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# HC Asset Management Co., Ltd.

## Company Profile

March 2018

<http://www.fromhc.com>

<http://www.facebook.com/hcasset>

<http://www.investmentinjapan.com>

Registration  
Membership

Financial Instruments Firm Kanto Local Finance Bureau #430  
Japan Investment Advisers Association  
Japan Securities Dealers Association

人+産業金融=成長  
成長を支える投資の原点へ



- Founded November 29, 2002
  - Capital JPY212,800,000
  - Ownership Employees and others
  - Chief Executive Noriyuki Morimoto
  - # of staff 38 (as of April 1<sup>st</sup> 2018)
  - Services Investment Management\*
  - Assets 2,989 million USD (as of March 31 2018)  
52 clients 74 accounts  
All institutional clients, 80% pension funds
  - Registration Kanto Local Finance Bureau #430
  - Memberships Japan Investment Advisers Association  
Japan Securities Dealers Association
- HC acquired Assurance reports under SAE86 (the Auditing and Assurance Practice Committee Practice Guideline No. 86) relating to our Investment Management Business by an Independent Accounting Firm. SAE86 was developed by the Japanese Institute of Certified Public Accountants (JICPA).
  - Assurance reports under SAE86 can serve as evidence of effective internal controls and could significantly reduce auditing burden, when the contracted internal controls of a service organization have to be reviewed in conjunction with an audit of the entity's internal control.

Assets by Mandate		USD, million	%
Income Plus		531	17.8
Income		218	7.3
Global Bond		279	9.3
Global Equity		1,300	43.5
Japan Opportunities		487	16.3
Global Opportunities		173	5.8
TOTAL		2,989	100.0

Assets by Clients		USD, million	%
Pension Funds	Corporate	2,416	80.8
	Multi Employer	40	1.3
Institutions	Insurance	151	5.0
	Bank	94	3.2
Others	Endowment	274	9.2
	Corporate	12	0.4
	High net worth	3	0.1
TOTAL		2,989	100.0

Assets by Managers		USD, million	%
1	Cedar Rock	750	25.1
2	Artisan	326	10.9
3	Fortress	284	9.5
4	First State	162	5.4
5	EFA	156	5.2
6	Blackstone	95	3.2
7	S.O.W	93	3.1
8	Manulife	92	3.1
9	Cross Ocean	85	2.9
10	Orbis	73	2.5
plus	40mgrs	690	23.1
Fund total		2,807	93.9
cash & equivalents		182	6.1
TOTAL		2,989	100.0

**HUMAN CAPITAL + FINANCE = GROWTH**

invest to support growth

As a responsible capital allocator representing investors and in order to provide solutions to social funding needs, HC is constantly searching for growth opportunities through innovative investment professionals across the world.

# Investment Principles

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## Funding needs for growth

- Clear and well measured business plan will lead to higher probability of success

## Stability, predictability and tangibility of cash flows

- Contracted cash flows, tangible assets and manager's long term track records should eliminate reliance on market environment.

## Reasonable exit scenario

- Multiple exit scenarios eliminate loss of principal value.
- In case of investing in liquid assets, supply/demand balances and liquidity needs to be considered.

## Transparency of cash flows

- Clear source of return would allow us to closely monitor the quality of investments.

## Mispricing caused by dislocations

- Forced to sell driven by regulatory changes (longer term trend caused by Basel III, Solvency II, etc.)
- Dislocations driven by policies (short to mid-term trend caused by central bank announcements, etc.)
- Dislocations driven by events such as Lehman crisis (sell offs regardless of quality of assets)

## Clients AUM:\$2,989m 52 clients 74 accounts

HC

Client First Philosophy



### Investment & Research (21) Akane Hashimoto

- └ Client service — Research
- Execution
- Reporting
- Internal control
- Investor Relations

