The Program on Alternative Investments, under the aegis of the Center on Japanese Economy and Business and in cooperation with the student-run Japan Business Association of Columbia Business School, hosted its second seminar of the academic year on October 1, 2003. The event featured Mr. Shuhei Abe, President and CEO of SPARX Asset Management Co., Ltd., the largest independent asset management firm in Japan, and was moderated by Dr. Mark Mason, Director of the Program. Following are excerpts from Mr. Abe’s presentation, together with selections from the subsequent question-and-answer period.

The Program on Alternative Investments analyzes several major alternative asset classes—including hedge fund, private equity, and real estate—in Japan and elsewhere in East Asia. The Program meets its substantive goals through a combination of research projects and seminar presentations by leading practitioners in each of the alternative asset classes, under the direction of Dr. Mark Mason. For a schedule of upcoming seminars and other Program activities, consult the Program’s Web site at http://www.gsb.columbia.edu/japan/alternatives. Dr. Mason can be contacted by e-mail at mm412@columbia.edu.
of 14.0 percent versus the Nikkei 225 of -10.6 percent. If you really understand the companies you are investing in, Japan can provide opportunities to make profits both long and short.

The hedge fund market in Japan is growing. When we started our long-short strategy in 1997, there were only 13 hedge funds or so. Since 1999, the number of hedge funds with exposure to Japan has tripled. Given this rapid rate of growth, there are now about 125 hedge funds.

Whether we use a long or short strategy, we try to remain consistent. When we look at individual companies we consider three key factors: the quality of earnings, market and business potential, and the quality of management. We try to figure out the company’s intrinsic value and then compare it with the market value to see if a valuation gap exists between them. We also look for identifiable catalysts. For example, what can we do to narrow the gap between the company’s intrinsic value and market value? SPARX applies a fundamental, bottom-up approach to evaluate Japanese companies. That is our investment process and the method we use for our long-short strategy. There are no special methods used for our hedge fund versus our other long-only strategies.

The Recovery of the Tokyo Market

Looking historically at the Japanese market over the past 14 years, the peak of the market was December 1989. After that, the market declined 63 percent over 36 months. Since April 2003, the market has rebounded 41 percent over the last four months.

The most recent decline was attributed to Prime Minister Koizumi’s fiscal and banking reform policies. Unlike his eight predecessors, Mr. Koizumi has consistently reduced the fiscal budget. It is very difficult to continuously maintain a tight budgetary policy when the equity market declines as it has, but Mr. Koizumi continued his policy. Previous prime ministers used fiscal stimulus when the market was weak, and the deflationary spiral created in the real economy...
are improving because of their cost-control efforts over the past ten years. For example, operating expenses have been reduced, primarily due to employee layoffs and the Bank of Japan’s purchase of cross-shareholdings from banks. Luckily, this year, foreign participation in the Japanese market has become more active too. As of the middle of 2003, the large-scale net foreign purchases, unlike those in the past three years, which have been net sales, have normalized and reversed course.

Third, over the last three years, there has been a structural shift of equity ownership from stakeholders to shareholders. Prior to that, banks owned the entire corporate system of Japan. Due to the aggressive sale of their own portfolios, the bank’s share of corporate Japan has been reduced to less than 25 percent, whereas shareholders, such as pensions, mutual funds, individuals, and foreign investors, represent more than 75 percent. This is a very important change because it was questionable who governed the system in Japan. Ownership is shifting to shareholders who care about maximizing company performance and future profits.

Fourth, despite the market’s decline, corporate restructuring has led to improved profits and the recovery of the economy. Companies are now making 65 percent more profit than they were in 1989, which was the earnings peak of the bubble. Yet, the stock market is 70 percent lower than its peak. Japanese companies are also becoming concerned with balance sheets, and they are now paying more attention to returns on investments (ROIs), with room to improve compared with peer markets.

So why have Japanese banks been unable to make a profit? The Japanese banks were unable to make a profit because of the continuing non-performing loan (NPL) problems over the years. The peak of the NPL problem was in 1998. After that, credit costs continued to decline. The current Minister of the Financial Supervisory Agency (FSA), Mr. Takenaka, introduced very strict measures to audit bank loans. We believe that non-performing loans are now being normalized. Once they are normalized, banks will be able to generate profits. This year, banks are expecting to report a profit rather than a loss. This will change the sentiment of the Japanese market, which is already gradually recovering. We have felt positive about things in Japan since the beginning of this year.

