



View from the Top

Tokio Marine Asset Management (London) Ltd

January 2011



Akiyoshi Oba
President & CEO
Tokio Marine Asset
Management Co. Ltd.

This paper is the translated and reprinted by permission of the Securities Analysts Association of Japan (SAAJ). This article was originally published in the January 2011 issue of Securities Analyst Journal®.

The performance of the Japanese equity market has been lacklustre since 1990. These so called “lost decades” have raised numerous questions as to why Japan has not been able to escape from this financial problem.

Mr. Akiyoshi Oba, President & CEO of Tokio Marine Asset Management Co., Ltd, will try to answer this question by analysing this issue from the perspective of the asset management industry in Japan.

Characteristics of the asset management industry in Japan

To start with, I will summarise the key distinguishing features of the asset management industry in Japan.

1. Characteristic 1: Small

Firstly, when we look at the size of the asset management industry in Japan, it is clear that Japanese asset managers are substantially smaller than their international peers. As I have indicated below, the average Japanese asset manager’s AUM is approximately one tenth of those of leading global firms. Even though Japan has the second largest concentration of wealth in the world, the majority of this remains in bank deposits, which carry ultra low interest rates. Consequently, this could be one cause of the asset management industry’s underdevelopment.

Global Asset Managers active in the European marketplace			
Ranking	Name	Country	Total AUM 2010 (Million Euro)
1	Black Rock	US/UK	2,334,600
2	State Street Global Advisors	US/UK	1,332,134
3	Allianz Global Investors	Germany	1,178,425
4	Vanguard Group	US/Belgium	1,031,294
5	J.P.Morgan Asset Management	US/UK	873,091
6	BNY Mellon Asset Management International	US/UK	776,814
7	PIMCO	US/Germany /UK	698,350
8	Amundi Group	France	669,874
9	BNP Paribas Investment Partners	France	530,281
10	Goldman Sachs Asset Management	US/UK	525,075
11	Natixis Global Asset Managers	France	505,167
12	AXA Investment Managers	France	499,000
13	DB Advisors	Germany	495,812
14	Legg Mason	US	475,757
15	Pramerica Investment Management	US	465,635
16	Northern Trust Global Investment	UK/US	437,582
17	UBS Global Asset Management	Switzerland	393,300
18	Franklin Templeton Investments	US/UK	386,686
19	Wellington Management Company	US	386,571
20	Legal and General Investment Management	UK	354,646
	Average top 20		717,505
Large Japanese Firms			
43	Nomura Asset Management UK	UK/Japan	173,052
91	Sumitomo Mitsui Asset Management	Japan	77,227
92	Nikko Asset Management Europe	UK	76,425
97	DIAM International	UK	69,772
136	Tokio Marine Asset Management	Japan	35,685
146	Daiwa SB Investments (UK)	UK	32,277
199	T&D Asset Management	Japan	17,333
	Average Top Japanese		68,824

Source : IPE Magazine June 2010 (Top 400 Asset Managers : Leaders in Europe 2010)

2. Characteristic 2: Lots of International Competition

Secondly, the asset management business is one of the most exposed industries to international competition in Japanese finance. Market deregulation was brought to the market in the late 90s, and since then the presence of non-Japanese managers has been increasing. A list of the top 20 asset managers in Japan includes several non-Japanese asset managers' names, which is unique amongst other industries in Japan.

AUM from the Japanese Pension clients (Public and Private; Contract amount (as of September 2010))

Rank	Name	AUM in 100million Yen
1	Black Rock	168,917
2	Sumitomo Trust and Banking	145,455
3	Mizuho Trust and Banking	109,943
4	State Street Global Advisors	44,622
5	Nomura Asset Management	41,753
6	Tokio Marine Asset Management	35,398
7	DIAM	35,162
8	Northern Trust Global Investments	32,176
9	Invesco	19,212
10	MDAM	18,514
11	Nikko Asset Management	18,086
12	Nissay Asset Management	15,627
13	JP Morgan Asset Management	15,262
14	Daiwa SB Investments	14,306
15	Goldman Sachs Asset Management	14,150

Source: Tokio Marine Asset Management Co.,Ltd based on the original date from Japan Securities Investment Advisers Association

3. Characteristic 3: Less independent, underdeveloped brands

Thirdly, in Japan most asset managers are still encompassed in larger financial institutions. Large asset managers are normally subsidiaries of big banks, security brokerage firms or insurance firms. Contrary to this, in the US it is standard for large asset managers to be independent, such as Black Rock, Fidelity, Capital, Vanguard and PIMCO.

