company.

Additionally, your Company commits to investing approximately 40% to investments funds as a GP, but in common investment fund schemes, a GP normally invests only a few percentage points into a given fund. In situations like yours where a GP invests approximately 50% into funds despite being a publicly traded company, there will always be the issues of (1) if share prices are below 1x PBR, you are not remedying the distorted situation in which it is cheaper to conduct a share buyback rather than to make LP investments (with a share buyback, you will essentially be purchasing ownership interest in funds that you have previously invested in at a price that is under book value), (2) it is better for shareholders to directly invest in funds rather than be shareholders of your Company, because there is double taxation on profits generated when publicly traded companies invest in funds (taxation on the publicly traded company and taxation on dividends) (LP investors get pass-through taxation treatment). In order to alleviate these issues, it is necessary to either go private or maintain share prices consistently above 1x PBR.

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However, in your release “Policy on Future Shareholder Returns”, your Company has publicly stated that “If the sum of cash and equivalents and mark-to-market valuation (after tax) of NRI shares exceeds the above estimate (around 120 billion yen) by a certain amount, we will consider buying back our shares.” There is no logic behind this threshold, and it is currently difficult to resolve the issues mentioned above. As of the end of June 2022, your Company holds 45.1 billion yen in cash and equivalents (including reserves for unpaid amounts to funds), which is 3 years’ worth of LP investments (which are approximately 15 billion yen/year), and the aforementioned 120 billion yen is 8 years’ worth this amount. As there will be additional cash generated through exits from previous investments, it is clear that 120 billion yen is excessive. Therefore, we believe that your current ownership in NRI (approximately 62.2 billion yen after tax, as of the end of June 2022) is excessive, and that the sale of these shares in conjunction with the use of those proceeds to conduct a share buyback will not impact the continuity of your business operations. Additionally, you have conducted sales of portions of your ownership in NRI shares due to elevated share prices, and given that current NRI share prices are even higher than when you made those sales, we believe that an immediate sale of NRI shares is advisable, considering the high risk, as a publicly traded company, of being invested in a single publicly traded company in amounts that equate to nearly half of the net assets of your company.

We genuinely hope for improvements in shareholder value at your Company, so we wish for constructive dialogue with the management team of your Company to realize this. We believe that you understand the content of our proposals above, but please feel free to contact us if there are any questions.