Independent Managers Club

The 1st series activity report

Nomura Research Institute

2024.05

Competition, Innovation and Commitment to Stewardship

The importance of independent asset managers for the asset management industry in Japan

Investment Managers Club (IMC) was launched in October 2023 as an R&D project of Nomura Research Institute. We are researching what kind of support would help independent asset management startups to be more successful in Japan.

The Japanese government has launched a policy plan, "The Asset Management Nation", to strengthen the asset management industry. One measure focuses on the need for independent or startup asset managers. In Japan, most asset managers are subsidiaries of financial groups. Further, Japanese asset owners currently rarely employ independent management companies. This leads to lower levels of competition and innovation in the market, resulting in less choice for investors. At IMC, we are exploring the challenge that independent asset managers face in Japan and what support can help overcome them. We have done this through discussions with independent overseas funds, investor organisations, and other asset owners.

This process has helped to identify a wonderful group of highly capable Japanese independent asset management companies and that are working with IMC to grow the market. This report introduces these funds and shares perspectives from international groups and individuals with relevant contributions.

Hidekazu Ishida
FinCity.Tokyo
EMP Special Advisor

Shining spotlight on EMPs as part of the Asset Management Nation policy, interest in emerging independent asset managers is growing among major financial institutions.

In order to be successful, emerging independent asset managers need not only innovative investment ideas, but also the ability to communicate with their clients and overcome their challenges. I hope Independent Managers' Club will serve as a practical training ground for emerging asset managers to quickly improve their competitiveness, receiving candid feedback from asset owners and other related entities in the industry.

Chapter 1
Asset management nation and opinions of related parties

■ Current Situation / Survey

In December 2023 , we first conducted a survey asking market participants about their expectations and concerns about independent asset management companies in order to understand the current situation. When creating this questionnaire, it became necessary to define "independent asset management company.

■ Independent and Emerging Manager

Initially, the term "independent" targeted by the Asset Management Nation was interpreted to mean asset management companies that do not have capital relationships with financial institutions etc., rather than size. Later, the Asset Management Task Force used the term "Emerging Manager" to refer to start-up management companies. Therefore, when we say "independent asset managers" in this project, we refer to a asset management company without an influential parent company rather than the length of time it has been independent.

Efforts have already begun to revitalize various independent asset management companies in Japan to become a nation built on asset management. There are different subsectors in asset management. The demands and issues faced by a private equity firm targeting real estate and an asset manager investing in listed equities with long-term ESG policy are very different. Our focus is mainly public equity investors. We also emphasise managers whose expected return is based on improving the corporate value of investee companies over the long term.

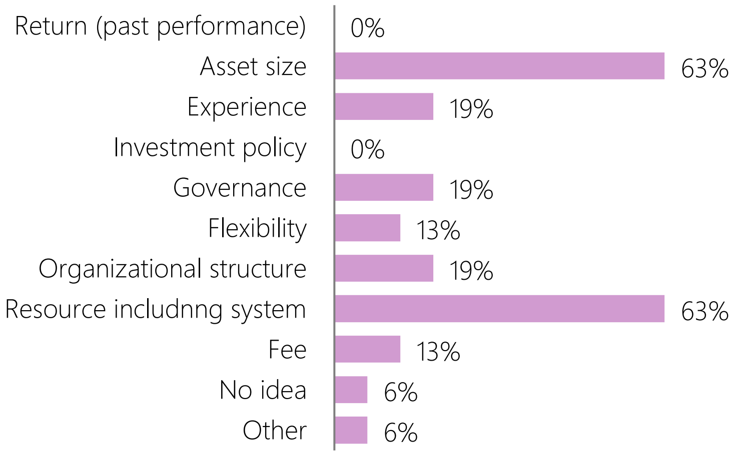
■ Strengths are free from conflicts of interest and highly motivation, weaknesses are resources and asset size

The survey asked respondents whether they thought the Japanese market needed an independent asset management company, and if so, why. The question then switched to whether they had ever hired an independent asset management company, why, and the strengths of independent asset management companies. The most important thing for all of them was that there was no conflict of interest. In addition, motivation, creativity, and investment policy were also important. On the other hand, perceived weakness and reasons for not investing included asset size, experience, resources, and governance. In addition, the areas that Japan's asset management market needs to strengthen include transparency of information such as investment strategies and fees, innovation, strengthening competition, increasing independence, strengthening governance and stewardship, and ensuring that asset owners specialize in investing.

Free of interest conflict and Motivation characterizes the strengths of Self-established independent AMC

Graph 1 Strengths of a Self-established Independent AMC

Graph 2 Weaknesses of a Self-established Independent AMC



Chapter 2
Program Overview

Identifying strengths and weaknesses

The five workshops explored the opportunities for independent asset management companies, their strengths, and where they need support to acquire customers and strengthen their competitiveness, held discussions with overseas experts and experienced people.

Another problem with independent asset management companies is that they generally have fewer opportunities to network and become well-known to asset owners. To this end, we also created an opportunity to hear from collective engagement platforms, investor organizations that work on specific ESG themes, and organizations that provide investment evaluation frames.

The first phase will include the following 5 sessions.

After those workshops, we set up a dialogue with public pensions in Northern Europe (AP2) just as a training exercise. We got advice on explaining the investment policy.

