
UNLOCKING JAPAN: INSIGHTS WITH OUR JAPAN RESEARCHERS

All investment strategies have the potential for profit and loss, your or your clients' capital may be at risk. Past performance is not a guide to future returns.

CD Chloé Darling-Stewart

AH Akiko Hirai

SI Satoko Ishino

CD Hello, and welcome to 'Insights with our Japan researchers'. My name is Chloé Darling-Stewart, and I'm an Investment Specialist in our Japanese Equity team at Baillie Gifford. I'm delighted to be joined today by two Japan-based researchers, Satoko Ishino and Akiko Hirai, to discuss some of the fascinating research they've undertaken, as well as the unique culture and recent developments in modern Japan.

As a brief introduction, Satoko worked as an equity analyst, before leaving the industry to pursue a career in the culinary arts. Akiko also spent time as an equity analyst, before pursuing an MBA at the University of Waseda. Welcome, both.

So, Satoko and Akiko, you clearly both have wide-ranging experience across multiple different industries. In terms of the work that you do with the team, could you give us a flavour of that, how you work with the team and the types of things that you're doing?

AH Yes, we do a lot of additional research, research of companies, and also, the research of industrial change, or societal change, or sometimes important regulation changes in Japan, so that we can find new opportunities to invest for the long term.



SI For example, I often go to the trade shows. Recently, I've been to the Tokyo Game Show and IT Show. This is something we can do, because we are living in Japan and doing the research from Japan.

AH And in addition to that, we also contact academia, to look for opportunities where we can get more insight from academic research in the future.

CD Thank you. Clearly, the research you do is really broad-ranging, and I know that it's of real importance for the investment team, particularly over the last two years, whilst we haven't been able to visit Japan ourselves. Now that clearly is changing, and our investors have been able to go back to Japan and visit. And they've come back really enthused with some of the companies that they've met.

And that's both by the ability to go back and to meet with companies, but also, they're starting to see change on the ground in Japan. Is this something that you both see, living in Japan?

SI Yes. For example, I think Japan used to be a cash society, however, now I realise that I use cashless payments more. And if we look at the numbers, cashless payments were only 20 per cent in 2016, and now 32 per cent last year. And particularly, we have a QR code payment, which is very popular, and the leader of QR codes is PayPay.

CD And what changes would you highlight, Akiko?

AH In addition to that, during the pandemic, many companies started to introduce more flexible working practices for their employees. Because those companies noticed that the flexible working style, as well as diversity and inclusion initiatives, are quite attractive for employees and even effective to hire talent, new talent, from its competitors or other industries.

And one of the examples I recently found is Shiseido, a global cosmetics company. And the management said that diversity and inclusion, and a better working environment, is a very important part of their business strategy. So, that's one example of those companies.

CD Thanks, Akiko. And Satoko, do you think this change is isolated to a few leading companies, or is this more emblematic of what's going on in wider Japan?

SI In Japanese there is a word called [speaks Japanese], which means in English 'nail that sticks out gets hammered down'. This means that Japanese society tends to have a strong peer comparison. This has a positive aspect like job security or teamwork. However, in the current environment, new industries have to grow quickly, and also, established companies need a drastic change. And we need strong leaders, who are different, unique, and have a strong vision.

And a good example is CyberAgent, which is an internet company. And they have an internet TV business called ABEMA TV. And although there are strong competitors, like Netflix or Amazon Prime, the company is trying to differentiate



this ABEMA TV from other competitors by providing unique content and a marketing strategy to make the platform become a social infrastructure, so that the people can watch TV anytime, anywhere.

CD Fascinating, thanks Satoko. And what about your own experience, Akiko? How has your role changed, since you first started working back in the 1990s? Or even when you first started working with the head of the team, Donald Farquharson?

AH Yes. I was working with Donald Farquharson in a different company around 1997. And at that time, access to companies was poorer than now. And even some major companies didn't have an IR department, so we needed to access the general administration department or financial department. But for them, IR was not a major job, so interviews sometimes did not go well.

But now nowadays, even smaller companies or start-up listed companies, have an IR department, so the importance of investor relations, in general, are very important. And actually, FANUC, it's a major company, which was not very keen on IR before. And they finally started to have an IR department seven years ago.

CD So, one final question I have for you both, and I'm sure it'll be of interest to your clients, is about inflation. Now, clearly, the picture is a bit different in Japan, having little to no inflation for the last three decades. But we're starting to see a return of some inflation in Japan. Do you have a sense of how consumers and companies are reacting to that?

SI Yes. The inflation rate in Japan is only 2 to 3 per cent, which is relatively low, compared to other countries. However, because of long time experience of deflation, I think it's a big change in our living.

AH Yes, that's right. I was shocked recently, when I went to a nearby restaurant for lunch, where I usually go. And it has been a lunch set was 1,000 yen for a long time, but recently, it raised to 1,200 yen. So, those kinds of things are happening, so the people's perception of inflation is much higher than the statistic numbers.

But on the other hand, some companies, like exporters and trading companies, are doing very well, partly because of the yen depreciation and partly because of inflation. And they're now trying to pass that profit to their employees. So, hopefully, that kind of move will lead to good inflation to boost total corporate profit, and people's salaries.

CD Fascinating. Well, thank you both so much for sharing your experiences, and it's been great to have some of your insights from life on the ground in Japan. It's been great to see you again in Edinburgh, and hopefully we'll see you in Japan sometime soon.

SI Thank you, Chloé.

AH Thank you, Chloé.



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