#### Investment Committee

#### Investment Meeting

### Corporate (8) Yukari Morita

- └ Public relations
- Office management
- Accounting

#### Corporate Meeting



### Governance (6) Noriyuki Morimoto, Chief Executive Officer

#### Fiduciary Meeting

#### Internal audit and monitoring

#### Management Committee

#### Board Meeting (6, 2 are external boards)



### Auditors (3, all external auditors)

#### Shareholders Meeting

Ownership	Employees and others	
Boards	Noriyuki Morimoto	Chief Executive Officer
	Akane Hashimoto	Managing Director
	Hajime Nishikawa	Director
	Katsuzou Nakata	Director
	Yutaka Matsukawa	Director (external)
	Hiroshi Taguchi	Director (external)
	Ikuo Nonaka	Auditor (external)
	Shinichi Suzuki	Auditor (external)
	Masayuki Haraguchi	Auditor (external)
Total staff	38	

# Biographies (board members)

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## **Noriyuki Morimoto, Chief Executive Officer**

Noriyuki Morimoto founded HC Asset Management in November 2002. As a pioneer investment consultant in Japan, he established the investment consulting business of Watson Wyatt K.K. (Tokyo Office) in 1990, where he was Director & Consultant for 13 years. His responsibilities also included Benefit consulting and Financial Services consulting. Prior to joining Watson Wyatt, he was responsible for foreign fixed income investment, asset allocation and investment strategy at Mitsui Life Insurance Co., where he managed assets for the company's variable life products and group annuities as a fund manager. He spent two years and a half in London managing fixed income assets. He started his investment career as a Japanese equity analyst at Mitsui Life in 1983. Bachelor of Arts (Philosophy), University of Tokyo (1981).

Publications: 『Portfolio management of 'human capital', 'compensation' and 'annuity'』(co-authored: Toyo Keizai Inc October 1999) 『FUKUSHIMA legal aspects』(Energy and Electricity The Denki Shimbun October 2012) 『Fiduciary Duty』(Business Kyoiku Shuppansha December 2016) 『The Age of Mass Unemployment of Bank Workers』(Shogakukan August 2017)

## **Akane Hashimoto, Managing Director, Investment and Research**

Joined HC in February 2003 as a consultant. Since then, she has been actively involved in Investment & Research activities as well as business development. Currently, she is responsible for Investments, Research as well as Client Relations activities. Prior to joining HC, she spent four years at Watson Wyatt (now Willis Towers Watson) as an investment and business consultant. She began her career at The Bank of Tokyo (now Bank of Tokyo-Mitsubishi UFJ, Ltd.) in 1994, spending five years in the capital markets group. Bachelor of Arts (Economics), The University of Tokyo (1994).

## **Hajime Nishikawa, Director, Chief Operating Officer**

Joined HC in August 2007. Since then, he has been actively involved in trade activities including fund transactions and FX trades. Currently, he is responsible for trade reconciliations. Prior to joining HC, he spent 29 years at Mitsui Life Insurance Co., where he managed assets for the company as a fund manager and investment officer. Later he conducted the company's foreign business and internal audits in the investment area. He started his investment career as a Japanese equity analyst at Mitsui Life in 1981. Bachelor of Arts (Commerce), Hitotsubashi University.

## **Katsuzo Nakata, Director**

Prior to joining HC, he was Standing Auditor of Sumitomo Mitsui Asset Management Company, Limited.

## **Hiroshi Taguchi, Director (external)**

Chief Executive Officer, M-OUT Inc.

## **Yutaka Matsukawa, Director (external)**

Prior Standing Auditor of Mitsui Life Insurance Co.