#	Region	Teacher	Theme	Main Discussion
1	US	**Mr. Mike Lubrano** Valoris Stewardship Catalysts	What is expected of an independent fund manager, from the perspective of someone who launched a boutique fund	• Stick to your company's operational policy • Acquire human resources who understand market conditions
2	Europe	**Mr. Robert Rubinstein** TBLI Experienced in launching a fund, running an investor group	What European asset owners want from independent asset managers	• Understanding of operational policy and philosophy • Possibility to gain an advantage through
3	Europe	Access to Medicine,	The possibility of finding asset owners who value the same principles through such specific investment models	• Collaboration with investor groups and asset owners through engagement, approaches on specific themes
4	US	**Mr. Sean Gilbert** GIIN Impact investment organization	Expectations of asset owners and opportunities for asset managers in impact investing	• Understand what asset owners want and share their objectives • Having a framework
5	Asia	**Mr. Benjamin McCarron** Asia Research and Engagement	Collective engagement and asset owner expectations on specific themes	• ESG stories are important

Experts' feedback

IMC members recognizes the importance of Engagement

Although they all had slightly different themes, they all mentioned the importance of engagement. Funds that emphasize engagement can come together to exchange opinions and dialogue with overseas investors, which could be an attractive pool.

Mr. Benjamin McCarron
Asia Research and Engagement

Independent AMCs have an advantage in Engagement.

Japan's independent managers appear well-positioned to carry out effective stewardship, including thoughtful analysis of non-financial risks and direct engagement with companies. Stewardship can be a key differentiator for independent managers to attract clients and outperform their more conflicted traditional competitors. Independent managers play an important role in collective stewardship efforts in other markets and there is no reason to think they will not also be leaders in Japan in playing this important role in the market.

Mr. Mike Lubrano
Valoris Stewardship Catalysts

Chapter 3
Participants and their feedback

Participants in the first period

Participants in the first phase are as follows.

In addition, a group preparing to start a business also participated.

#	Name	Operation Policy	Strong Taste
1	Asuka Corporate Advisory	Small and medium-sized, long-term focused, hands-on shareholder engagement	Based on detailed research activities, we consider strategic options for companies and make recommendations to company management.
2	Cadira Capital Management	Sustainable investment fund (impact integration)	① Integrating impact into traditional value investing, ② Utilizing engagement, ③ Own value evaluation.
3	Nihonbashi Value Partners	Japanese value investment. The source of added value is the selection with analysis of a company's earning power.	① Value investment method that captures opportunities of investment, ② Japanese equity investment experts who have overcome several market cycles, ③ We are close to its customers over the long term.
4	Hibiki Path Advisors	Small and medium-sized equity engagement investment	In addition to business analysis, investment targets are selected based on analysis of shareholder structure, board structure, etc.
5	United Managers Japan	Concentrated investment long short	①Performance disparity between structurally growing stocks and declining stocks, ② Engagement tailored to the stage of value and small-cap stocks

Asuka Corporate Advisory

Through the session, I realized that overseas asset owners have higher expectations for Japanese asset managers than I expected. We also realized that overseas independent asset managers had similar struggles in the beginning.

Cadira Capital Management

In the final AP2 , we received feedback from Mr. Anders that our company's listed Japanese stock investment strategy is compatible with SFDR . We believe that one of our strengths is applying advanced sustainability standards from overseas, especially Europe, to Japanese stocks, and receiving feedback like this has given us renewed confidence.

United Managers Japan

The opinions of asset owners are opinions that are heard at regular meetings, but I think they were well summarized. Although the hardships faced by independent managers overseas are similar to ours, I felt that they had the financial strength to endure for that long. Japan also needs asset owners who can support independent managers to emerge.

Nihonbashi Value Partners

A forum for discussion with overseas asset owners and gatekeepers is extremely valuable. It was particularly useful to discuss the characteristics of each type of overseas asset owner, the appeal points of an emerging asset management company, and how to deal with them. In the final AP2 session, it was very helpful to hear specific points about good points and things that need improvement.

Hibiki Path Advisors

Very informative. The lecturers, who are at the forefront of the industry, talked about the strengths and challenges of being an independent company from a variety of perspectives, which provided an important opportunity to rethink the way forward.

Feedback from moderator

Although each lecturer covered a different topic, participants actively listened to what global asset owners were looking for and successfully communicated the strengths of their own investment policies as they went through the sessions. Through the lecturers' talks, the impression was reinforced that impact investing and ESG are already methods used by traditional investors. Global asset owners seemed to want to hear specifics about engagement. It would be good if they could successfully explain this.

Chapter 4
Discussions in each session

1 *"Stick to your own investment policy and provide thorough explanations to asset owners."*

Mr. Mike Lubrano

Managing Director of Valoris Stewardship Catalysts, a consulting firm that advises fund managers on corporate governance, investor stewardship and sustainability.
Mr. Lubrano was one of the founders of Cartica Management , an asset management company specializing in corporate governance in emerging markets, in 2007 and successfully expanded assets under management from $ 200 million to $ 3.2 billion in 2019 .

Background of the fund establishment and Investment strategy

Cartica was founded in 2007 by four people including Mr. Lubrano, three of whom had been worked together the International Finance Corporation (IFC) improving the corporate governance of its investee companies.

Cartica's investment strategy was to invest in small and medium-sized companies (SMCs) in emerging markets where corporate value can be expected to be increased by improving corporate governance and sustainability. When Cartica was founded, although there were firms that followed a strategy to encourage US companies to improve their corporate governance, there was no major investment firm targeting such companies in emerging countries. However, there were asset owners who are interested in this kind of strategy. Cartica aimed to build an advantage by developing a strategy targeting emerging markets, drawing from Mike's and his colleagues' experience at IFC .

With an explicit strategy to supporter of governance-focused investment managers, CalPERS initially entrusted 200M as Cartica's anchor investor.

Challenges for asset management companies

Cost burden related to initial start-up: During the start-up period, assets under management are small, but some fixed costs can be burdensome, so cost control is extremely difficult. Cartica initially faced an extremely large cost burden, including the cost of having operations in more than a dozen countries, the cost of having offices in a major city (Washington DC) and the cost of compliance with US SEC requirements.

