

Asset Management Business: Opportunities for Investment in Japan

The fourth issue of the report on the asset management business takes a look at the overview of the Japanese financial market and its attractiveness to offer an insight into opportunities or foreign asset managers to investment in Japanese market.

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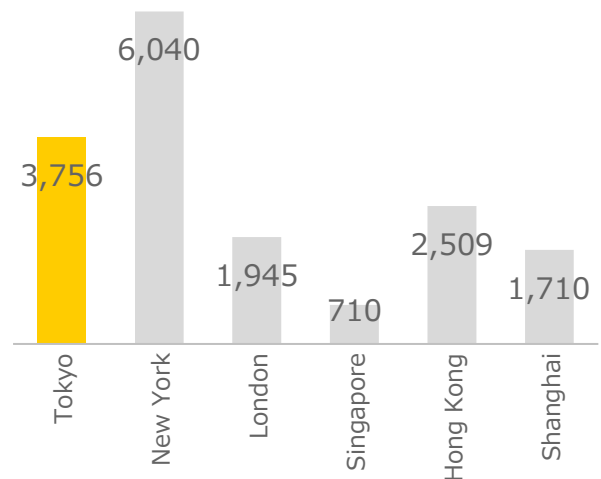
1. Market Overview

1.a. Stock Market

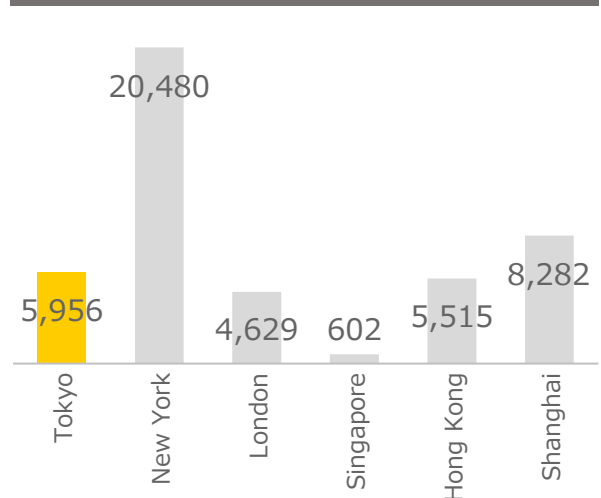
The Japanese stock market is home to the Tokyo Stock Exchange, one of the largest stock exchanges in the world.

The Tokyo Stock Exchange has 3,756 listed companies, which is the second largest in the world. The market capitalization is as high as 5,956 billion USD (623 trillion JPY), which is the third highest in the world after New York and Shanghai.

Number of Companies Listed on Major Exchanges (2020, Unit: companies)¹



Market Capitalization of Major Exchanges (2020, in billions of USD)¹



Source:

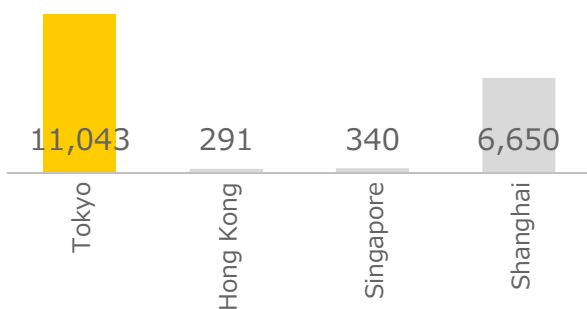
1. Tokyo Metropolitan Government, Material No. 3 of "The Second Round-Table Meeting of Experts on the 'Global Financial City Tokyo' Vision", Jan. 29, 2021, Converted as 1 USD = 104.6 JPY (as of Oct. 2020)

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1.b. Bond Market

In comparison with other major Asian markets (financial cities), total value of government and corporate bonds issued in Tokyo is much larger than that in Hong Kong, Singapore and Shanghai, indicating the huge size of the bond market in Tokyo.

