

# 2010 lakkyara

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**vol.89** (12.October.2010)

**Special Edition**

**Long-term investments requires trust**

- Interview with Hyeon Joo Park (Chairman, Mirae Asset Financial Group) -

## Interview with Hyeon Joo Park (Chairman, Mirae Asset Financial Group)

Loss of trust is a calamity for any business. Once lost, trust is extremely difficult to regain, as the financial industry has learned in the wake of the recent financial crisis. "We sell trust, not returns," says Hyeon Joo Park, founder and current Chairman of Mirae Asset Global Investments, Korea's top asset management company. NRI's Sadayuki Horie talked to Mr. Park about Mirae Asset's management philosophy.



### Hyeon Joo Park

Chairman, Mirae Asset Financial Group

Joined a Korean securities brokerage in 1986. Appointed branch manager at age 32. Founded Mirae Asset Capital and Mirae Asset Investment Advisory in 1997. Subsequently founded numerous other companies, including Mirae Asset Securities and Mirae Asset Life Insurance, to form Korea's leading financial group. Pioneered sales of mutual funds to retail investors in Korea. Aggressively expanding overseas in the aim of being Asia's top asset management company.

### Sadayuki Horie

Senior Researcher, Financial Technology and Market Research Department, Nomura Research Institute

Joined NRI in 1981. Involved in development of the NRI Bond Performance Index (currently Nomura-BPI). Seconded to NRI America in 1986, where he was involved in developing option and term structure models until 1988. Seconded to Nomura Asset Management from 1996 to 2001. Currently chairman of AIMA Japan's Research Committee and a visiting professor at Osaka University of Economics' graduate school.



## Interview with Hyeon Joo Park (Chairman, Mirae Asset Financial Group)

### Challenging the conventional wisdom

#### Horie

Looking at your accomplishments, I get the impression that you have always challenged the conventional wisdom. I feel that such challenges have truly been milestones in Mirae Asset Financial Group's growth.

For example, you introduced equity investment into Korea's previously fixed income focused mutual fund industry. You presented a long-term investment mentality into mutual funds previously seen a short-term investments. And you were among the first to start investing in emerging markets. How did you acquire this spirit of challenging the conventional wisdom?

#### Park

I think the way I grew up has much to do with it because I grew up in an environment that was far from comfortable.

My father passed away when I was a freshman in high school and this made me give deeper thought of my future than most peers of my age. I was much concerned about what I should become. I wanted to be successful. And it is in books that I found the answers. Books provided me with many diverse ideas that I was unaware of.

It is said that good wine is the product of a harsh environment like volatile weather. I believe that such an environment made me the person I am today.

When I graduated from university, most of my peers got a job at chaebol-affiliated manufacturers but I had a different perspective. I was interested in the securities industry or asset management, so I chose that path.

#### Horie

Being a pioneer in the Korean asset management industry, how have you managed relationships with your distributors?

In Japan, distributors tend to have a strong influence on product offerings. It is very difficult for asset managers to

develop products on their own initiative.

#### Park

Conflicts between asset management firms and distributors occur in any country.

However, Mirae Asset is different. We started out purely as an asset management company without any network to banks for distributing our products. Consequently, we were able to strengthen our Mirae Asset brand by focusing on product development. In order to differentiate our products, we introduced equities into mutual funds in a fixed income focused market.

We spent KRW 12 billion on advertising when our paid-in capital was only 10 billion. This was to significantly upgrade our brand image.

I also traveled extensively throughout the country, explaining to clients why it was time to invest in equity funds instead of fixed income.

Also through our Investment Education Research Institute, we have been educating investors on the necessity of diversification and overseas investment.

#### Horie

I wholeheartedly concur on the importance of education.

In Japan, retail investors' average holding period for mutual funds is quite short. I am personally concerned about the investors' high turnover of mutual fund holdings. Is education the key to inducing investors to hold funds over a long-term horizon?

#### Park

I believe investor education is extremely important for long-term investment. Unfortunately, investors do sell mutual funds to lock in short-term returns.