Track record: A newly-established asset management company has no track record. Many important asset owners require a three- year track record, which means start-up **asset managers have to endure three years before they can access these potential sources of investment.**

Approach to asset owners

CalPERS has New Managers Program, a program to search for new asset management companies. It also uses external consulting firms providing selection advice based on fund managers' track records and strategy types to assist with fund selection. Cartica was classified as Emerging Market and Active Ownership fund manager. For asset management companies, it is often important to fit into a category that is already well recognized by asset owners.

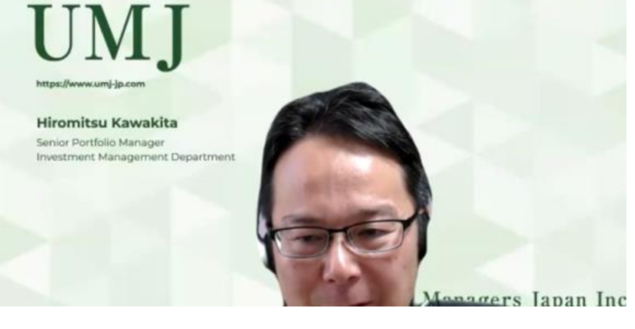
Many asset owners in large markets like the United States avoid asset managers that do not yet have a three- year track record. Nevertheless, asset managers should continue their marketing effort to reach out to such asset owners so that they are familiar with the manager once it has three years under its belt.

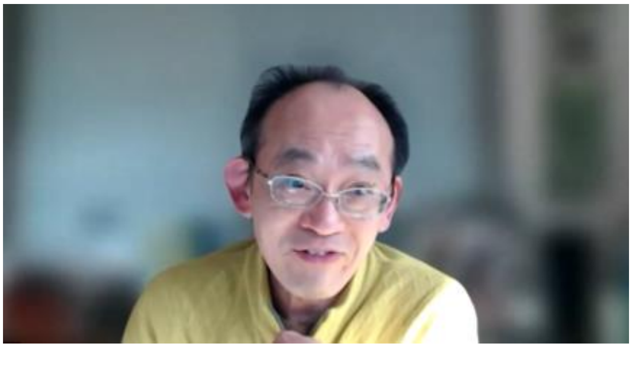
Family offices, foundations and endowments may have great flexibility in selecting asset managers than large pension fund. Even if a fund manager does not have a three- year track record, it may be selected based on the fund manager's previous experience and abilities.

Things to keep in mind for success

Stick to your company's investment policy: Asset managers must avoid diluting the original investment policy set in advance with opportunistic investments. Opportunistic investments may work out by chance, but if they fail, it will be impossible to explain them to asset owners. At the same time, it is necessary to clearly explain to potential asset owner investors what the risks and limitations of the investment strategy are, and to seek their understanding.

Acquire human resources who understand market conditions: Human resources who understand market conditions well and who are part of industry networks are an important asset for any fund manager. An important success factor for Cartica was that its founders were involved in asset owner communities like the Council of Institutional Investors (CII).





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"We should emphasize relationships with asset owners who understand the investment philosophy and policies of independent asset management companies."

Mr. Robert Rubinstein

The founder and current chairman of TBLI .
TBLI has been holding international conferences and summits and providing education and advisory services for approximately 25 years with the aim of revitalizing the ESG and impact investing communities.

Changes in the investment environment

It was explained that the economic and investment environments are undergoing major changes. Due to resource constraints associated with economic growth in emerging countries, interest in ESG has increased, and asset owners have begun to take an interest in purpose, sustainability, and philanthropy and try to link these to investment. As a result, the market size for ESG investing, sustainable finance, and green bonds has expanded, with ESG growth reaching $ 50 Trillion.

Problems with market structure that concentrates on Tier 1 asset management companies

However, asset owners tend to choose primarily Tier 1 asset management companies that operate on a large scale globally, which creates a barrier for independent asset managers. This is because Tier 1 asset management companies have an advantage in reputation, track record, and research capabilities.

There are checklists that asset owners ask fund managers about responsible investing, such as whether ESG factors are incorporated, which asset management companies need to answer. Tier 1 asset managers are the ones who can comfortably answer these questions, and most asset owners end up choosing a tier 1 manager. Even if independent asset management companies were able to answer all questions about responsible investment, it would be difficult for them to be chosen by asset owners due to their lack of brand power.

Difficulties in obtaining mandates for independent asset managers

On the other hand, it was pointed out that independent asset managers have many advantages. They have access to management, continuity of human resources, operational flexibility, hungry sprit, and most importantly, they have the potential to gain an advantage in commitment to ESG.

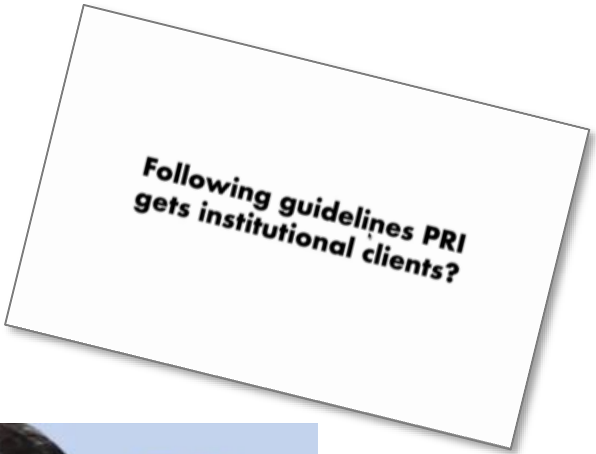
A participant shared his experience of working for an asset owner with advanced ESG initiatives , but the relationship was later terminated. The lecturer said that it is important to choose an appropriate asset owner, and that it is necessary to work with asset owners who understand the management policies and philosophy of small, independent asset management companies.

What you need to do to be chosen from asset owners

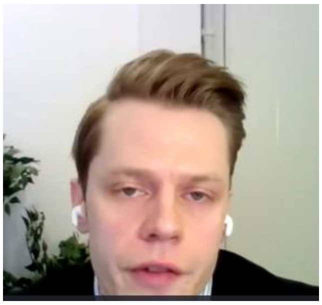
Discussion was made regarding what small independent asset management companies should do to build relationships with asset owners.