Considering the underlying trend continues, foreign investors will begin purchasing banking shares, which will create a self-strengthening trend for the stock market. If the underlying trend continues, foreign investors will begin purchasing banking shares, which will create a self-strengthening trend for the stock market. Over the next few years, in light of this recovery, we managed the long-short strategy very conservatively. The gross long position averaged about 60 percent, and the gross short position averaged about 20 percent. The net exposure averaged 40 percent. During the first quarter of this year, we raised our gross long positions from 60 percent to 90 percent exposure, but at the

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“We believe that non-performing loans are now being normalized. Once they are normalized, banks will be able to generate profits.”

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Mr. Mark Mason
same time, we increased our gross short position to 50 percent exposure. Our net exposure increased to as high as 60 percent. Although we were able to foresee a rebound in the market, we wanted to offset any potential volatility by having a larger short exposure.

It has been a very interesting time in the Japanese market, and we are trying to capitalize on the opportunities using different strategies. As a Japan-specific asset management company, SPARX tries to provide different strategies so that investors can participate in the equity opportunities of the Japanese market. From 1997 through today, our leading strategy has been the long-short strategy. Today, we continue to see plenty of opportunity for this winner and loser strategy in Japan, but we are also expanding investment strategies in different areas because of larger opportunities in the market.

Questions and Answers:
Q: What are some of the practical problems you have found in trying to identify the intrinsic value of companies, and how has it changed between the 1990s and today in terms of disclosure of information and access to companies?
Abe: Recently, companies have become much more open, particularly because of the changes that occurred between 1995 and 1998. CEOs of major companies have begun to understand that one of their main responsibilities is to talk with investors and shareholders. In the past six months, I have met most of the CEOs of the major banks. In the past, to meet the CEOs of these institutions was impossible. Their investor-relations people would never have let us meet with them. More importantly, I think companies have begun to realize the importance of promoting themselves through the voice of their CEO. In general, I believe disclosure among companies at all levels has dramatically improved.
Q: These days in the United States, there is a growing voice to regulate the hedge fund industry. How is this aspect of the industry developing in the Japanese market?
Abe: Whenever the market became weak, the authorities believed that it was because of hedge funds. Most recently, they regulated what we do in terms of short selling, but it really did not affect the way SPARX did things because we have very limited short positions, and our stock picking approach is not trading-oriented. Since the inception of the strategy in mid-1997, we have never exceeded 40 percent in our short exposure. Usually, it is 20–30 percent. So following what the regulators ask us to do does not really change the course of the investment and approach. Additionally, there is not much that can be done to regulate what most of the hedge fund players are doing.
Q: What aspects of your company have you changed since SPARX’s inception?
Abe: I started the company with five people—now we have more than a hundred people. I have to spend time managing the organization. However, to manage the organization is to manage money. The stronger the organization, the better our ability to manage the money. There is no doubt that if you create a team of five to manage money, it is better than doing it alone. One of my goals is to create a strong team. I spend a lot of time sharing my knowledge and training people. It is similar to a manufacturer building a good car. Since the company’s inception, my role has drastically changed. I used to do all of the functions by myself, but now I spend more time investing. At the same time, I have to train people in various areas as the company expands.
Q: What is your broader vision for SPARX ten years from now?
Abe: I would like to contribute something positive to the world. I am not doing SPARX just to make quick money and then exit. I am building my company very seriously for the long term, and I want SPARX to be trusted and highly respected by investors. Japan has saved so much, but the money has been inefficiently managed. Someone needs to apply real investment intelligence. In ten years, if people see SPARX as a company with real investment intelligence and afford us a high degree of respect and trust, I will be very happy. This is what we are trying to work on. Unfortunately, there are very few companies like this in Japan. There are, of course, companies like Sony and Toyota, which are very well respected and trusted by the world. However, in our area of industry, I do not see many other serious companies.
2002年9月、コロンビアビジネススクールの日本経済経営研究所と日本ビジネス協会は代替投資(オルタナティブ・インベストメント)講演シリーズをスタートさせました。本講演シリーズでは、本研究所代替投資プログラムのディレクターであるマーク・メインボンをモデレーターに、毎回ゲストスピーカーを迎えます。2003年度秋学期2回目のセミナーは、10月1日、日本のヘッジファンド産業のテーマで、スパークス・アセット・マネジメント投資株式会社の代表取締役社長である阿部修平氏によって行われました。以下は講演の紹介です。