## Interview with Hyeon Joo Park (Chairman, Mirae Asset Financial Group)

Asset management and mutual fund companies must help their customers understand that the purpose of holding mutual funds is to prepare for a retirement to live without financial worries.

For example, how did Starbucks succeed when everyone in America was already a coffee drinker? It did so by adding culture into coffee drinking. Asset management companies must likewise sell concepts, not products per se.

One of our key themes is preparation for retirement. Life expectancy is increasing in both Japan and Korea. Individuals have to do something to prepare for a longer lifespan. Asset management companies must advise customers to invest in not only domestic but also emerging market products if they want to prepare for their own retirements from a long-term perspective.

We conducted a high-profile campaign that posed the question, "Are you prepared for retirement?" We have also conducted campaigns promoting RSP (regular savings).

One of our successful mutual fund products is called the Children's Fund. There are nearly 500,000 accounts. Most investors who hold the fund have chosen to invest on a regular savings basis, perhaps because we recommend the fund on the assumption of a 20-year investment horizon. Many grandparents have opened accounts for their newborn grandchildren's names.



### Horie

With societal aging already underway in Japan more so than Korea, I wish that your message about long-term investment's importance were more widely recognized in Japan, but many Japanese investors pursue capital gains through short-term trading. I find this extremely regrettable.

### Park

In my opinion, capital markets cannot develop properly in the

long term without sound asset management and securities distribution. Both asset management companies and distributors must be mindful of this point.

In Korea, when the KOSPI [Korea Composite Stock Price Index] reached 2,000 points, we aggressively marketed overseas mutual funds instead of domestic funds. If we had funneled money into domestic funds, the KOSPI might have risen to 3,000. But because our customers were diversified at that time, I think that they are better off today on average, even after going through the recent financial crisis.

### Horie

I wish I could say the same for Japanese investors.

## Long-term investment requires trust

### Horie

From my perspective, one of the things that make you unique is that you have been a proponent of long-term investment since Mirae Asset's inception.

It is easy to pay lip service to long-term investment, but it is an extremely difficult discipline in my opinion. Even in the US or Europe, long-term investment is practiced by extremely few investors such as Warren Buffett, for example. Long-term investing requires patience. Customers have to be taught to not be swayed by ups and downs in interim returns.

Peter Bernstein once said that a long-term investment philosophy is something that asset managers formulate not by themselves but in collaboration with their clients.

### Park

I agree. The most important factor in long-term investment is trust between the asset manager and client.

We do not sell returns. We have to sell trust. Only by selling trust, even when interim returns are subpar, customers will be confident, "If Mirae Asset offers this product; it will definitely deliver a satisfactory return if I hold it long-term." I believe



*“Asset management companies must sell trust, not returns.”*

that long-term investment is very much sustainable if good asset management firms and good clients can share good information and products.

I think that customers are capable of discerning where their asset managers are leading them at any point in time.

#### Horie

I wish more Japanese asset managers shared your conviction.

Investment products sometimes turn out to be different from how they were initially explained to investors. To prevent such style drift, quality control is extremely important in my opinion. For example, even good products may deliver poor returns if the market environment deteriorates. At such times, managers sometimes deviate from their initial mandate to avoid deterioration in returns.

#### Park

No matter how poorly a product performs, the manager must adhere to the investment mandate initially presented to customers.

Though some customers buy into only one mutual fund, most purchase multiple funds. In such cases, even if a certain fund performs poorly, the other funds may appreciate in value. Changing a fund's investment style in the midstream is a betrayal of the customer, because the customer's purchase of the fund was predicated on the fund adhering to its stated investment mandate. Managers must always be true to their mandate.

#### Horie

Over the long term, such integrity redounds to the manager in the form of customer trust.

## Japanese equity investment outlook

### Horie

I would like to hear your views on Japanese equities.

With the Japanese economy now in a low-growth phase, Japanese equities' benchmark return (beta) will presumably be quite low. Even amid such an environment, most Japanese pension funds are still targeting outperformance of their benchmarks by only a certain margin.

This approach does not make sense to me. Even if a manager generates positive alpha, he would not be giving clients attractive absolute return, given the market's low beta. I believe that pension funds must invest in pursuit of absolute returns independent of beta by reducing the portfolios diversity.