First, it was introduced that independent asset management companies should have opportunities to provide information to asset owners, as asset owners themselves are looking for learning opportunities. This is because independent asset management companies should have their own management policies and philosophies, They should place emphasis on relationships with asset owners that align with those policies.

Also introduced was the idea of selectively aiming to build relationships with organizations that are highly flexible and interested in engagement, such as family offices.



3 “Engagement with the pharmaceutical industries focusing on access to medicine”



Mr. Bram Wagner

Investor Engagement Officer at the Access to Medicine Foundation, an NGO that works with stakeholders to increase access to medicines in low- and middle-income countries . He is primarily involved in promoting investor engagement with pharmaceutical companies.

Mr. Parag Nimbolkar

Parag Nimbolkar is a member of the Medicines patent pool (MPP) , an NPO that aims to build business models that licenses patents from pharmaceutical companies, to improve access to medicines by providing licenses and pooling patents.

■ Access to medicine as a materiality for asset owners

The lecturer asserted that access to medicines is a material issue for asset owners, as improving access to medicines is related to increasing corporate value. Interest has increased, especially after the coronavirus pandemic, and Access to Medicine Foundation provides research on pharmaceutical companies' approaches to access to medicines. It also highlights best practices and supports engagement and stewardship with pharmaceutical companies.

■ Initiatives by asset owners

PGGM, a pension fund in Netherland, has released an article on how its funds are used to support pharmaceutical company engagement and sustainability. This includes a description of why this issue matters to their beneficiaries. The lecturer pointed out that in light of these asset owner movements, asset management companies will also need to consider access to medicines.

■ MPP activities

MPP is a sustainable model which works by leveraging patents and licenses held by pharmaceutical companies and the companies earn royalties. Therefore, it is distinct from donations and CSR . To clarify this, MPP quantified the economic value that patent holders can receive by providing patents. For example, it evaluates metrics such as time-to-market, patient base growth, brand awareness, employee relations, and potential sales impact. The economic effects of the project are analyzed from various angles.

Challenges of compatibility between asset managers and asset owners

Participants asked how asset managers who understand the research findings from the Access to Medicine Foundation should look for asset owners. The lecturer explained that it is difficult for asset owners and asset managers to find each other. It was pointed out that there is currently a lack of compatibility between asset managers and asset owners, and that this is an issue.

Challenges of double materiality of financial return and ESG effects

Participants pointed out that it is extremely difficult to forecast the future, at ESG engagement funds that manage double materiality of both financial returns and ESG effects. In relation to this point, actual success stories in the pharmaceutical industry were asked about.

The lecturer introduced an example of targeting small and medium-sized enterprises that have good medicines but have not been able to establish access to medicines. A British pharmaceutical company was struggling to roll out its HIV- related products to low- and middle-income countries. By working with the Access to Medicine Foundation, which was able to negotiate with the government, the company succeeded in increasing sales in low- and middle-income countries.

Additionally, although it is quite difficult for listed companies to quantify the effects of licensing and access to medicines, they often have their own analytical methods, and these companies use them together with the Access to Medicine Foundation's research findings.

Collaboration between asset owners and asset managers in Engagement

A question was asked about the actual state of collaboration in engagement between asset owners, who are ATM members, and asset managers. The Access to Medicine Foundation has over 140 signatories, and several lead investors who are responsible for meetings with companies and engage in collaborative engagement. During this time, dialogue is held, and governance in pharmaceutical companies may also be discussed.

An approach that focuses on the global nature of the pharmaceutical industry

A participant commented that although investing in the pharmaceutical industry presents knowledge challenges, it may be easier to reach a common understanding with asset owners because there is a high degree of global commonality in knowledge.

Because the issue of governance in Japanese companies is highly specific, it takes time to gain the understanding of asset owners. In comparison, if the independent asset management companies succeeds in establishing its knowledge base in pharmaceutical industry, it may be easier to obtain mandates from asset owners.

4

"It is important to build relationships that match the asset owners' objectives for impact investing."

Mr. Sean Gilbert

Chief Investment Network Officer of GIIN, an NPO whose purpose is to build a network for impact investing. GIIN provides research and knowledge bases for the impact investing industry, as well as tools for measuring and evaluating impact performance.

The need to share objectives with asset owners

Changes are coming about through sustainable finance. In the past few years, many investors have begun to use the word "impact." So, we need to really talk to asset owners about what they mean by "impact".

"Impact investing" refers to the type of investment in which the what impact outcome is pursued, and the investment strategy and portfolio are designed to achieve that objective. There are various objectives, such as the transition to a low-carbon society, responding to an aging society, regional revitalization, and accessing basic needs, but it is first necessary to clearly understand the intentions of asset owners. Then, it is necessary to clarify the priority of investment objectives, investment universe, and investment timeframe. Furthermore, it is necessary to have a "performance framework'' based on the investment strategy, and to have a shared understanding of "expected returns" between asset owners and asset managers..

Differences in impact investment strategies depending on the type of asset owner

It should also be noted that impact investment strategies differ depending on the type of asset owner. Impact investing has historically started with family offices and foundations, and the flexibility of these asset owners means they tend to pursue impact objectives even if they give up a certain amount of return. On the other hand, pension funds and insurance companies have strong constraints on returns, so it is necessary to share financial objectives in addition to impact objectives.

What asset owners want and what asset managers should address

The question “many asset owners view SDGs as impact investing?” was raised. The lecturer answered that the change would be slow. However, it was also argued that a shift in mindset among asset owners is important. There is a possibility that some asset owners will decide on investment strategies and its portfolios by focusing on specific themes, rather than focusing on the SDGs as a whole.

