



**The Consortium for Japan International Asset Management Center Promotion**

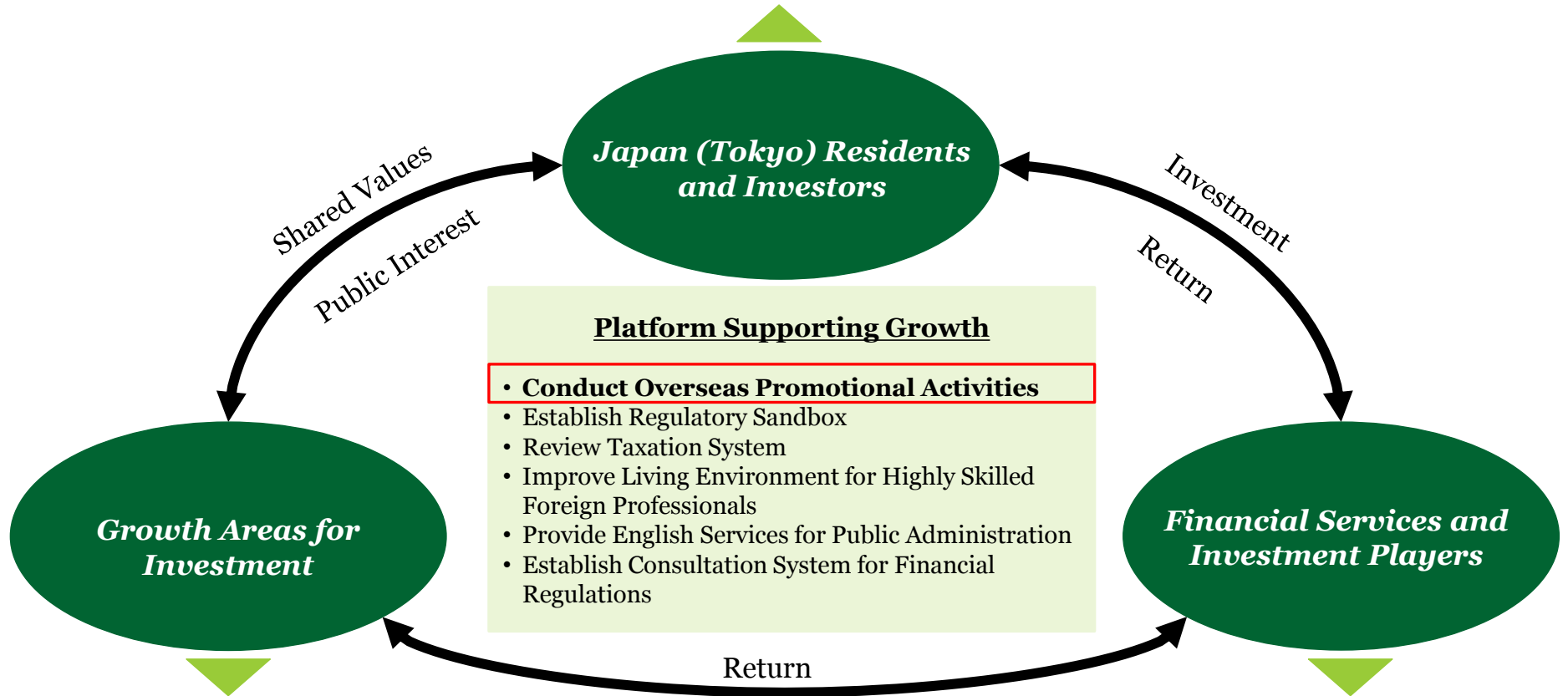
# Key Take-aways from Singapore and Hong Kong Roadshow

14 April 2017

# TMG's proposed initiatives and investment value chain

Focus of this document

- Investment Education for the General Public



- Develop experts in independent PE (including VC) and infrastructure/concessionary investments (public infrastructure investments such as sewage)
- Develop Asia regional funds, and Asian bond markets

Investment

- Investment education to develop highly skilled professionals
- Launch emerging manager program (EMP)