## **Ikuo Nonaka, Auditor (external)**

Prior Standing Auditor of Sumitomo Mitsui Asset Management Company, Limited

## **Shinichi Suzuki, Auditor (external)**

Attorney at law, Saiwaibashi Law Office

## **Masayuki Haraguchi, Auditor (external)**

Attorney at law, Haraguchi-sougou Law Office

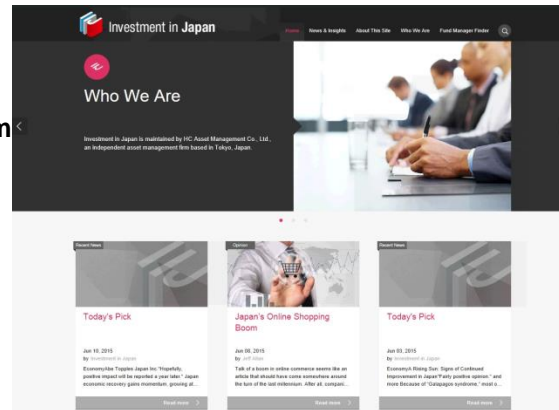


## Website fromHC <http://www.fromhc.com>

Japanese website targeting those who are interested in investments. Covers market information, seminar announcements, Mr. Morimoto's Column as well as manager interviews.

## Website Investment in Japan <http://www.investmentinjapan.com>

English website targeting global investors who are interested in Japan opportunities. Covers Japan related news, articles and manager interviews.



## Facebook <http://www.facebook.com/hcasset>

Mostly articles and photos related to our activities.

- ◆ Nori Morimoto is an author of AGOLA <http://agora-web.jp/author/hcasset>
- ◆ Nori Morimoto is an author of Yahoo! News <http://bylines.news.yahoo.co.jp/morimotonoriyuki/>

## Seminars and Events



## Business Finance Forum

Coordinated together with Development Bank of Japan, and Sponsored by Nikkei Inc., Kinzai Institute for Financial Affairs, Inc. and Japan Association for Chief Financial Officers

## HC Monthly investment seminar

Three hour workshop covering basics about capital market and investment theories.

## Manager Workshops

Manager meetings held at HC is wide open to investors.

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# HC Asset Management Co., Ltd. Investment Management Services

人+産業金融=成長  
成長を支える投資の原点へ





# Solutions

	Absolute return target			Benchmark relative	
	Income	Income Plus	Opportunities	Global bond	Global equity
<b>Strategy</b>	Target stable return above JGBs focusing on income with limited volatility	Target consistent return by combining income and opportunities. Interest rate risk is normally eliminated.	Identify dislocated assets or high growth potential assets in the market.	Target stable return above benchmark by focusing on income.	Target long term growth by focusing on business cash flow growth.
<b>Benchmark and target</b>	Nomura BPI JPY 2%	Nomura BPI JPY 3-5%	JPY 6-20%	BB Global Agg Citigroup WGBI JPM Global Div. + 1-2%	MSCI World MSCI EM TOPIX + 2-3%
<b>Assets</b>	Global bonds and other debt related instruments	Anything including Global bonds, debt, equity and real assets. May restrict assets via guidelines.	Anything including growth finance and stressed/ distressed situations. Focus on dislocations caused by regulation and policy changes.	Global bonds including governments, corporates and securitized.	Global equity  Regional mandates may also be an option.

- HC places more emphasis on business and asset cash flows within most (or all??) mandates.

# Investment & Research functions

Investment Management Business

Investment Banking Business

Portfolio Managers Noriyuki Morimoto - CEO & CIO, Akane Hashimoto - MD

Client Service

Research, Investment  
and Risk management

Portfolio Management,  
Trade and Operations

Client reporting and  
Investor relations

Internal audit (Investment process, fiduciary duty)

Public relations (publications, seminars, website)