ESG Trend and Country issues: Regarding anti- ESG trends in the United States , it was explained that while it is true that ESG has become politicized, impact investing has not become a particular problem. Therefore, it is easier to talk about investments and solutions with impact.

However, while we have some idea of how to deal with climate change, regarding the issues such as structural inequality and basic needs in specific countries and regions, a limited number of people are familiar with those issues. There may be opportunities for those familiar with investment opportunities in Japan (including independent managers in Japan).

Impact factors: Regarding the difficulty of pursuing both financial and non-financial factors, the lecture explained that in addition to traditional financial factors such as return, risk, and correlation, other types of factors, such as impact return, social return, and environmental return, should be considered.

Regulatory change: Additionally, regulatory rules are changing rapidly. A lot of reporting is required and varies depending on requirements and region. We should also be aware that people's interests are changing.

5

"There is great potential for growth for Japanese companies and independent asset managers through engagement."

Mr. Benjamin McCarron

Founder and MD of Asia Research and Engagement.
ARE is an organization that aims to be a catalyst for corporate change through institutional investor engagement, and currently has 12 members that represent $7 trillion .
ARE covered 140 companies in 2023, including those in banking sector, food sector, power and steel sectors, and the two main engagement programs are Energy Transition and Protein Transition.

Outcome-based engagement

Investment funds use engagement in different ways. For some funds, engagement is used to generate alpha and is part of the investment thesis. Companies are selected that can release value through a change in strategy. For other active funds, stock selection is the first consideration and then engagement may be used in addition to support greater value creation after the shares have been bought. Passive investors also use engagement as part of their services to clients, often based on policy positions.

For funds that use engagement as part of stock selection, there are good case studies and the emphasis is usually on company strategy and governance, rather than sustainability. In ARE's case, we work with investors that want sustainability outcomes from companies, so we are less focused on investment return.

Energy and Protein

ARE conducts advocacy activities to address challenges in the energy system and the food system. This is based on the judgment that Asian companies still have insufficient understanding in these fields and that there is considerable room to provide value.

One example is engagement with Asian banks as part of energy transition. For Japanese banks, ARE participating investors noted the shareholder resolutions and sought to discuss related matters directly with the leading banks, including Mizuho and SMBC. In Singapore, the mechanism was different, with both informal meetings and sometimes questions at shareholder meetings, including for OCBC and DBS.

Protein is the area of the food system with the highest overall impacts. There are multiple issues that investors consider important. These include use of antibiotics, labour standards, chemical use, overfishing, deforestation, etc.. As the definition is ambiguous, ARE worked with investors to establish an aspirational vision for protein in 2030. ARE established the Protein Transition Platform and coordinates with investors to advance this vision.

Possibility of growth of an independent asset manager with the same investment policy as that of ARE

A question was posed by a participant on how an independent asset managers with a similar investment policy to that of ARE's advocacy could grow.

The lecturer introduced successful case studies of two independent asset management companies. One was a company that used a quantified approach (quantitative modeling) to analyze and evaluate energy efficiency, labor standards, etc., and statistically analyze the relationship of those with corporate profitability. The company has grown rapidly over the decades, going from around $ 100M in AUM in 2011 to billions today. The other is a traditional active management, and it is fast growing as a boutique because it is focused on companies with strong sustainability solutions.

Challenges for independent asset management companies

The lecturer answered questions from participants regarding the challenges faced by independent asset management companies.

The initial challenge is building relationships when selling to institutional investors. Appropriate human relationships at the senior level are necessary, and these relationships must be institutionalized rather than personal. Building and maintaining such relationships requires resources such as channel building and human resources on the investment company side. Moreover, they need to expand this globally.

It was also pointed out that asset owners still often select managers based on box-checking, and that investment companies need to consider operation and resources for reporting. As asset owners' situations may change every quarter or month, they need to be flexible in how they respond.

Interest in Japanese equity

There was a discussion about global asset owners' interest in Japanese equity. The lecturer said that governance improvements had improved the perception of the Japanese market. He mentioned that possibly, there could be a change in allocation to Japan from China as global supply chains restructure.

Additionally, due to Japan's unique challenges such as a declining population, a shrinking domestic market, and the need for companies to internationalize, companies are faced with the difficult choice of either expanding overseas or being acquired by a foreign company. It was pointed out that Japan is now at a crossroads, and that there is potential for engagement here.

Asset owner dialog

Received comments from European pension on whether the explanation of Japanese independent asset management companies' investment policies was well understood from an asset owner's perspective.

■ Asuka Corporate Advisory

It is a value-up strategy fund that specializes in small and medium-sized companies. It aims to increase the value of companies through engagement.

Based on detailed research activities, we consider strategic options for companies and make recommendations to company management. The scope is wide-ranging, including finance, competitive strategy, global strategy, and marketing strategy.

Although we offer ESG funds, we do not select our investment targets purely from an ESG perspective. We focus on financial performance and ESG KPIs that are linked to corporate value. Twenty years ago, engagement was very difficult. Nowadays, there is talk that the PBR less than 1 times at the TSE, making it easier for companies to accept dialogue.

■ Comments from the instructor

It's very good that you talked about strategy and the philosophy behind it. Owners of pension assets and others are interested not only in what they do, but also in what they think. It is interesting to hear that the fund focuses on engagement and provides management support to SME companies.

However, it is difficult for European investors to understand what investing in Japanese SMEs means. It is easy to understand what a wide-ranging Asian portfolio means. There is currently a growing interest in increasing exposure to Japanese stocks, but I think it is necessary to explain a little more about what this means when it comes to SMEs . There should be more explanation of the benefits to investors of having a portfolio of Japanese SMEs compared to a portfolio across Asia .

■ Nihonbashi Value Partners

It is a value-up strategy fund that specializes in small We are doing value investing. Because it has a simple structure, we have the ability to form long-term partnerships with asset owners. Aims to capture opportunities in the value creation and dividend ability of Japanese stocks. Additionally, investment opportunities are increasing in Japan under the pressure on corporate governance.