### Park

I could not agree more.

I suspect that any asset managers in pursuit of absolute returns in Japan would have been quite successful.

### Horie

If an asset manager invests in pursuit of absolute returns with a highly concentrated portfolio, he may end up a solitary underperformer. I surmise that asset managers are unwilling to adopt highly concentrated investment strategies out of fear of generating returns vastly different from their peers'.

### Park

A market leader creates markets. Instead of shying away from doing something because no one else does it, the leader's role is to take initiative in making it happen.

## Interview with Hyeon Joo Park (Chairman, Mirae Asset Financial Group)

In Korea, the reason our funds have predominantly invested in equities is because Korean equities were trading at very low valuations. Seeing this, we strategically focused on equity funds. However, if equities become overvalued, we would of course then have to shift to seeking stable returns, not high returns.

### Horie

Mirae Asset is the subject of a Harvard Business School case study, which highlights two criteria of Mirae Asset for selecting new markets to branch into. The first is that the market must fundamentally be in a strong long-term economic growth trend. The second is whether Mirae Asset is able to set up a unique business model tailored to the local market.

How about Japan? Japan does not seem to meet the first criterion.

### Park

Before talking about Japan, I would like to discuss our experience when we branched into China.

Seven years ago, when we were preparing to enter the Chinese market, I met with top executives of numerous Chinese asset management companies. When I told them that we wanted to set up a fund in China most questioned why we wanted to do so, given the unstable Chinese economy. Two years later, however, the Chinese economy had begun to improve and it has since become a powerhouse. When you are inside a country, you gain detailed understanding of its domestic market but can sometimes lose objectivity as you become acclimated to the local market atmosphere.

Looking at Japan from our experience in China, I see two key points. The first is that Japanese manufacturers are extremely competitive. The second is balance between domestic and external demand. Japan appears to be somewhat weak in terms of the second point. While Japan has export industries, domestic demand is languishing. However, Japanese products and services are high-quality and reliable. I expect this quality and reliability to gain more recognition overseas and, in turn, be reflected in share prices in some manner. So I think that Japan is a promising market.

### Horie

So I gather that you see opportunities to earn satisfactory returns from Japanese equities?

### Park

Yes, I do. I think that there are many opportunities even now. I am extremely interested in Japan's top companies in particular.

For example, from a risk-averse standpoint, one idea is to create a product that invests in a mix of top Japanese companies, global Korean companies, and Chinese growth companies. I think that such a product could deliver satisfactory returns while limiting risk.

I anticipate that Japanese companies will soon regain favor among investors for their competitiveness.

## Consistent management philosophy throughout group

### Horie

Mirae Asset operates various service businesses related to asset management, including a broker dealer and life insurer. What are your policies with respect to running your businesses?

### Park

Mirae Asset has one core focus. Namely, we aim to manage all of the customer's assets instead of selling a single mutual fund to a customer. Our objective is to help people prepare for retirement. All of our businesses share this commitment.

In 1999, we established a securities brokerage. We did so to provide customers with a full range of asset management and custodial services.

In 2005, we acquired a life insurer to offer long-term asset



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management with an investment horizon of 20 or 30 years.

We also acquired a real estate company named Real Estate 114. With a network of 14,000 offices, it is Korea's largest real estate brokerage. Real estate is another important asset for customers in Korea. Real estate accounts for 75% of household asset holdings in Korea. From the standpoint of how to manage such assets, we acquired Real Estate 114 in the aim to offer our clients comprehensive asset management services.

### Horie

So your business operations revolve around the extremely long-term objective of helping people prepare for retirement as Korea's population ages.

### Park

We help customers prepare for retirement through stable management of their assets. This is Mirae Asset's vision.

### Horie

I understand your commitment to the Korean people, but do you have the same motivation in other countries in which you operate? Countries of course differ in terms of the extent to which their populations have aged to date.

### Park

The basic principle is the same. Even in foreign countries, we aim to serve customers based on the concept of helping them prepare for retirement.

### Horie

I fully understand the importance of consistent management principles. Thank you for taking the time to speak with me.



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