Comparison of the Bond Market Size in Major Cities (as of the end of Dec. 2019, in billions of USD)¹



※The size of the bond market indicates the sum of the amount of corporate bonds and government bonds issued.
 ※With regard to the size of the bond market, figures exclusive to Tokyo and Shanghai are not available. Thus, the figures of Japan as a whole was used for Tokyo because corporate bonds are issued mainly by large corporations and large corporations are concentrated in Tokyo. For Shanghai, if the index for the country is used as it is, there is a concern that the value for Shanghai will be too large. Therefore, 55% of the total amount of bonds issued in China was used as the index for Shanghai (using the 55% share of the Shanghai market in the stock market for listed stocks, which is also a means of raising funds for companies).

1.c. Alternative Asset Market

For alternative investments, focusing first on hedge funds, the AUM of hedge funds (at the end of 2019) in Japan, Hong Kong, Singapore and China are as follows.²

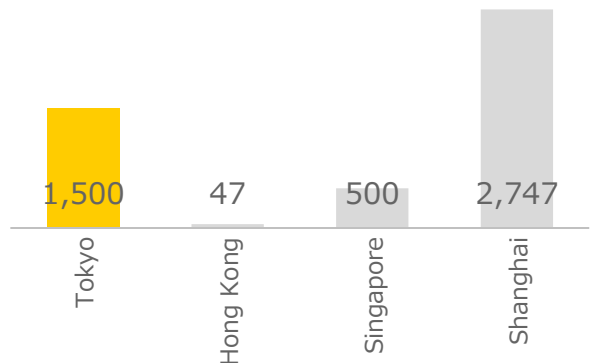


Source:
 1. Asian Development Bank, *Asian Bonds Online*, viewed on Sep. 29, 2020
 2. EurekaHedge, viewed on Sep. 16, 2020
 3. Speeda, viewed on Sep. 16, 2020
 4. MSCI, *Real Estate Market Size 2019*, Jun. 2020

Next, this report focuses on private equity (PE) of unlisted companies and real estate as representative assets among a variety of alternative investment targets.

Looking at the number of unlisted companies as potential investment targets for PE, Tokyo has 1.5 million companies, which is very large in number.

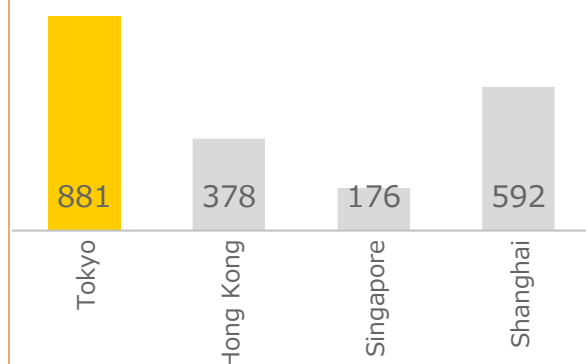
Number of Unlisted Companies in Major Cities (as of the end of Dec. 2019, in thousands of companies)³



※ Although the number of companies in Shanghai is larger than in Tokyo, it should be noted that foreign investors cannot hold more than 10% of the shares of local companies in China.

Tokyo also enjoys the largest real estate market size among these four cities.

Comparison of the Real Estate Market Size in Major Cities (as of the end of Dec. 2019, in billions of USD)⁴



※The real estate market size covers land and buildings in general, including rental offices, commercial real estate, and residential real estate.

