

PROMOTING CLIENT INTERESTS

Addressing risk management

The Corporate Sustainability Department that Nikko Asset Management recently established embodies the Firm's enduring commitment to integrating environmental, social, and governance (ESG) principles in every aspect of its operations.

As a fiduciary, we actively promote the interests of our clients above all else — beyond simply protecting them. In line with this, we keep close tabs on the increasingly difficult risk management challenges facing the dozens of banks in Japan serving specific regions (as opposed to those operating nationwide networks), with a view to ultimately helping them to overcome them.

These institutional clients are struggling for a range of reasons, but chief among them is demographics—Japan's population is shrinking at a rate of around 1,000 people per day¹, mainly in the generally non-urban areas served by these regional banks. This means they have an ever shrinking lending and fee business, and also face low interest rates, with the Bank of Japan's negative interest rate policy. In the year ended 31 March, 2018, an estimated 60% of them recorded losses or lower profits².

As the sun sets on lending and fee income, many, with encouragement from the Financial Services Agency, have accordingly explored brighter vistas, such as increased focus on investment, to generate earnings. As such, demand for privately placed investment trusts from institutional investors is growing. At the same time, the Financial Services Agency requires that financial institutions step up risk management, which is particularly challenging for regional banks in broaching what is relatively new territory in investing as a core focus.

Our people realized that regional banks would experience greater risks down the track because of the time lags they faced in getting solid management information, particularly for privately placed investment trusts. We set about exploring how to create a level playing field for the flows of information between asset management firms and institutional investors.

It was in that process that we began working with Bloomberg to use its Portfolio and Risk Analytics platform (PORT) to assist our institutional clients in Japan. Nikko AM chose PORT for its ease of use and convenience, savings from not having to

spend money on new systems, and the expandability of the Bloomberg Terminal.

PORT offers key advantages, such as ease of identifying stocks in investment trust portfolios, and the ability to assess daily risks, measure Value at Risk, and analyze a range of scenarios. It also makes it easier to understand portfolio structures, analyze positions, and share key data with clients. PORT's automated reporting functionality helps to eliminate a lot of manual work in creating reports, contributing to time savings and productivity gains.

We devoted several months with Bloomberg to establishing PORT as a risk management eco system. Drawing on extensive feedback from the Bank of Japan, we trialed the setup with select institutions (including regional banks), using the feedback to improve it. We then launched it and issued formal guidelines for the system.

Now, this new risk management tool is in place with numerous regional banks in Japan, where for the first time, asset management firms can upload data for privately placed investment trusts to PORT, for regional banks to securely access. These banks can use this information to build new frameworks that empower them to do their own risk analytics and more fully embrace a business model focused on investing.

But what makes PORT even more significant is that we offer the service not just to our clients but also to our competitors, at no cost, to encourage its widespread adoption. As an extension of this, we provide opportunities for up and coming portfolio managers at these regional banks to spend time in our offices outside of Japan, to learn about the diversity of approaches to investment management – lessons they can then apply on the job.

Through these efforts, we are promoting the sustainability of our industry in Japan in lock-step with efforts to promote client interests above all else. It is the right thing to do as we progress on our ESG journey.

¹ [Financial Times, 20 April 2018](#)

² [The Japan Times, 6 June 2018](#)

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