# 1. SG & HK Roadshow Highlights

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Detail follows

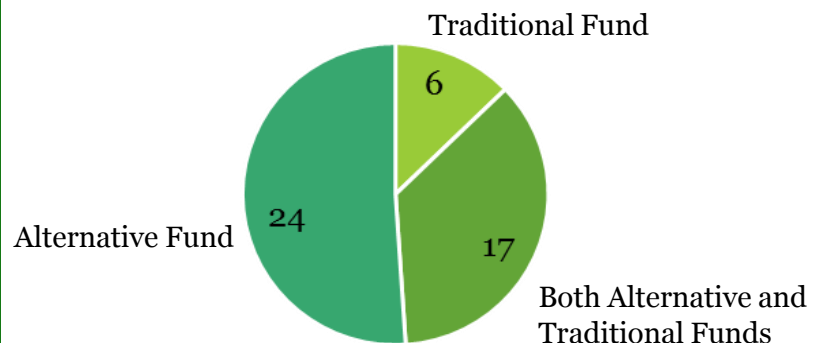
- Over the last ~18 months, JIAM has been promoting Tokyo as an international asset management center and interviewed with ~200 firms
- As part of this effort, from late February through early March 2017, JIAM representatives met with 47 active asset management firms (Singapore:27; Hong Kong: 20) and introduced JIAM and TMG initiatives and measures.
- Shared market information and gained a better understanding of asset manager views on building and expanding their businesses into Japan
- Validated the factors impacting their choice of Singapore or Hong Kong as their Asia hub:
  - Business-friendly policies
  - High quality technical infrastructure based on global standards
  - Deep talent pool – abundant, high quality resources with needed skillsets and who are mobile
- Through the series of roadshow, JIAM has identified **13** asset management firms who are interested to immediately consider launching offices or expanding existing business in Japan

## 2. Summary of Visited Firms

We visited a total of 47 active asset management firms during our roadshows in Singapore and Hong Kong.

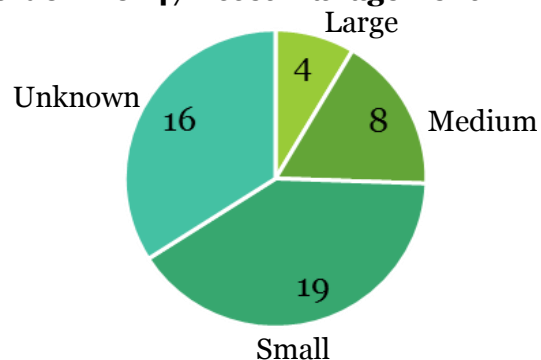
### Breakdown of 47 asset management firms

#### Breakdown of 47 Firms by AM Type(\*1)



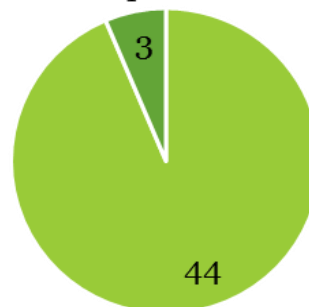
\*1 Traditional Fund: Fixed Income, Equity funds  
Alternative Fund: PE, Hedge Fund, Infrastructure, Real Estate, VC, etc.

#### Breakdown of 47 Asset Management Firms by Size (\*2)



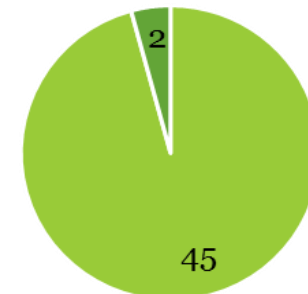
\*2 Small Size: < 10B USD, Medium Size: 10B ~ 100B USD, Large Size: >100 USD

#### Illiquid Asset Classes



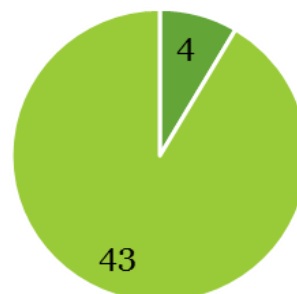
#### Liquid Asset Classes

#### Fund of Funds



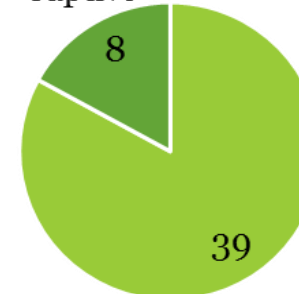
#### Single Manager

#### Led by Japanese



#### Led by non-Japanese

#### Captive



#### Independent

### 3. Reactions from asset managers

Asset managers shared their views on conditions required for them to establish business in Tokyo, as well as their concerns, and also commented on expanding business in Korea.