Investmentinjapan.com  
fromhc.com

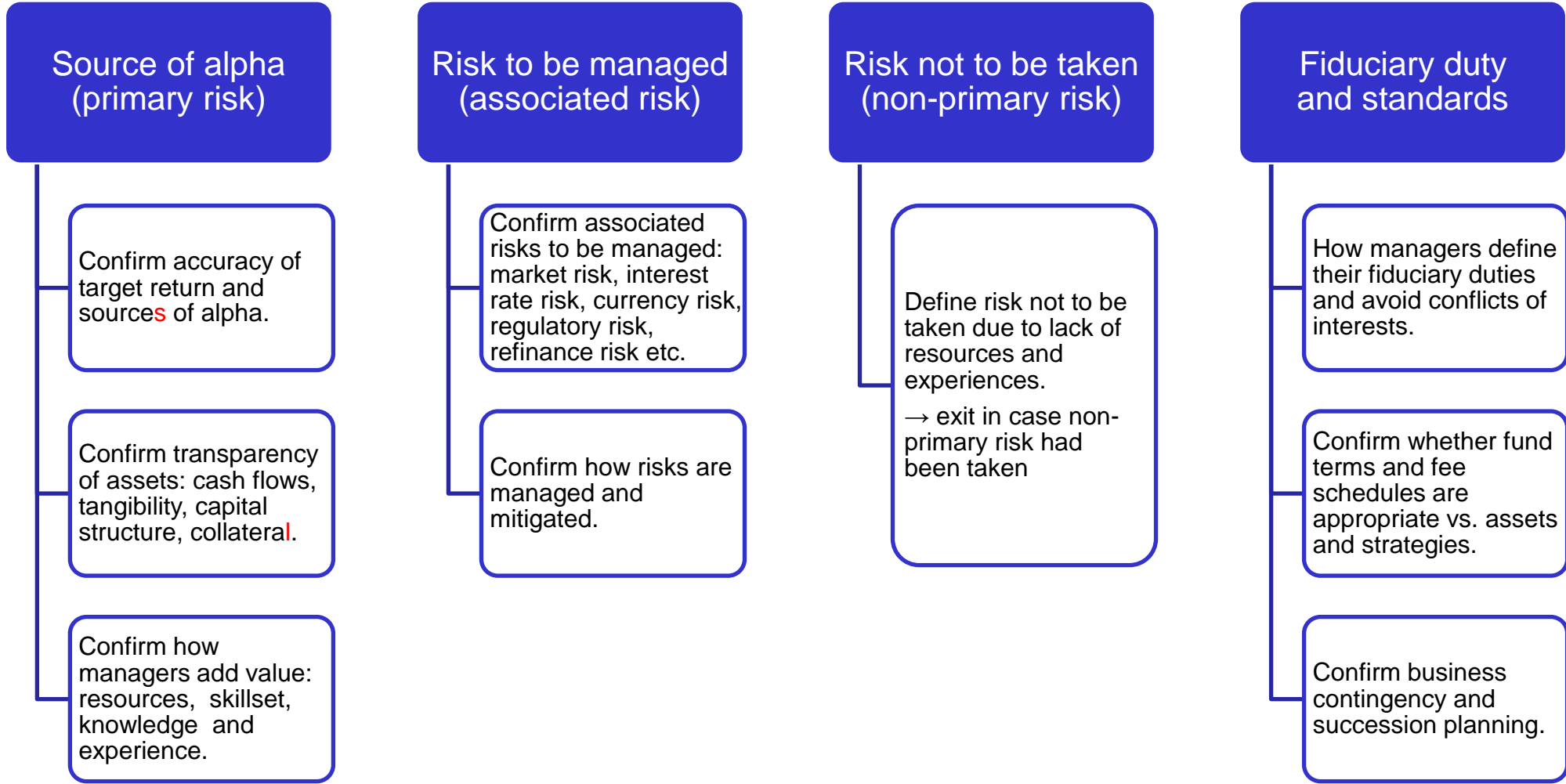
Making the right investment decisions and serving clients well are the highest priorities at HC.

All functions support portfolio managers' investment decisions.

HC is committed to work for clients and to seek best practices across functions.

# Strategy Research

- Risk appetite framework is applied throughout our research process.





## STEP 1 - Database Screening

(10,000+ strategies, Pavilion • eA • EurekaHedge • Bloomberg)

- Rolling 1y, 3y, 5y return
- Rolling 3y, 5y Sharpe ratio
- History, Ownership, Asset flows and AUM
- for private strategies, ideas are sourced directly from the industry and managers.