Independence allows us to focus on strategy and align interests with asset owners. The member has ample experience in operations at a major asset management company before the start-up. We targets not only large companies but also medium-sized companies.

■ Comments from the instructor

It would have been nice to have an explanation of the uniqueness of the fund. The explanation about investment strategy (deep value strategy) was also good. Also, the explanation about his long experience before independence was good.

I think it would be better if there was an explanation of what you can do now that you couldn't do before independence. I think the good things are that there is no sector bias, that it targets medium-sized companies, and that it has a perspective on governance reform. It would have been nice to have a concrete example where investing in the mid-sized corporate sector showed higher returns than investing in the large corporate sector. The perspective of aligned interest with asset owners is extremely important.

Cadira Capital Management

It aims to deliver long-term value and focuses on sustainable investing. It manages the EU 's Article-9 and UCITS funds. The investment strategy consists of three points : 1) Integrating impact into traditional value investing, 2) Utilizing engagement, and ③ Proprietary value evaluation . It targets companies that have the potential to become sustainable. We monitor non-financial information with a focus on a company's external economic efficiency (externality).

Engagement takes time, so we developed our own value assessment tool. The two portfolio managers have over 20 years of investment and sustainability experience. It has a pioneering spirit and is currently promoting discussions with GIIN and Japanese authorities in the impact field . For negative impact, we incorporate elements such as human rights policy, environmental policy, GHG emissions, and renewable energy into impact, referring to SFDR 's global framework. For positive impact, we refer to IIRC 's Integrated Framework, IMP (Impact Management Project).

Comments from the instructor

The presentation material was very effective. The explanation of the fact that you already have European investors as clients and that you can deal with SFDR and A9 was very helpful in understanding the characteristics of the fund.

As the fund's stake is relatively small when investing in large companies, we would like to know more about how could you make dialogue with corporate management successful.

We are interested in what figures are used to measure impact. Asset owners also refer to SFDR, IMP, etc. when discussing impact, so I think it's good to touch on these topics.

UMJ (United Managers Japan)

A market-neutral, concentrated investment with long-short strategy. There are about 30 companies for both long and short positions, and the targets for long investments are the same as those used in APS during the Singapore era, with one-third each invested in three categories : structural growth stocks, cyclical stocks, and value stocks. The focus is on small and medium-sized enterprises with high inefficiency as they may have recognition gap with the market. Good investments are easy to find in this area. On the other hand, at the short side liquidity should be taken into consideration, so we targets large companies.

On the long side, we use different engagement methods depending on the category, but we emphasize efficiency, so we do not engage with cyclical stocks, for example. At engagement, we propose measures for value companies to break out of value traps. In many cases, the market does not fully understand small-sized growth stocks, so we support corporate for their IR activities.

Comments from the instructor

I think this is a clear strategy that focuses on the inefficiency of Japan's small and medium-sized business. It is interesting that within the long-short strategy, the long side uses engagement that emphasizes efficiency.

In the case of small and medium-sized companies, there may not be coverage by analysts, and the actual state of the market is unknown, so I think it is effective to support such companies and increase their recognition in the market. For European and American asset owners like pension and insurance companies, investing in small and medium-sized companies is a niche strategy, and investment decisions are difficult to make. The question always arises: Why should one invest in a fund for Japanese small and medium-sized enterprises? We need to be able to clearly explain that there are companies that are undervalued and that there are investment opportunities.

Chapter 5
Future Initiatives

Toward the second phase

In the second phase, scheduled for July to September 2024 , IMC plans to engage in discussions involving asset owners and categorisation of asset managers' investment policies.

We also hope to provide opinions on the Asset Owner Principal that the Financial Services Agency is planning to implement in the summer of 2024.

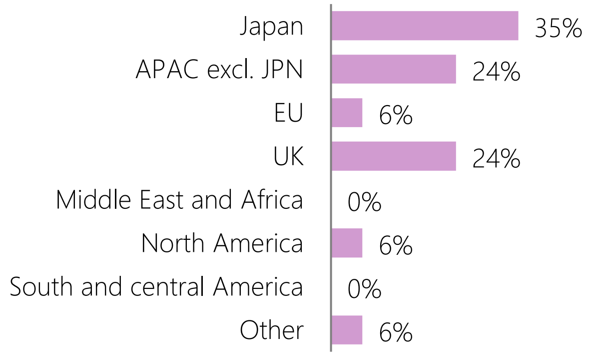
Reference) Past and future of the Asset Management Nation Plan

- On June 16 , 2023 , the government approved the "Basic Policy 2023" at a cabinet meeting and launched a policy plan called "
- On October 5th , the Financial Services Council 's ``Task Force on Asset Management'' held its first meeting and released its report on December 12th .
- In response, each financial group has formulated plans for "initiatives to advance the sophistication of asset management businesses" and announced them on their respective websites by January 2024 . The site was published on the Financial Services Agency website . https://www.fsa.go.jp/policy/pjlamc/initiativesbythefinancialindustry/01_list.xlsx
- The Financial Services Agency is preparing to establish an asset owner principal in the summer of 2024.

