

TRACK RECORDS AND INVESTMENT POLICIES

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1. FIVE INVESTMENT POLICIES

- i. **Capture the Structural Changes**: To achieve “illiquid entry and liquid exit”, take positions which best capture the “large capital shift” inevitably derived from the markets’ structural changes. Pay more attention to change in volume of capital rather than pricing of assets;
- ii. **Strategic Investments**: Do not invest in anything NOT strategic. Every investment has to be inter-related and such series of investments should target to take key positions in targeted industries and/or markets;
- iii. **“Business Driven” Investments**: Originate businesses first, then, consider capital to work for the businesses, never vice versa. Do not leverage if that slows down the businesses too much;
- iv. **Unique Originations**: Only look for businesses and deals that are very unique, “unconventional” or the first one in the market;
- v. **Concentration**: Sometimes concentration creates exceedingly more value than diversification as long as such investment is “business driven”.

2. INVESTMENT TRACK RECORD

Weighted Average Annualized Return	42.3%*
Number of Deals	8*
Approximate Number of Underlying Assets	165*
Total Underlying Asset Value	Y50.3 billion
Total Capital Committed	Y17.7 billion
Total Net Proceed	Y9.5 billion*
Weighted Average Leverage	26% LTV**

* Due to calculation purposes, the numbers represent only capital gains for 4 out of 8 deals and do not include cash flow returns (which actually are significant for all four deals).

* No single deal or trading ever end up in losses within each portfolio. i.e. for example, every 52 property in Masse portfolio is exited for profit.

** Excluding secured loan trading deal, whose underlying assets were rated from Aaa to Baa credit by Moody's and fully hedged for risk free rate fluctuation. IRR number for this deal is net of hedge costs.

** Real estate investments, in nature, may not be very suitable for quantitative risk adjusted return analysis (such as Sharpe Ratio calculations). In general, monthly cash flows are very stable and residual capital return represents major part of risk factors; whereas the track record shows all the residual return end up positive surprises. One of the important risk measurements in real estate investments may be a leverage ratio (Loan To Value), which usually runs from 70% (somewhat conservative) to 95% (in hot market); whereas the track record shows almost negligible leverage levels compared to industry standards.

Kotaro Higuchi's Investment Record with Recrm Research Co., Ltd. (in million Yen)

Deal	Underlying Assets	Approx. Underlying Asset Value	Leveraged Risk Exposure	Leverage	Approx. Capital Committed	Net Proceed to Recrm	Wtd Avg Investment Period (months)	Time Wtd Capital Committed	Est. IRR
National Properties	8 properties in Tokyo area	3,500	2,857	65%	1,000	600	16	1,353	44%
Kabuto Decorm HQ	An office building in Sapporo	2,000	800	0%	800	1,200	2	136	885%
Takanawa Station Building	A development land for an office building in Tokyo	7,500	4,000	0%	4,000	1,000	10	3,367	30%
Ichibancho Land	A development land for an office building in Tokyo	5,000	4,000	0%	4,000	1,000	6	2,056	49%
Masse Portfolio	52 office and residential properties in Osaka	20,000	8,000	50%	4,000	2,500	23	7,789	32%
Small Loan Program Portfolio	Non-Recourse Loan Portfolio	6,200	8,000	90%	800	200	23	1,558	13%
The Hamilton Hotel Sapporo	A business hotel in Sapporo	600	300	0%	300	300	31	787	38%
Sun Marina Hotel	A resort hotel in Okinawa	5,500	2,800	0%	2,800	2,700	23	5,429	50%
Total		50,300	30,757		17,700	9,500		22,473	42.3%
	Wtd Avg Leverage			42%					
	Wtd Avg Leverage (excl. Debt Deal)			26%					

* Recrm's investment policy was that they preferred more gross return to better IRR track record. Therefore, so many deal was made unleveraged even if they could if they wanted to. KCH arranged many "corporate finance" for Recrm for better borrowing rates and flexibility.

* The chart represents ALL the deals that KCH directly closed and committed capital except Grand Ocean Hotels M&A deal. Recrm invested approximately Y1 billion equity in that deal. KCH resigned to be in charge of operation in due course without prejudice. After a year that KCH's resignation from that deal, Recrm sold the entire position to a third party at a book value.