This may be a reason for a unique feature of Japanese asset managers, which is weak brand recognition. In Japan, brands for major banks, security brokerages firms and insurance firms are strong and easily identified. In contrast, asset manager brands are not easily recognised, unlike the majority of their US and European counterparts. This may also be a result of Japan's mutual fund distribution structure which places parent companies as distributors with stronger bargaining power. In this environment, the distributor determines the direction of business rather than the products, product managers or even investors. If this becomes extreme, there may be a conflict of interest between the asset

manager, which stands for the interest of the investors, and the parent company as the distributor. It is essential to work toward a structure which prevents us from falling into this problem.

4. Characteristic 4: Poor returns from the domestic market

In Japan returns from domestic assets such as equity and fixed income have been lagging, and I think this is one of the most paramount reasons to explain why Japanese asset managers are suffering. Generally, domestic assets are ones in which domestic players are better positioned than their competition. For Japanese asset managers, it has been difficult to create and retain a competitive edge over their international peers, as the domestic financial market has been performing poorly. More importantly, this is not just a problem for asset managers but also quite a significant issue for the Japanese economy due to its negative financial impact on pension funds, including public and private funds as well as DC and DB, which is the key monetary resource for most individual retirement plans. This is an especially big concern as Japan's population ages and the birth rate continues to decline.

5. Conclusion: Low margin

The key question derived from the above points is "where do these characteristics direct the industry?" My answer to this question is: "low profit margin".

Low profit margin is a cross industry phenomenon in Japan. Japanese companies usually have a lower profitability than their global peers in almost all industries. This is also applicable to the asset management industry.

Lack of scale, too much competition, weak brands and poor return from the domestic market all lead to a lower profit margin. What is the solution to this? I will try to illustrate some of the components necessary to tackle these issues.

Challenge and perspectives for our industry: what needs improvement?

1. Go global

The goal of the asset management business is to produce return for investors, and in order to do this it does not seem feasible to consider only the domestic market. Just as CalPERS does not look solely at domestic investment opportunities, Japanese investors need to follow practice and look outside of Japan. The significance of emerging markets is increasing at an accelerated pace and it is likely that investment objectives are globalising rapidly. Additionally, when we view business as an asset manager, we need to consider our client base globally also. It is fundamental that we think globally in both our investment objective as well as our client base. This may lead to new challenges such as globalisation of human resources and the need to formulate global work ethics, which I think is a challenge that all of us in this industry have to overcome.

2. Communication

Asset managers, like us, are not managing our own money, but clients' money. A business relationship only exists when there is a solid bond between managers and investors based on mutual trust. To gain the trust of investors, we need to establish a corporate culture underpinned by a strong understanding of fiduciary duty, such as record keeping and awareness of any conflicts of interest.

When lacklustre market performance and possible conflicts of interest coincide, we must be exemplary in this duty, as we are being monitored by the beneficiaries in regards to whose interest we represent. Furthermore, the complexity of the investment environment and product requires a higher skill level for the asset manager to be able to communicate with the beneficiaries. These communication skills must be supported by extensive experience in the market as well as in depth insight into the industry. This is why it is said that it takes time to become a truly capable asset manager.

3. Invest in People

The true competitiveness of an asset manager is derived from its people. It is these people who find investment opportunities and work to provide return for their clients. It is the quality of people that distinguish a high-quality asset manager from a poor one, and it is these people who drive the success of a business. This is in contrast to some parent companies of asset managers in Japan, such as banks or insurance companies, where competitiveness is primarily derived from the size of the balance sheet.

One of the key challenges for us is time and patience. Building up good human capital takes time and requires patience from management. Given that we still have so many “encompassed asset managers” in Japan, asset managers need to understand the dynamics of this industry and alter their mindsets from traditional capital-driven ideas to human driven ideas.

