



TAKEAWAYS

JAPAN ANNUAL FORUM 2023



Are We Making Progress - Insights and Updates on Latest Regulatory and Tax Matters

- Japanese government continues to implement various supports under the International Financial City policy to support the asset management industry. In addition, the government also put forth various policies to promote investments in start-ups, e.g., tax incentives and tax exemption, while specific requirements exist.
- The current geopolitical environment poses some impacts on the asset management industry in Japan. For example, more emphasis is placed on certain compliance issues such as sanctions and AML. Addressing these compliance issues across jurisdictions can be challenging as the requirements are different from jurisdiction to jurisdiction.
- Whether relying on a new Japanese licensing exemption or offering a Cayman unit trust to Japanese investors, tax implications or benefits should be reviewed and considered in considering a new Japanese licensing exemption or structuring the offering. Legal and tax analysis need to be coordinated.

Asset Owners' Viewpoints

- There is a mismatch between current categorization of alternative assets for the official reporting and how sophisticated asset owners categorize the assets. This is one agenda which needs further discussion.
- Sophisticated asset owners are adapting to the reality and created own asset administration system which is matching to characteristics of the assets. It seems that without the system like the one we saw on the panel, there will be further dispersion of the performance among pension funds.
- Alternative assets are evolving and what we see as "alternative" such as PE are no longer "alternative".

The Impact of Generative AI on Finance

- Generative AI is a transformative technology that bridges machines and human being. We saw the world where Software is eating the world but now we are seeing that AI is eating software.
- Japanese government is considering the regulation around AI but it's still early stage to see the balance between industry friendly and over-regulated.
- The implication is still limited in finance but we have started to see the application in alpha-generation and back-office efficiency.

BREAKOUT 1: Navigating the Storm: A Japanese Perspective on the Banking Crisis

- General take away from Japan AIMA conference was that there seemed to be a pivot from China to Japan (at least in the short term or until China repositions) in terms of general interest and investment.
- Japan firms also now looking for more investment opportunities outside Japan.
- Strong turnout to conference and overall sentiment was positive on Japan.

BREAKOUT 2: Has the Momentum Continued – Japan PE/VC Update

- PE and VC industries in Japan have now established robust ecosystems. The secondary market for PE has also been growing. However, the efforts to enhance the interest of foreign investors will be necessary, such as implementing strategic differentiation.
- Within Asia, Japan's advantages have been recognized, attracting ample capital and intensifying competition, particularly in PE deals involving large corporations. On the other hand, there is attractiveness in the valuation of mid-sized and small company deals.
- Large corporations have been strategically investing in pre-IPO growth companies, but there is a disparity in valuation between IPOs and M&A. While overseas markets have a fair valuation, in Japan, M&A valuations tend to be around half of those in IPOs.

BREAKOUT 3: Capturing Flows from Japan – An Update on the Asset Raising Landscape

- Given the current market volatility and interest rate environment, Japanese investors specifically within HFs and Private Credit, are looking to increase into both asset classes. Within Private Credit, demand for stable and scalable return profile, such as direct lending space has been strong. HF interest is resurging after a few years of focus on the private assets.
- While the official guidance around investor solicitation activities are still not clearly defined, local initiatives by the Japan FSA has been a vital part in driving more interest from offshore asset management firms to bring and do more business in Tokyo. Having a local office is not mandatory however having a local presence may be a key factor in maintaining and servicing local investor community for reporting purposes.
- Japan equity search from an alpha perspective is on the rise. Global investors are actively researching the Japan space. Talent on Japan Equity PMs/analysts have been very competitive amongst the multi-pm platforms.



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BREAKOUT 4: Fundamentals – Key Market Updates on Domiciles, Strategies, Fee's, Liquidity and More

- Getting insights in market trends from lawyers in the Japan funds market as well as a prime brokers gave a unique and well-rounded perspective;
- Fundraising challenges have driven creativity and a move away from plain vanilla fee and liquidity structures in fund terms. Now more than ever, having the best possible advisers is key;
- Although fundraising for a commingled hedge fund in Japan been tough, a combination of the prevalence of SMAs, as well as the popularity of Japan-facing strategies (both onshore and outside of Japan) gives reasons for optimism.

BREAKOUT 5: Has the Heat Been Turned Up Enough – Trends in Activism and Governance

- The presence of activist shareholders in Japan is increasing, and their activities and scope of proposals are evolving year by year, and this trend is expected to remain unchanged for the time being.
- Japanese corporations are required to engage with investors proactively and seek their understanding of companies' plan to improve corporate value and future growth strategies.
- Japanese companies should prepare and respond in normal times in preparation for meeting requests from activist, and respond in the event such as receiving certain proposals from activists etc.

BREAKOUT 6: Have the Roots Taken Hold and Sprouted – ESG Insights

- In this panel discussion, legal and investment experts from Asia were invited to discuss focal points in alternative investments from ESG perspectives, factors inhibiting growth and areas of potential growth.
- Among the focused topics were the ESG fund regulations in place to address ESG wash concerns. The European Union adopted the Sustainable Finance Disclosure Regulations (SFDR) in December 2019. Japanese Financial Services Agency (FSA) announced the Amendments of the Comprehensive Supervisory Guidelines FOR Financial Instruments Business Operators regarding ESG Investment Trusts in March 2023.
- Standardization and enhancement of information disclosure and data were cited as challenges for ESG investment.