(As of April 2024)

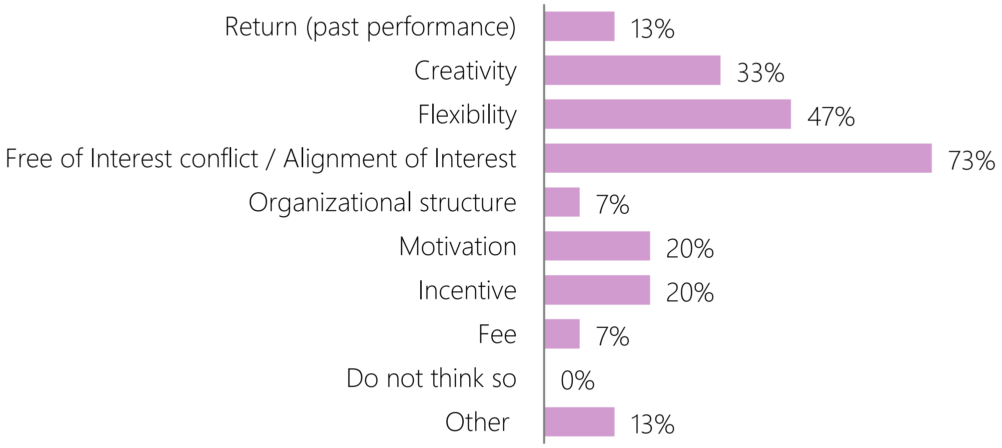
Appendix
Results of Survey

Your place of work



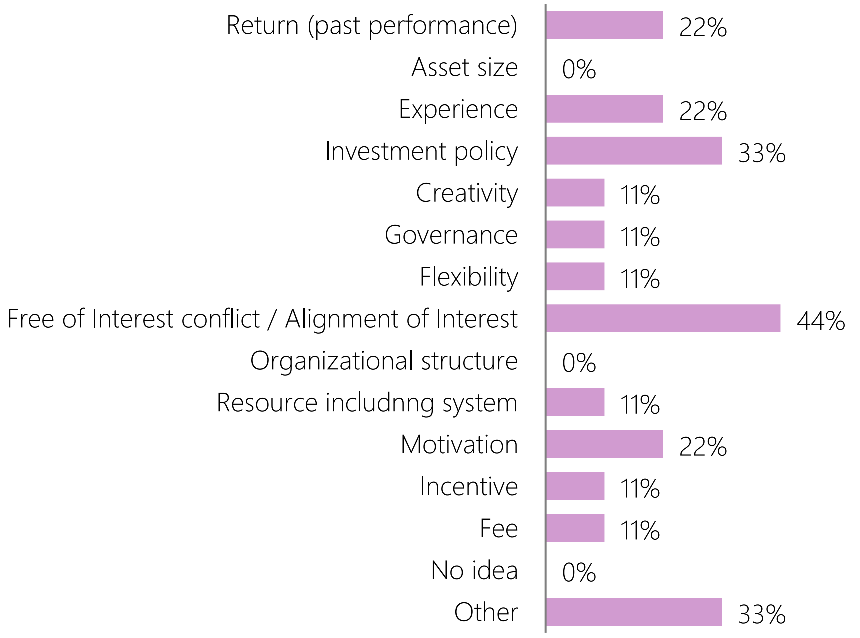
Do you think Self-established Independent AMCs are required in Japan today? If so, why?

If you are an Asset Owner (AO) or have experience as an AO, please answer your own experience.
If you are related to AO (as clients), please answer from their view.
If you are not related to AO, please answer general perspective.

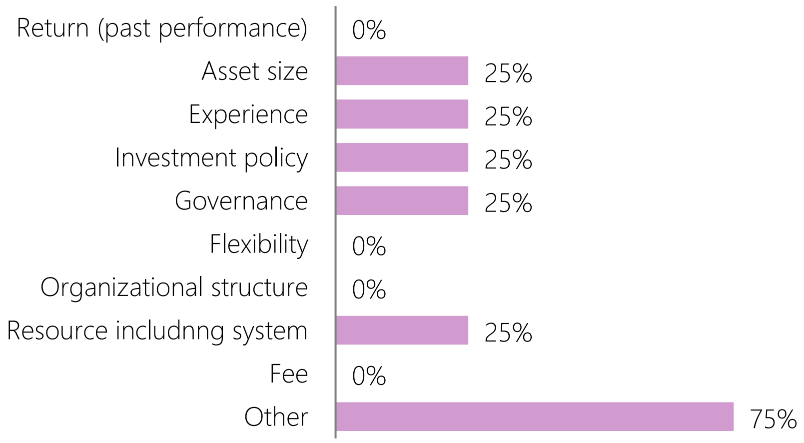


What should be most important when choosing an asset manager?

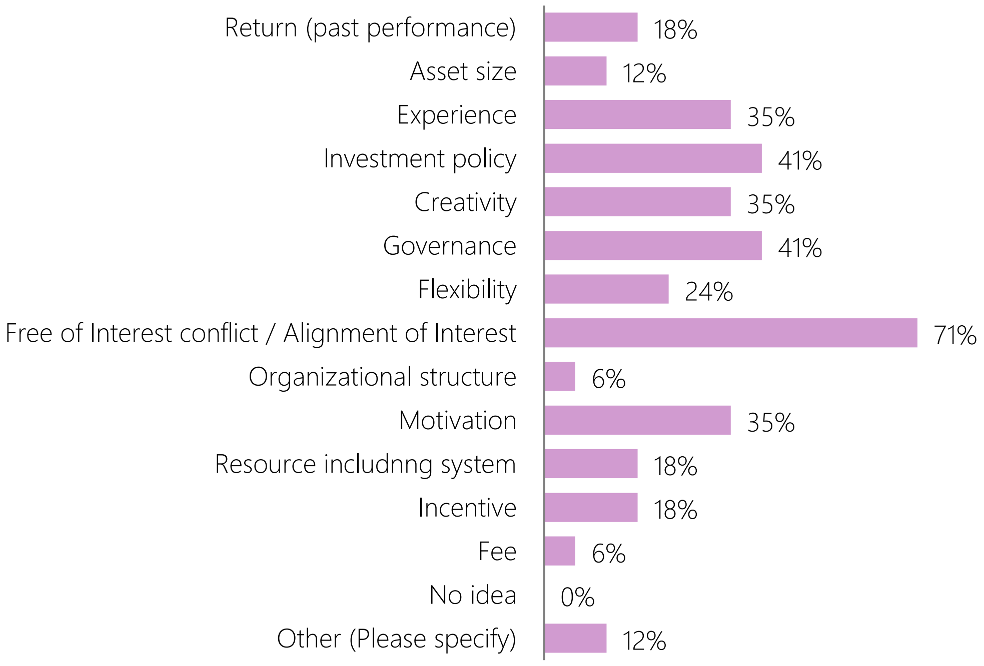
Do you use self-established independent AMCs?
If so, what are your reasons?