The Japanese Big Bang and the development of the asset management industry

In 1996 Japan announced its “financial big bang” in order to revitalise the financial market. This initiative was followed by the “Plan for Strengthening the Competitiveness of Japan’s Financial and Capital Markets” in 2007, which was designed to utilise all possible measures to achieve the original target of the 1996 big bang initiative. Ironically, the competitiveness of the Japanese market has declined even with these continuous efforts. Under these circumstances, in September 2010 the market capitalisation of the Japanese stock market sagged to fourth in the world, surpassed by the London Stock Exchange and NASDAQ. It became obvious that Japan’s underperformance was not just isolated to economic activity but had also shifted to the stock market.

Below is a statement from the ministry of Finance at the time when the government launched the first big bang initiatives.

“In the ‘ageing’ society of the 21st century, in order to ensure the continuation of Japan’s economic vitality, it is necessary to find a more efficient way of investing private assets as well as securing active capital flow for growing industries for the next generation... It is essential to utilise the 1200 trillion yen of Japanese household financial assets, and to create such a system where the market mechanism functions to its full extent and optimal allocation of resources is achieved.”

This statement shows that the financial big bang was a major reform designed to shift Japan from an economic development stage, supported by rich money flow, to a mature economic stage, supported by efficient wealth management. This also indicated that financial institutions needed to establish asset management capabilities and modernise the industry.



I believe that the asset management industry going forward is going to be more responsible in playing a significant role in the financial industry. We need to create a society with numerous trustworthy and credible asset managers. Asset managers in the US have contributed a great deal to maintaining America's position as the global leader of the financial industry. In Japan as well, I expect to see the emergence of asset managers with a good understanding of responsibility and fiduciary duty principles who will generate strong momentum toward the Japanese financial industry regaining its strength.

Translation and editing: Yuichi Takayama, CEO, Tokio Marine Asset Management (London) Limited



Disclaimer

Swiss Residents

The funds promoted on this document (the "Funds") have not been authorised by the Federal Banking Commission as foreign collective investment schemes pursuant to article 120 of the Swiss Federal Act on Collective Investment Schemes ("CISA") of June 23, 2006. Accordingly, interests in the Funds may not be offered to the public in or from Switzerland, and neither the information contained on this document nor any other offering material relating to the Funds may be distributed in connection with any such public offering. Interests in the Funds may only be offered and the information contained on this document may only be distributed in or from Switzerland to qualified investors pursuant to article 10 CISA and without any public offering in accordance with the relevant practice of the Swiss Federal Banking Commission.

Any promotions of asset management services accessible through this document may be restricted under Swiss law and therefore Swiss residents into whose possession this information comes should inform themselves about and observe any such restrictions. Any such promotions could otherwise result in a violation of the law of Switzerland.

UK Residents

Funds Promotions

The funds promoted on this document (the "Funds") are unregulated collective investment schemes within the meaning of Section 235 of the Financial Services & Markets Act 2000 ("Act"). As such they are not regulated by the Financial Services Authority or any other regulatory authority. Tokio Marine Asset Management (London) Limited, authorised and regulated in the UK by the Financial Services Authority, is restricted by Section 21 and by Section 238 of the Act respectively and can only promote the Funds to certain categories of person. Tokio Marine Asset Management Co. Ltd (the Tokyo and Singapore entities) are not authorised and regulated in the UK by the Financial Services Authority.

As such, the promotion of interests in the Funds and communication of Fund related documents accessible through this document are restricted to 'investment professionals' and 'high net worth companies'. Recipients must fall within one of the following categories:

(a) You must fall within the "high net worth companies" exemption set out in both Article 22 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001. The information regarding the Funds is thus only provided on the basis the recipient is a company, trust or partnership with capital or assets exceeding the relevant minimum value set out in Article 22 or Article 49 (or is a person who normally represents such an entity in respect of its unregulated fund investments). Participation in the Funds may be available to such high net worth companies. Persons of any other description should not act or rely on the information provided. Any investment into the Funds must be understood to be high risk and to include the possibility of losing all of the committed investment and should therefore be carefully considered; or

(b) You must fall within the "investment professional" exemption set out in both Article 14 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001. The information regarding the Funds is thus only provided on the basis the recipient is an investment professional on the basis that you have professional experience of participating in unregulated schemes. Participation in the Funds will only be available to you if you are such a person. Should you not have the professional experience of participating in unregulated schemes, you should not rely on the information provided. Any investment into the Funds must be understood to be high risk and to include the possibility of losing all of your committed investment and should therefore be carefully considered.