ヘッジファンド産業の発展：市場のダイナミクスと日本での経験

日本におけるヘッジファンド産業
日本のヘッジファンド産業では今何が起こっているのか？長期の東京市場における株価指数を見てみると、1990年代後半以来の株価崩壊は高収益に至った。1980年代は日本でのヘッジファンド戦略はうまくいかなかった。なぜなら、神奈川と株の買取りは、株価の大幅な下落を後押ししていたからである。逆に、ネクストストップ後の90年代は何を買っても値下がり、「勝ち組」と「負け組」を区別するロング・ショート戦略を用いた日本株式のロング・ショート戦略（過激評価されている日本株を購入・ロング）するとともに、高評価されている日本株を売却・ショートすることに元々の成長をもたらす意味をもたらなかった。90年代中盤、国内株式の評価額は正常化したため、日本株式を用いたロング・ショート戦略はうまくいき始めた。特にスパーキュス・ジャパン・ファンドでは、1997年から円1,250円を大きく上げる成長を見せている。日本のヘッジファンド市場は成長している。97年から31か月が経った株式指数は今や125%になっており、99年からみてヘッジファンドの日本の株式投資は高収益になっている。どうやって、ウィンナー・ショートを決めるかは、企業の収益性、市場の脆弱性、経営者の姿の選択肢を重視することにしている。我々は、市場価値と企業の水準価値とのギャップを検出し、それが何をもっていようか。

東京市場の回顧
パルプの日本の株式市場は急激に価下がりと回復の週りで、最近の下落は小泉首相の財政金融構造改革に端を発している。特に、財政改革と預金業界の強化がポイントである。小泉政権の強硬な改革の影響は、日本株式市場への影響は今ほど大きくない。第二に、過去3年かけて、日本の株式の評価額が市場の約半を続続して下落した。第二に、法改正によって銀行が大きく出た大量の株式によって流れていた過剰投資活動は、徐々に株価の増大を次元化していた。第三に、株式の保有関係が（所有者）銀行や保有者から株式保有者へと移動した。特に、ニューヨーカーフィンド、外国入居者などの企業業績に影響するシェア・ホールド型の株の保有に移った。第四に、日本市場の株価の健全化にもかかわらず、各業界のバランスが崩れ、利益性が改善されることもあるだろう。

銀行の構造改革と改善
当社では、日本銀行の主要業績(出金が定めた14行)は今後回復を図っていると考えている。実際に彼らの業績改善は改善してきている。特に、不動産業および金融持続業による業容改善の削減は順調で、関係経費の対効率比は46%と、シグマグループの52%、ドーザー銀行の79%、UBSの87%と比べて優れている。これまで、日本の銀行が利益をもたらしていたのは、不良債権問題のせいであるが、その問題は98年をピークに減少しつつある。不良債権問題は、金融業界の厳しい規制により、正常化を図りつつある。2003年度にとれば、金融業界の損失は、黒字に転換しつつある。また、銀行セクターは外国入居者家の比率が高いのがあるが、このような、ファンド・マネジメントの正規化が続いている。外国入居者家の銀行への投資は増加し、その結果日本の株式市場自体が価値を持つことになるだろう。日本の市場はこれまで、これからも面白い時期に来ている。当社は今後もロング・ショート戦略を進めることで、良い結果も得ているべきだ。そうでない場合、必ずしも投資できるかどうかを検討する必要があるだろう。

Q&A
「スパークス・ジャパン・ファンドは、会社のどの側面を変えてきたのか？」という質問に対して、阿部氏は「当初5人であった会社が現在104人になった」と答えている。また、「金をどのように使われるのか？」「将来、どのような市場を歩むのか？」など、様々な質問に対する答えをした。阿部氏は、スパークスの長期的な展望を、時に危機、時にブームを越えて、企業の立場から考えた。