

PAST JETRO CLIENT FINANCIAL SERVICES SUCCESS CASE

Advisory Research, Inc. Extends its Reach to Japan

Advisory Research, Inc. (ARI), an asset management firm based in Chicago, established an office in Tokyo in 2012. In November 2014, JETRO Chicago spoke with Drew Edwards, ARI's Managing Director & Portfolio Manager for International/Global Equities, to learn about the firm's expansion into Japan, their progress and his outlook on Japan.

Advisory Research, Inc. (ARI) is privately-held investment management firm founded in 1974. With more than \$12 billion in assets under management, ARI caters to high-worth individuals and institutional investors such as banks, investment companies, pension funds, university endowments, private & public foundations, corporations and municipal governments. ARI employs a conservative, disciplined approach to its investments, conducting extensive research to identify overlooked, undervalued companies with strong intellectual property and solid management. In 2009, ARI was acquired by the investment bank Piper Jaffray.

ADVISORY RESEARCH
INVESTMENT MANAGEMENT

Drew Edwards joined ARI's International/Global Equity team in 2008, bringing with him extensive experience in Japan and the financial sector. As an undergraduate, Mr. Edwards attended Sophia University in Tokyo then completed his JD and MBA at Northwestern University. Before joining ARI, he worked at Taiyo Pacific Partners and Lehman Brothers. He is fluent in Japanese.

From the very beginning, Mr. Edwards recognized the opportunities for ARI in Japan. Many Japanese companies were being ignored by mainstream investors, largely due to language and culture barriers as well as distance. At the same time, Mr. Edwards also knew that ARI's value-based strategy would appeal to clients in Japan, where there is less tolerance for risk. As Mr. Edwards began to build up ARI's global investment portfolio, he started spending a lot of time in Japan, meeting with companies, conducting due diligence and networking with investment banks.



Drew Edwards is the Managing Director & Portfolio Manager for International/Global Equities at ARI in Chicago.

As ARI increased its Japanese investments, the company began considering setting up an office in Japan. Mr. Edwards is keenly aware of Japan's demanding customer service expectations and understands the value of having a local representative who speaks Japanese and can respond to inquiries in a timely manner. For a small boutique firm like ARI, networking and building their brand is especially important. The challenge was finding the right person. Mr. Edwards remarked that they needed someone with the right experience, who fully understood ARI's investment strategy and was familiar with their clients. In 2011, one of ARI's research analysts met Fumie Kikuchi at a networking event. Ms. Kikuchi was living in Chicago while her husband worked on his MBA. She previously worked at JP Morgan Asset Management and Daiwa Securities in Japan. One thing led to another and Ms. Kikuchi joined ARI in the fall of 2011. And because Ms. Kikuchi was planning to return to home in 2012, the timing was right for ARI to move forward in Japan.

Mr. Edwards had been acquainted with JETRO Chicago through the Japan America of Society of Chicago. Now that ARI was considering opening an office in Japan, he reached out to JETRO Chicago. In January 2012, the Business Development team met with Mr. Edwards to discuss how

JETRO could assist ARI. JETRO provided information and resources to help them understand Japan's financial regulations and the options for setting up a company in Japan.

Timeline of Advisory Research Inc. in Japan	
1974	ARI established in Chicago
2008 (Jan)	Drew Edwards joins ARI
2010 (Mar)	Piper Jaffray completes the acquisition of ARI
2011 (Oct)	ARI hires Fumie Kikuchi
2012 (Jan)	JETRO Chicago meet with ARI to discuss their interest in Japan
2012 (Mar)	ARI visits Japan and meets with the Tokyo IBSC; speaks with a judicial scrivener, legal, tax and human resources experts
2012 (Jun)	ARI utilizes the JETRO Tokyo IBSC temporary office space
2012 (Sep)	ARI announces the opening of its new office in Tokyo
2013 (Nov)	ARI hires Masa Matsumura

In March 2012, Mr. Edwards and Ms. Kikuchi visited the JETRO Tokyo Invest Japan Business Support Center (IBSC) in order to meet with a Judicial Scrivener and Legal Advisor for information on the process for incorporating as well as for special guidance setting up a financial services company. The pair also spoke with JETRO's Tax and Human Resources Advisors. In June 2012, Ms. Kikuchi returned to Japan and utilized the temporary office space at the Tokyo IBSC. In September 2012, ARI announced the establishment of its new office, then located in a managed office facility in Marunouchi. As ARI's representative in Japan, Ms. Kikuchi conducts research into Japanese companies and supports existing Japanese clients.