This document is therefore being communicated on the basis that it is exempt from the restriction on the promotion of unregulated schemes and its contents have therefore not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000. This is on the grounds that this document is being made to 'investment professionals' and 'HNWC' only as specified below and that these persons being persons having professional experience in matters relating to investments or persons to whom it may lawfully be promoted.

This document must not be distributed or passed on, directly or indirectly, to any person who does not fall within the categories of person listed above. This material is being supplied to you exclusively for your information and may not be reproduced, forwarded to any other person or published, in whole or in part, for any purpose. If you are in any doubt about the investment to which this document relates you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on investments of the kind described in this document.

Asset Management Promotions

Tokio Marine Asset Management (London) Limited, authorised and regulated in the UK by the Financial Services Authority, is restricted by Section 21 of the Financial Services & Markets Act 2000 ("Act") and can only promote its asset management services in the UK to certain categories of person. Tokio Marine Asset Management Co. Ltd (the Tokyo and Singapore entities) are not authorised and regulated in the UK by the Financial Services Authority.

As such, the promotion of the services and communication of related documents through this material is restricted to 'investment professionals' and 'high net worth companies'. Recipients must fall within one of the following categories:

(a) You must fall within the "high net worth companies" exemption set out in Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The information regarding the asset management service is thus only provided on the basis the recipient is a company, trust or partnership with capital or assets exceeding the relevant minimum value set out Article 49 (or is a person who normally represents such an entity in respect of its unregulated fund investments). Participation in the service may be available to such high net worth companies. Persons of any other description should not act or rely on the information provided. Any investment must be understood to be high risk and to include the possibility of losing all of the committed investment and should therefore be carefully considered; or



(b) You must fall within the "investment professional" exemption set out in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The information regarding the asset management service is thus only provided on the basis the recipient is an investment professional on the basis that you have professional experience of participating in these activities. Participation in the service will only be available to you if you are such a person. Should you not have the professional experience of participating in these activities, you should not rely on the information provided. Any investment must be understood to be high risk and to include the possibility of losing all of your committed investment and should therefore be carefully considered.

Should you not fall within the relevant categories for the Funds or asset management service you should not proceed. If you can not so proceed it is possible that you may fall within other exemptions. Please contact Tokio Marine Asset Management (London) Limited to discuss further. Potential investors who are uncertain of their status should refer to the relevant articles of the Financial Promotion Order.

Persons from EEA member states and elsewhere

The promotion of the asset management services, interests in the Funds and communication of related documents accessible through this document may in certain jurisdictions be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdictions.

US Residents

This document is reserved exclusively for non-US persons and should not be accessed by any person in the United States. This document does not include any offer of investment products or services to any US persons.

All persons

You must also ensure you comply with the disclaimers and promotional restrictions in the document. The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdictions.

Each person in receipt of this document undertakes that they shall not at any time disclose to any person or entity any information set out in, or relating to, this document except as expressly authorised by the Funds.

The information contained on this document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and no other person should rely or act upon it. The information contained on this document does not constitute an offer to sell or a solicitation of an offer to buy any security, investment or financial advice.

Past performance is not a guide to future returns.

The value of investments can go down as well as up and you may not get back what you invested.

Returns may increase or decrease as a result of currency fluctuations.

Contact Information

For further information regarding the Tokio Marine Japanese Equity products, please contact Tokio Marine Asset Management (London) Limited.

General Enquiries: +44 (0)20 7398 2976, tmal@tokiomarine.co.uk

Marketing & PR: Anji Stewart; +44 (0)20 7398 2991, astewart@tokiomarine.co.uk

Financial Institutions: David O'Keeffe; +44 (0)20 7398 3175, dokeeffe@tokiomarine.co.uk

Pension Funds & Consultants: Jonathan Taylor; +44 (0)20 7398 3190, jtaylor@tokiomarine.co.uk