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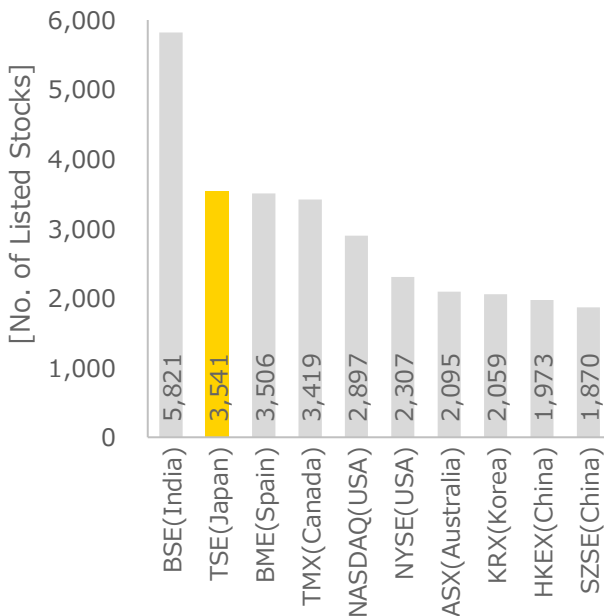
2. Attractiveness as Investment Target

2.a. Market Liquidity, Diversity, and Stability

The Tokyo Stock Exchange is an attractive investment destination because of its high liquidity and the abundance of listed stocks, as well as the high market stability.

With regard to the market stability, among others, the impact of the recent COVID-19 pandemic on the market in Tokyo was smaller than that on major markets in other cities. This indicates the preparedness of Japanese companies to potential threats and the availability of a well-organized support provided by the government in case of emergencies.

Number of Listed Stocks in Major Exchanges¹

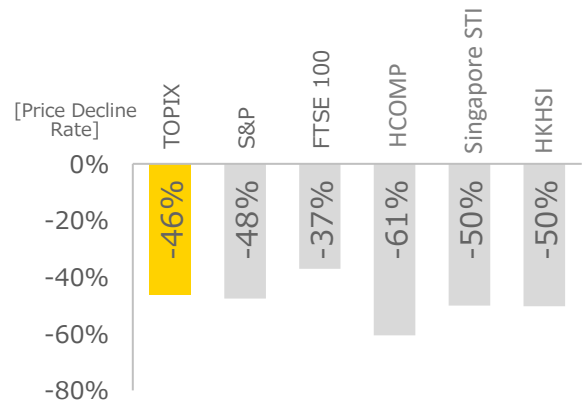


Liquidity of Major Exchanges (2019)²

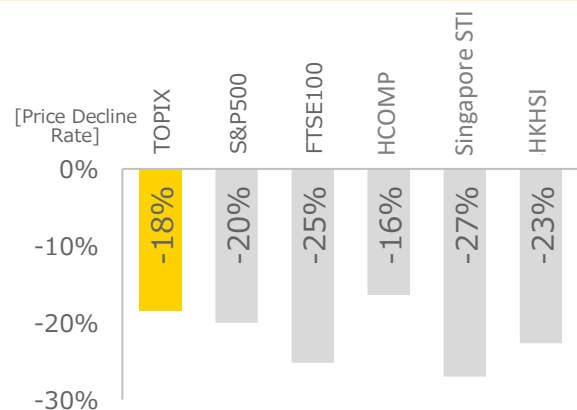
Exchange	Market Capitalization (trillion USD) [a]	Trading Value (trillion USD) [b]	Trading Value Turnover (%) [b/a]
TSE	5.9	5.1	0.86
NYSE	23.1	16.3	0.71
LSE	4.9	1.4	0.28

Stability of Major Stock Indices in the International Financial Crises³

Lehman's Collapse (Jan. 2008 to Dec. 2009)



COVID-19 Crisis (Jan. 2019 to Jun. 15, 2020)



Source:

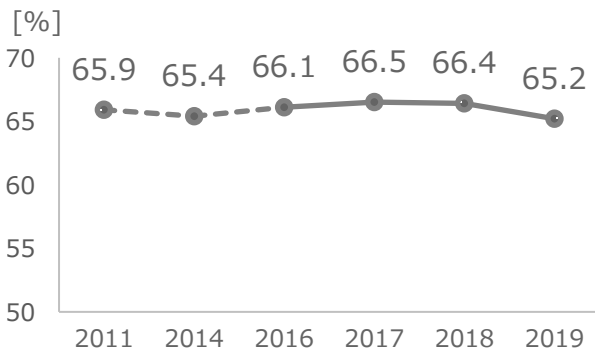
1. World Federation of Exchanges. *Market Statistics*, Mar. 2020
2. Nomura Research Institute, *Various Market Trends «Stock Market», 2019 Winter*
3. Investing.com. *World's Stock Indices*, viewed on Jun. 15, 2020

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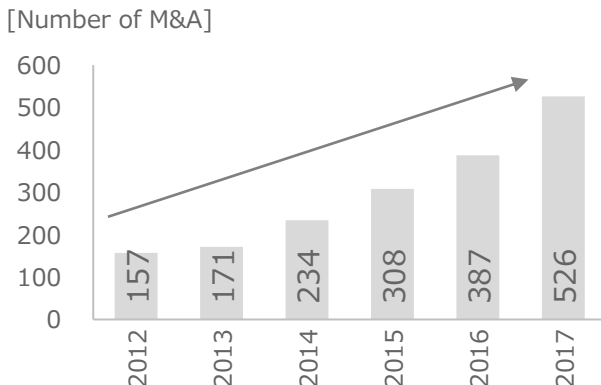
2.b. Increased Opportunities for Investment in SMEs

In recent years, many small and medium-sized enterprises (SMEs) in Japan have been facing the challenges such as aging management and lack of successors. This has led to a growing need for M&A aimed at business restructuring and corporate revitalization. In response to this trend, there has been an increase in direct investment and alternative investment, such as PE and VC, in Japanese SMEs from overseas.

Trends in the Absence Rate of Successors in Japanese SMEs¹



Trends in M&A Deals Concluded by M&A Intermediary Firms Targeting SMEs in Japan²



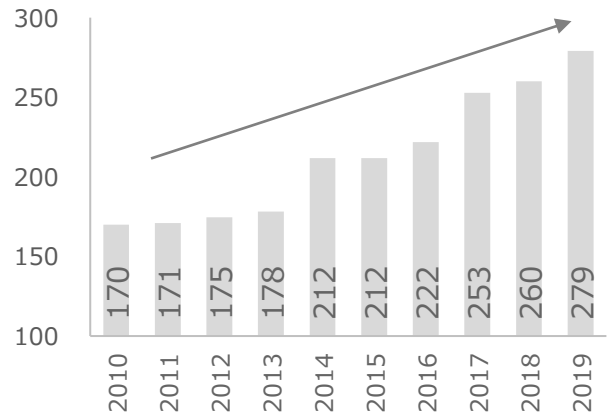
Definition: * Small and medium-sized enterprise (SME): It refers to an enterprise defined by the Small and Medium-sized Enterprises Basic Act

* M&A: It refers to transfer of management rights of a company for the purpose of utilizing existing management resources. (This includes merger, acquisition, transfer of business, capital participation, and expansion of investment)

Source: 1. Teikoku Databank, *Special Project: National Survey on Companies without Successors*, Nov. 15, 2019
 2. Small and Medium-sized Enterprise Agency, *White Paper on Small and Medium Enterprises in Japan*, Jul. 3, 2018
 3. JETRO, *JETRO Invest Japan Report 2010 to 2019*
 4. RECOFDATA, *MARR Online*, viewed on Apr. 15, 2020

