

Summary of the Tokyo Asset Management Forum 2018

I Opening Remarks: TMG “Revitalizing asset management sector in Tokyo”

- Over a one-year period from fall 2016, meetings were held by an advisory panel* of financial professionals and experts. Based on the discussions there, the Tokyo Metropolitan Government (TMG) released the vision for “Global Financial City: Tokyo” in November 2017. The TMG is proceeding with measures based on the three strategic pillars of this vision: “Creating attractive business and living environments,” “Nurturing players for participation in the Tokyo market,” and “Contributing to solving social issues.”
- With regard to the key topic of this seminar, which is initiatives to cultivate asset managers, the TMG wishes to raise the quality and number of asset managers “to provide risk capital to growth industries in Tokyo” and “to expand options to Tokyo residents for asset management.”
- The TMG introduced two subsidy programs to provide financial and structural support to emerging asset managers, the “Subsidy Pertaining to the Tokyo EMP Fund” and the “Subsidy to Partially Cover Costs of Outsourcing Middle and Back Office Operations.”
- The TMG is also committed to attracting foreign financial companies using means such as “overseas desks (Access to Tokyo)”, “free consulting service program,” “smoother procedures and English language support, including business development and license registration” and “subsidies.”
- The TMG plans to establish a public-private “Tokyo Financial Promotion Organization” next year, and also signed a Memorandum of Understanding with the City of London in 2017, under which the “Green Finance Seminar” and “Asset Management Seminar” were conducted.
- ※ In order to reinstate Tokyo to its position as the No. 1 international financial city in Asia, this panel was established in November 2016 to uncover the broad range of issues that pose obstacles for revitalization of the financial sector and for financial companies from abroad to set up business in Japan, and to discuss thoroughgoing measures to resolve these problems. It drew up the interim review in May 2017, and the final proposal in October that year.

II Keynote Speech: Nuveen TIAA “Multi-Affiliate Model and Business Strategy”

- Nuveen is a global active asset management company, which has JPY 108 trillion worth of assets under management in the world. A distinguishing feature of Nuveen is that its parent company, TIAA, is the largest pension fund in the United States. Nuveen, which had its start in managing TIAA's fund in the United States, is the last of the top 10 global active asset management companies coming into Japan.
- Nuveen takes three distinctive management approaches, i.e., "Focus on long-term fixed income investment for stable return," "Focus on alternative investment in order to have higher returns than the market," and "Focus on responsible investment."
- Nuveen has actively been placing highly capable boutique asset management firms under its umbrella. By building a system wherein independent investment specialists need focus only on investments since Nuveen provides all other services such as operations, compliance and marketing, fixed costs are reduced and investment efficiency is raised.

III Keynote Speech: United Managers Japan "The role of platformer in EMP"

- United Managers Japan has two businesses, that of "in-house hedge fund management" and serving as a "platformer for emerging managers (EMs)." A "platformer" has two roles: providing a platform for asset managers to engage in business, and being the investment manager that orders, executes and handles relevant middle-back operations, etc., in accordance with advice by an investment adviser. In line with such services, UMJ has many opportunities to meet EMs. From that perspective, UMJ spoke about the roadmap for fund establishment by emerging asset managers.
- The roadmap for asset managers has the following sequential phases. "Discover fund manager candidates," "cultivate and advise them to set up a fund," "contact seeders," "monitor the launched fund," "manage relations with investors" and "collect money from investors and announce a hard close (end recruitment of new investors)."
- Asset managers must have a good track record before launching their business. And, needless to say, EMs need to conduct their business with passion and enthusiasm, even amid harsh market conditions. While building up this track

record, they must also find seeders, study license acquisition and the fund structure, as well as consider how to determine the service provider, trustee, prime broker and other relevant entities.

- Seeders make requests such as “investing in the equity of the asset management companies” and “revenue sharing.” For license acquisition there are stringent regulations on the staffing, especially the capability of the compliance officer. And asset owners say they cannot invest in EMs who do not have a sufficient track record. In order to overcome such issues, education and practical training to develop skills, improvement of the environment to generate risk appetite and accumulation of success stories are important.

IV Panel Discussion: Toward promotion of introducing EMP in Tokyo

➤ Results of JIAM’s interviews with 16 EMs

- Q1: What were major challenges that were larger than expected?
The top four answers were: license acquisition, rigidity of Japanese investors, difficulties in association membership and high IT costs.
- Q2: Feedback on Tokyo EMP
Although the requirements to receive subsidy have been revised, the criteria is still too rigid. Buy-in from asset owners needs to be increased; if not, sufficient impacts of Tokyo EMP will not be achieved. Commingled fund would be better than SMA.
- Q3: Advantages of Tokyo
The cost of living in Tokyo is not that much different from Singapore and Hong Kong but many people overseas have the misunderstanding that Tokyo is still expensive like it was 20 years ago. High business operation efficiency is achieved as Tokyo has sophisticated investors, like Japanese banks and insurers, and many of the more than 3,600 listed companies in Japan. Public transportation is very convenient.

➤ Topics discussed by the panel

- Practical advice for EMs
- Suggestions to make Tokyo EMP sustainable
- The best approaches and channels to take to have people understand the advantages of doing business in Tokyo
- Actions to upgrade the entire asset management ecosystem. Who should take the

initiative?

V Keynote Speech: Financial Service Agency “Realization of stable asset formation for households to create a dynamic capital market”

- The FSA is taking various initiatives to create a good economic and financial cycle. In order to enrich the lives of the Japanese citizens, it would be important to have households switch to Western-style portfolios that follow modern finance theory, but currently about half of households assets is held in deposits.
- In order to promote realization of long-term diversified portfolios, the FSA is working to spread dollar-cost averaging NISA and iDeCo, to enhance and cultivate the asset management industry, and to conduct talks with financial institutions on customer-oriented business operations incorporating fiduciary duty, stewardship code, and corporate governance.
- The FSA recently released "For Providing Better Financial Services in the Era of Transition - Financial Services Policy: Assessments and Strategic Priorities 2018", which also outlines measures for promoting the asset management industry, namely, developing an environment for the asset management industry and enhancing its operational infrastructure. As cultivating asset managers and proprietary traders, securing talent for investment management, and building more sophisticated internal control systems are necessary, studies must be conducted on how the financial ecosystem for asset management in Japan should be established.
- Regarding the assessment/evaluation process for license applications, the TMG, with the cooperation of FSA, has published a very good guide. As achievements are being made, the issuing of a version that includes more detailed case-by-case explanation for license application should perhaps be studied.

VI Presentations by asset management companies (company overviews)

- Companies about to receive their license as asset managers, EMs who just recently received their license, asset managers who set up business in Tokyo from overseas, and overseas firms that are interested in asset management operations in Tokyo gave 4-minute presentations about their company.