#### Key messages from JIAM

- Strong alignment across Japanese government agencies and industry groups to the goal to redevelop Tokyo as the leading financial services center in Asia
  - Social imperatives (e.g., aging society and significant dependency on public pension funds) in Japan which urgently need to be addressed by asset management
  - Development of tangible business opportunities via Tokyo Metropolitan Government plans to attract qualified independent asset managers and FinTech companies to Tokyo
  - Overview of the Global Financial City Tokyo initiative, its goals and potential measures for asset managers and FinTech firms to help them develop successful businesses in Tokyo
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#### Reactions from asset managers

- Approximately **60%** of the asset managers we met individually have **positive views** on entering or expanding business in Japan
- However, **nearly all the Japanese managers** we met in HK and Singapore are **skeptical** due to past experience
- Half of the positive firms said they would like to have a **strategic partner in Japan** who agrees with their business philosophy, rather than partnering with distributors and gatekeepers
- More than **90%** of the firms we met stated **concerns about current industry practices** and the challenges to obtaining business opportunities in Japan
- Approximately **25%** of the asset managers have experiences in doing business in **Korea** and they view Japan is lagging behind Korea

## 4. Reactions from Asset Managers – Quotes (1/4)

Approximately 60% of the asset managers we met individually have positive views on entering or expanding business in Japan; however, nearly all the Japanese managers we met in HK and Singapore are skeptical due to past experience

### Positive Views on Tokyo



- *“We want Japan to succeed in revitalizing the industry, because the world needs more options besides China and the U.S.”*
- *“Japan, along with Australia and South Korea, is the largest pension market in Asia, so we are very interested in the business potential in Tokyo.”*
- *“Japan is an attractive market due to its size and the sophistication of technologies; our firm might be able to invest in Japan if the right opportunity is there.”*

### Skeptical Views on Tokyo



- *“It is extremely challenging to serve Japanese pensions; it is painful due to onerous reporting and unrealistic liquidity requirements especially in this volatile market environment”*
- *“Even if the JFSA leadership is trying to become a better regulator, we are afraid the actual JFSA inspectors and Kanto Financial Bureau won’t be aligned anytime soon”*
- *“The biggest problem is the inability to promote ourselves without a license. We have basically written off Japan because of this requirement.”*

## 4. Reactions from Asset Managers – Quotes (2/4)

Half of the positive firms said they would like to have a strategic partner in Japan who agrees with their business philosophy, rather than partnering with distributors and gatekeepers

### Strategic Partnerships

- *“Our firm would be happy to partner with someone in Tokyo whom we could find synergies with; how can you help us?”*
- *“The ideal partner would be one that works with our firm strategically, not just a transactional relationship such as with distributors and gatekeepers (e.g., Japanese trust banks)”*
- *“Regional banks make an interesting opportunity as potential strategic partners, but they are scattered across Japan and it is hard to communicate with them in English.”*



## 4. Reactions from Asset Managers – Quotes (3/4)

More than 90% of the firms we met stated concerns about current industry practices and the challenges to obtaining business opportunities in Japan

### Concerns about Industry Practices

- *“We are shocked at current business practices in Japan which are self-serving, not investor oriented”*
- *“The challenge in Japan is that many people actively protect their turfs and too many gatekeepers for public pension funds”*
- *“Education in Japan is a major need – Japanese investors and financial institutions don’t fully understand alternative assets, emerging markets, and social infrastructure investments.”*





## 4. Reactions from Asset Managers – Quotes (4/4)

Approximately 25% of the asset managers shared positive views and experiences about doing business in Korea



- *“There is more money available in Korea, and Korean public pensions are much more willing to take risk compared to Japan. We do business there today.”*
- *“In Korea, we can close deals much more timely than in Japan.”*
- *“The NPS has a steady \$2 billion monthly allocation. Some CEOs of large firms frequently fly to Seoul at their invitation to pursue the business.”*
- *“For us, it would be much more productive to work with Korean asset owners, and we already have JV relationships there.”*
- *Korea used tax incentives well – they incentivized the public to invest in foreign asset management products, and therefore drove demand.*
- *“We are doing business in Korea; we won’t try to do business in Japan unless there is a cultural change there.”*



# Appendix - Imperatives and actions in South Korea

## Imperatives in Korea

- South Korea has one of the world's fastest aging populations
- Public pensions are not generating sufficient returns due to the slow pace of Korea's economic growth
- A financial sector which is struggling to attract and keep foreign firms



## Actions taken in Korea

- The South Korean government is pursuing a strategy to develop South Korea's financial services industry into a global leader, and to attract foreign asset managers to Seoul
- The government has developed policies enabling the use of its \$455 billion National Pension System (NPS) to attract foreign asset managers. The NPS has 3 major strategic initiatives:
  - Eased human resources and capital requirements for foreign asset managers
  - Increase international expansion of its investment management platform, hiring investment management staff in its overseas branches in London, New York, and Singapore
  - Increase its allocation to foreign assets, including alternative investments, to 24.1% of the total
- NPS targets an 83% increase in AuM by 2020, and will increase its allocation to overseas investments from 25.1% today to at least 30% by 2020. This combination equates to a \$35 billion annual opportunity to foreign asset managers
- Both Korea Post and KIS (Korea Investment and Securities) are taking similar actions