## STEP 2 - Qualitative Analysis

- Source of return and investment objectives, team experience and skillset, philosophy, contingency plans

## STEP 3 - Onsite Research

Focused discussions based on prior research.  
Main objective is to get a good sense of the manager's culture, leadership and team dynamics

## STEP 4 - Fund List Approval

Approval at the Investment Committee level based on Strategy Check List and Fund Term Sheet

## STEP 5 - Ongoing monitoring and investment decision

# Portfolio Construction

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## Strategy selection

- Define attractive assets and strategies based on capital flows and regulatory, market environments

## Manager Selection

- Define managers who understand the risks that need to be taken, and those that need to be mitigated.
- Determine characteristics to be monitored.

## Fund Selection

- Select funds that have appropriate terms vs. strategies
- Confirm alignment of interests

## Diversification

- Diversify source of return and combine low correlated strategies
- Diversify associated risks
- Define portfolio characteristics to be maintained

## Rebalance

- “Take profit” and “maintain expected return and yield”
- Sell when: 1) price reaches a level above expectations, 2) more attractive assets are defined, 3) manager’s strengths deteriorate
- Buy assets traded at appropriate yield or at a discount

# Business Partners

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## Pavilion Financial Corporation

### PAVILION

- Services
  - Pavilion Advisory Group: 160 employees
    1. Investment Consulting (strategies and managers)
    2. Investment Management Service targeting high net worth individuals through Pavilion Investment House
    3. DC advisory service through acquisitions of Plan Sponsor Advisors and Jeffrey Slocum & Associates
  - Pavilion Alternatives Group: 70 employees
    1. Investment advisory business focused on hedge fund and private asset research
  - Pavilion Global Markets
    1. Agency trading and transition management
    2. Global macro research
- Established in 2006. Previously known as Brockhouse & Cooper which was established in 1968.
- Ownership: employees 90%+
- Number of employees: ~300
- Office locations: Winnipeg (HQ), Chicago, Indianapolis, Minneapolis, New York, Montreal, Toronto, Sacramento, Richmond, Boston, Salt Lake City, Singapore, London, Short Hills.