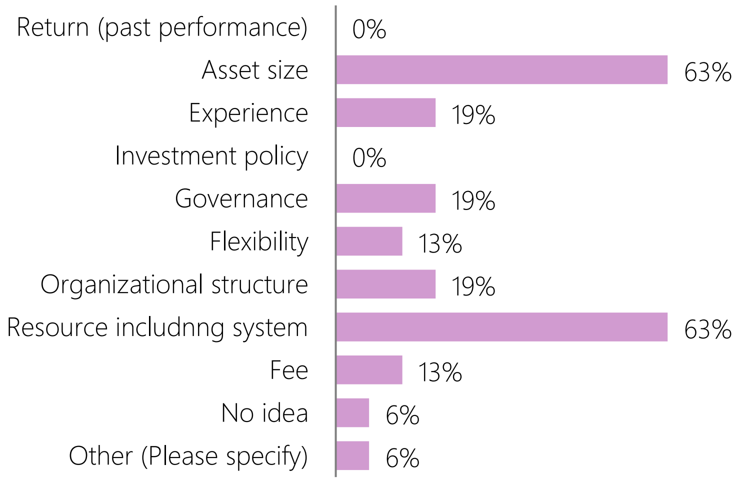
If you do not use Self-established independent AMCs, what are your reasons for this?



What do you think should be the strengths of a self-established independent AMC?



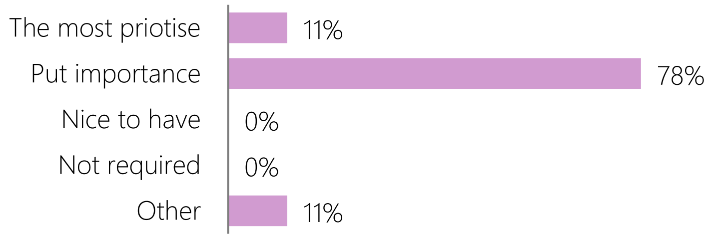
What do you think are the weaknesses of a Self-established independent AMC?



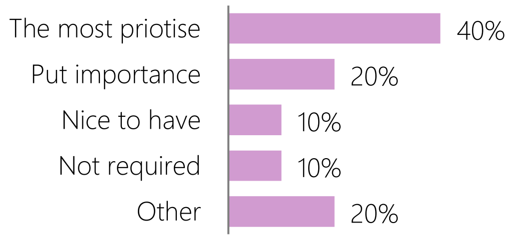
What are the primary concerns for asset owners when using a self-established independent AMCs?

- Ability to fulfill mandates related to ESG investment
- Governance and any execution of investment philosophy after our due diligence and approval as asset manager
- Some form of track record is necessary to understand what may be delivered. This can be derived from other professional experience, but some is needed. There also needs to be professional administration, something smaller firms often neglect.
- 1. Integrity 2. Ability to withstand market shocks
- Growing too large and loosing the original entrepreneurial mindset.
- Financial strength
- Lack of experience if they are a 1st time manager, lack of resource if they are small
- Reputation
- Infrastructure, stability, and compliance

How much emphasis do you place on ESG, governance, impact?



To what extent do you also require asset managers to comply with requirements stemming from disclosure regulations in the country to which they belong, such as the SFDR?



What do you think asset management industry in Japan should enhance?

- provide clearer and simpler to understand information regarding investment strategies and fee transparency.
- Innovation, management responsiveness, increased competition
- Independence. Too many conflicts of interest.
- Stronger in practicing corporate governance.
- Stewardship
- Consolidation of domestic asset managers across the financial groups.

What do you think asset management industry in Japan should enhance? (Continued)

- Traditionally asset management has been the poor cousin in the financial industry, although in the more than 25 years I worked in asset management in Japan this improved greatly, but I think this should be pushed further. Encouraging independent asset managers, including those with foreign capital and foreign professionals, working along side local professionals and even with local capital, I think can be very advantageous for both the industry, but more importantly clients, offering them more choice in terms of investment ideas and investment scope. I think also domestic clients may need to be educated, but this may also mean that Japanese AMC become more competitive internationally.
- Asset owners are either professionals in investment or have a strong sense of responsibility for their roles.

What do you think the Japanese asset management industry should do to strengthen the independent AMCs?

- More established AM (with larger AUM) should work together with smaller, independent AM and the regulator, and continue to have dialogue together and share best practices.
- Start up incentives, supporting export strategies, liaison with investment consultants.
- Establish the infrastructure - separate and professional administration functions etc
- put them opportunities to grow and not only focused on the mega investment management companies/conglomerates.
- Independent directors as trustees of funds, and on the board of the AMCs
- Making it easier to run a small independent asset management firm, allowing them to outsource middle and back-office works.
- Support
- I think you need to have a mixture of AMCs that are part of major and may be regional financial groups together with independent AMCs as both have their strengths and weaknesses.

Survey overview

Survey title	Asset owners' perspective on Independent asset management companies
Objective	To understand the interest and concerns of domestic and overseas asset owners on independent asset management companies in Japan.
Date of Survey	From December 2023 to January 2024
Methodology	Sending email individually or via global investor organisation
Target	Domestic and Overseas Asset owners and other related parties.
Questions	• The need for Self-established Independent asset management companies • The most important thing for choosing independent asset management companies. • Strengths and Weaknesses of IMCs. • Concerns of asset owners on IMCs. • Issues for Japanese asset management industry