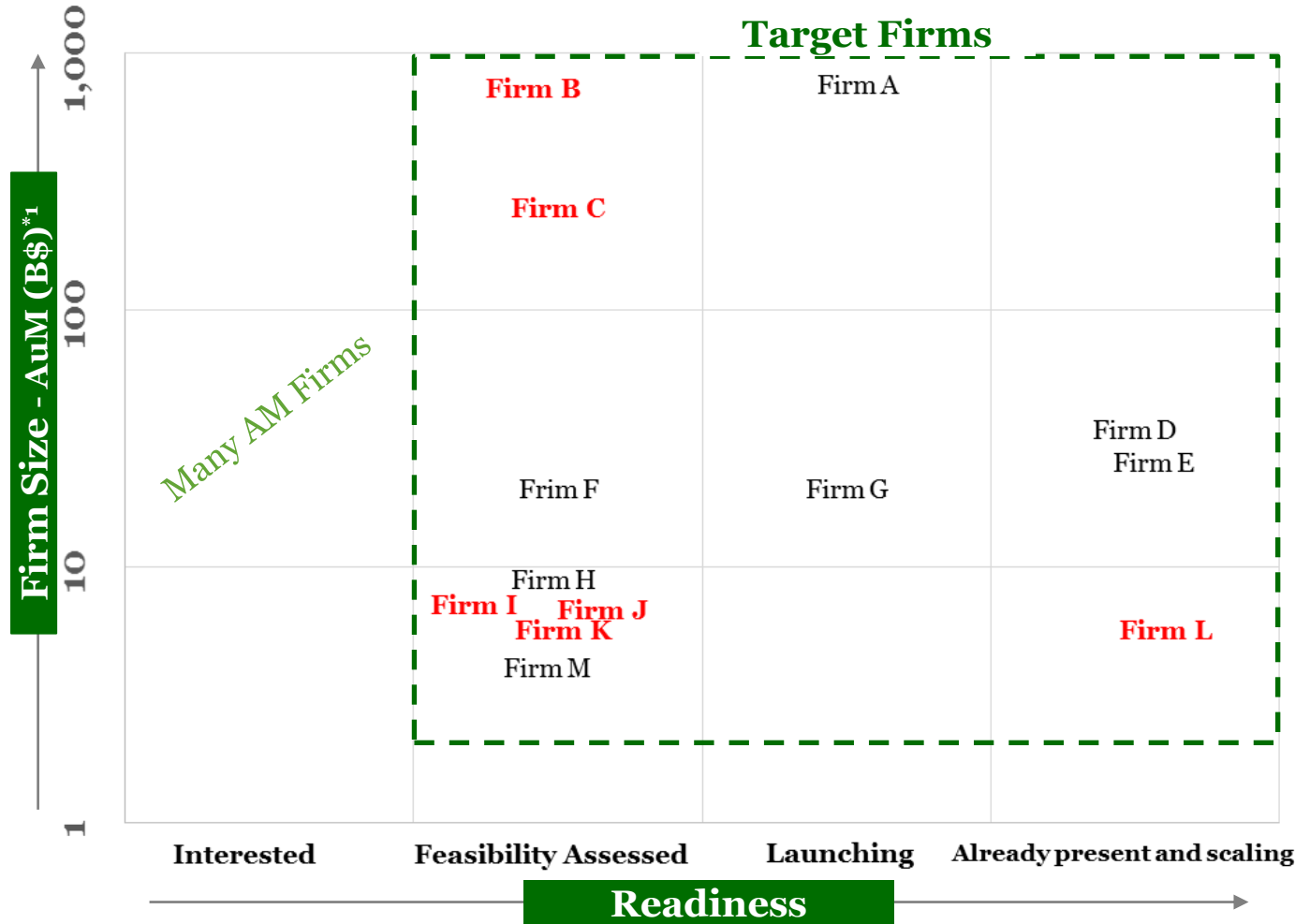
## *Key take-away items*

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- Significant expectations to Tokyo financial center initiatives
- On the other hand, deeply rooted skepticism and misconception towards Japanese business environment persist
- We need to continue promoting Tokyo; however, we need to propose more substantial and concrete incentives
- We need to further collaborate with FSA and asset owners (e.g., public pensions and regional banks)

# Appendix - Asset Manager Pipeline

We have identified 13 Asset Management firms who are interested to immediately consider launching offices or expanding existing business in Japan (Firms met in HK or SG are in **Red**)



## Definitions:

**Interested:** Stated interest in potentially developing business in Japan

**Feasibility Assessed:** Actively investigating business opportunities in Japan

**Launching:** Have started preparations, including license application

**Already present and scaling:** Have established their business in Japan

\*1: Log Scale applied



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