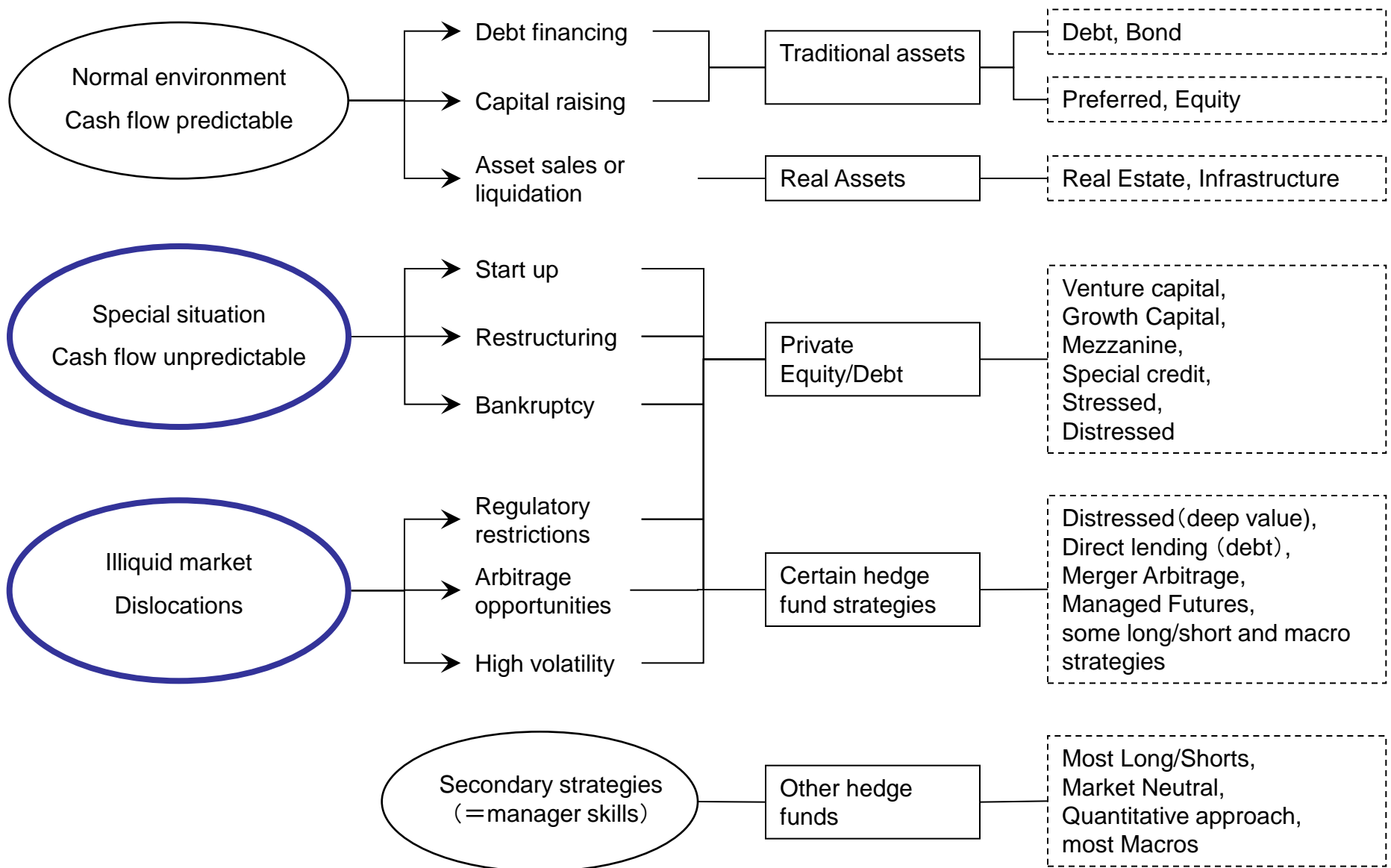
## Eureka Capital Partners

- Established by the founders of EurekaHedge, one of the world's largest hedge fund database company.
- Services
  - Broad range of consultancy services and capital introduction
- Office locations: Singapore and London
- Regulated by: FSA-UK, SFC-HK, MAS-Singapore, SEC-NY
- Ownership: founders 100%

## FIRSTavenue.

- Global placement agent focusing on private debt and real asset funds.
- Office locations: London, New York, Dallas, Sydney, Hong Kong
- Regulated by: FSA-UK, SEC-NY, SFC-HK
- Ownership: employees 100%

# Business environment and opportunities map



# HC Income Plus Strategy

<b>Objective</b>	<p>To seek consistent absolute return with emphasis on "income". Core focus on <b>"higher yielding"</b> <b>"higher coupon"</b> and <b>"shorter duration"</b> assets. Discounted "investment opportunities" will be combined when available. Participation in short term market trends is not intended in this strategy. Interest rate risks are normally eliminated.</p>
<b>Source of added value</b>	<p>Define assets that are traded at appropriate price range which were not hit by big cash inflows. Small, new, complicated assets or relatively high risk capital weighted assets tend to be mispriced in the market.</p>
<b>Risk Factors and control</b>	<p><b>【Market risk】</b>: Volatility is eliminated by investing in short term and private assets. <b>【FX risk】</b>: Foreign currencies are basically hedged to JPY, and target return is structured in JPY. <b>【Occupancy risk】</b>: Occupancy risk of private assets is being eliminated by sector diversification. <b>【Refinance risk】</b>: When investing in a leveraged fund, terms of investment and terms of financing are monitored carefully.</p>
<b>Assets</b>	<p>Securities, loans and real assets across the globe. Closed end funds generating income and regular distributions are allowed.</p>
<b>Target return</b>	<p>3-5% in JPY, net of fees</p>
<b>Structure</b>	<p>Combination of funds</p>
<b>Base currency</b>	<p>JPY, non JPY currencies will be basically hedged. However, small equity positions can be initiated in order to maintain a diversified currency exposure.</p>
<b>Leverage</b>	<p>There is no leverage at the portfolio level</p>
<b>Distribution</b>	<p>Annual distribution available upon request.</p>
<b>HC investment management fee</b>	<p>Base fee 0.3% + performance fee 10%, hurdle rate 3% (in addition, trustee fee will be paid from the account)</p>