When asked how business has been since ARI set up their Tokyo office 2012, Mr. Edwards remarked that ARI's investments in Japan are very strong and that the business continues to grow. "It was absolutely the right time to go to Japan," he said. The company has increased its investments in Japanese companies and is working hard to add new clients in Japan.

Mr. Edwards said while it is always a challenge to develop new clients, it is especially difficult in Japan, where the rules and regulations governing financial products are very different from the USA. He noted that there are a lot of grey areas in Japan's financial regulations which can inhibit growth. For example, ARI is prohibited from direct management of assets in Japan but can serve as a "sub-advisor" to institutional investors. Because of the ambiguity in the rules, ARI chooses to air on the far side of caution. While some other companies may not be as concerned about this, "we want to stay out of jail and out of the newspapers," Mr. Edwards remarked.

Another challenge has been Japan's labor practices. After Ms. Kikuchi gave birth, she took six months of maternity leave, as is customary in Japan. While ARI was supportive, it was difficult to be without their sole employee in Japan for six months. Ms. Kikuchi later returned to work but then had problems finding reliable childcare. Mr. Edwards noted that the lack of childcare options creates a real obstacle for working mothers in Japan and is a serious problem that needs to be addressed.

Looking ahead, Mr. Edwards said he is optimistic about ARI's prospects in Japan. He noted that there are many undervalued companies which present huge investment opportunities. By 2017, Mr. Edwards said that ARI's investments in Japanese companies could grow to \$2 billion. Moving forward, Mr. Edwards would like to develop better partnerships with investment banks like Nomura, which would benefit from ARI's expertise. That will come in time, as they build their brand and network in Japan.

ARI recently added a second Japanese national to its International/Global Equities team. Masa Matsumura holds a PhD in Physics and previously worked at GE. In 2012, he opted for a career change and relocated to Chicago to complete his MBA. He interned at ARI in 2013 and became

a full time employee in the spring of 2014. Mr. Edwards expects that Mr. Matsumura will return to Japan within 3 years and continue to work in his current position with ARI.

When asked what advice he would give to other companies considering expanding to Japan, Mr. Edwards said the most important thing is finding the right person. He noted that there is a "long, steep learning curve" for doing business in Japan, which requires the right person with the right qualifications. "We got lucky with Fumie and Masa" he said. Success in Japan requires commitment. "You really have to want to be there. You gotta love Japan. You need to be a little obsessed, a little crazy."

Mr. Edwards also recommended that the companies interested in Japan should talk to JETRO first. "The IBSC was extremely helpful for initial support," he said, noting that JETRO provided ARI with temporary office space, legal and tax advice and introductions to business service providers like tax professionals, real estate agents and attorneys.

Mr. Edwards added that recent events have made him very optimistic about Japan. "It is an extremely exciting time" to do business in Japan, noting that the scope of the economic reforms proposed by Japanese Prime Minister Shinzo Abe is impressive. He remarked that for the first time in 25 years, the government is taking concrete steps to address many of the issues which have held back business in Japan. He was especially excited about changes in corporate governance standards and the new stewardship code.

He also remarked that for financial service companies like ARI, Japan is not as expensive a destination as other global business centers. While Japan's costs are high, they remain comparable to other world business centers like London and Paris. In addition, the salary expectations of finance professionals in Japan are actually lower than in China.

Another problem Mr. Edwards sees in Japan's financial sector is the lack of dedicated professionals. Japan's tradition of rotating employees prevents companies from developing the skilled financial professionals that are needed. He said he sees more technocrats who act like caretakers as opposed to financial pros who deliver real returns on investments. He said too many people in Japan focus on the P/L statement and earnings, and fail to dig deeper to uncover real value in the market. But these shortcomings also provide opportunities for ARI, which they will take advantage of as they build their brand and increase awareness of their capabilities.