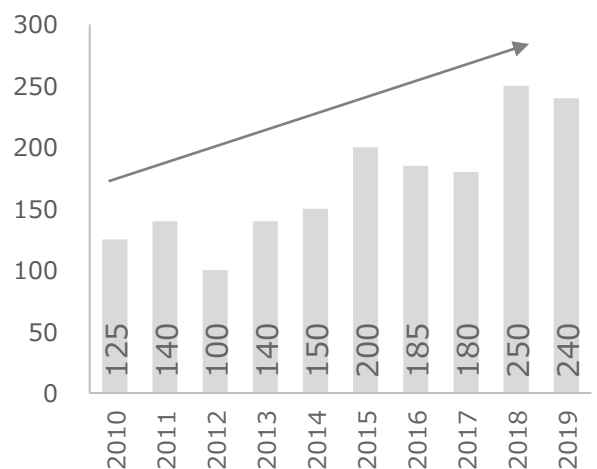
Trends in Balance of Inward FDI in Japan³

[in billions of USD]



Trends in M&A by Foreign Companies Targeting Japanese Companies⁴

[Number of FDI into Japan]



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3. Government Initiatives

Accessibility to corporate information and simple transactions are of particular importance to stimulate investment into Japan by foreign companies.

In an effort to make them come true, the government is promoting the disclosure of corporate information through amendments to laws and regulations, and opening markets that provide services in English and accept foreign currencies for overseas investors.

Amendment to the “Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.”¹

To deal with a series of corporate scandals by Japanese companies, the government revised the corporate information disclosure system under the Financial Instruments and Exchange Act in 2019 to strengthen corporate governance of Japanese companies.

It is expected that facilitation of the appropriate disclosure of corporate information and restoration of the trust by foreign investors will help increase inward investment.

Opening of the TOKYO PRO-BOND Market²

The TOKYO PRO-BOND Market, established in May 2011, is a bond market for professional investors. In order to increase issuance of bonds in Japan by overseas issuers, the market has simplified the procedures for issuing bonds from overseas by allowing information disclosure to be made only in English, and has also launched program listing, which is a method of issuing corporate bonds commonly used overseas.

This diversifies inward investment targets in the Japanese market and facilitates access to documents disclosed in English, which will expand opportunities for overseas investors to invest in the Japanese bond market.

Source:

1. Research Office and Special Research Office of the Standing Committee, House of Councillors, The National Diet of Japan, *Corporate Information Disclosure and Corporate Governance pursuant to the Financial Instruments and Exchange Act*, Nov. 2019

2. Japan Exchange Group, Inc., *What is the TOKYO PRO-BOND Market?* Updated on Sep. 18, 2018

3. The Nikkei, *LIXIL's CEO change questioned by US BlackRock and UK Marathon Asset Management*, Feb. 19, 2019

4. QuestHub Insights, *[Exclusive] Interview with Kin Chan, CIO, Argyle Street Management Limited*, Jul. 01, 2019

4. Cases of Foreign Asset Management Companies Investing Mainly in Japan

Marathon Asset Management

Marathon Asset Management is a UK-based independent asset management company which was established in 1986. The company's strength lies in managing equities by applying long-term investment and inverse investment strategies. In particular, the company proactively invests in Japan, with assets under management totaling approximately 1.6 trillion yen³.

Argyle Street Management

Argyle Street Management is a Hong Kong-based asset management company established in 2002. The company conducts "engagement investment" which is a method to invest in companies with potential value and help them enhance their corporate value. In Japan, the company has invested in small and medium-sized blue-chip companies such as Sanyo Engineering & Construction Inc, a Tokyo-based facilities company, and TTK Co.,Ltd., a Miyagi-based systems company, and has a track record of supporting companies' growth through overseas expansion and new businesses⁴.

Tikehau Capital

Tikehau Capital is a French alternative asset management company with expertise in private placements, real estate, private equity and liquid alternatives leveraging its global bases. The company established Tikehau Investment Management Japan K.K. as its Japanese base in 2019, which was licensed as Type II Financial Instruments Business Operator/Investment Advisory and Agency Business (Director-General of the Kanto Local Finance Bureau (Financial Instruments Business Operator) No. 3162).



Left: (<https://www.marathon.co.uk/>)

Center: (<https://www.asmhk.com/>)

Right: (<https://www.tikehaucapital.com/>)