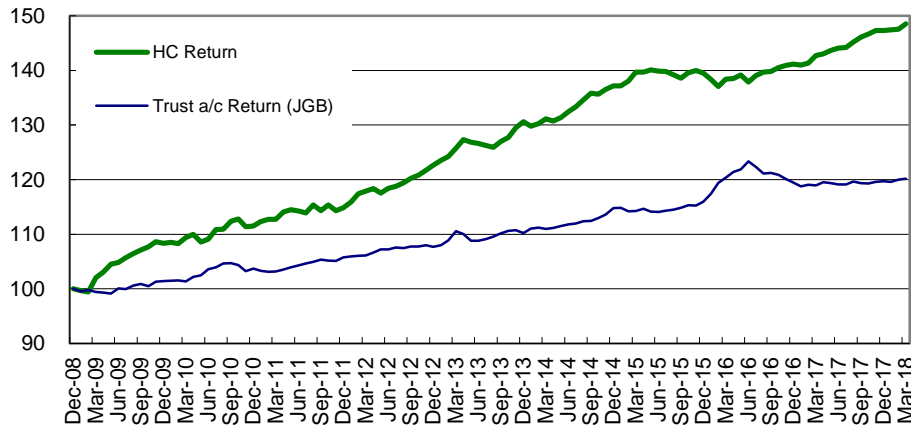


# HC Income Plus Approach

## ■ Liquid income assets

- HC INCOME PLUS portfolio (base portfolio)
- Focus on stable predictable income
- Target 3-5% (JPY), 6-8% (USD) in the current environment.
- Combination of daily, monthly and quarterly liquidity funds.
- Benchmark relative separate account portfolios are offered separately from Income Plus.

HC Income plus portfolio (JPY) (representative account net of fee)

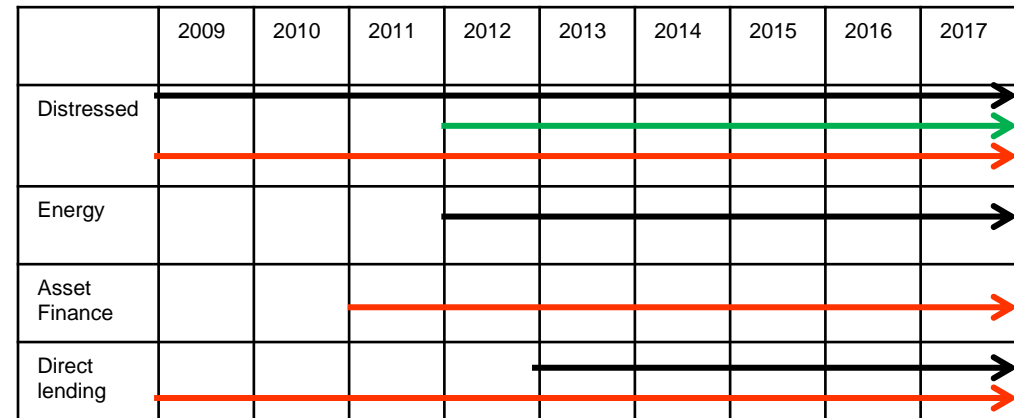


## ■ Private opportunities

- Private opportunities will be combined with liquid income assets.
- Target 8%+ stable income flows as a portfolio.
- We focus on supply/demand imbalances across the world.
- Source of return and vintages are diversified in order to stabilize return and to mitigate J curve effects.

Private Opportunities Investment history (example)

→ US/Global  
 → Europe  
 → Japan



Committed over \$600m in private LP structures since 2007

# Disclaimer

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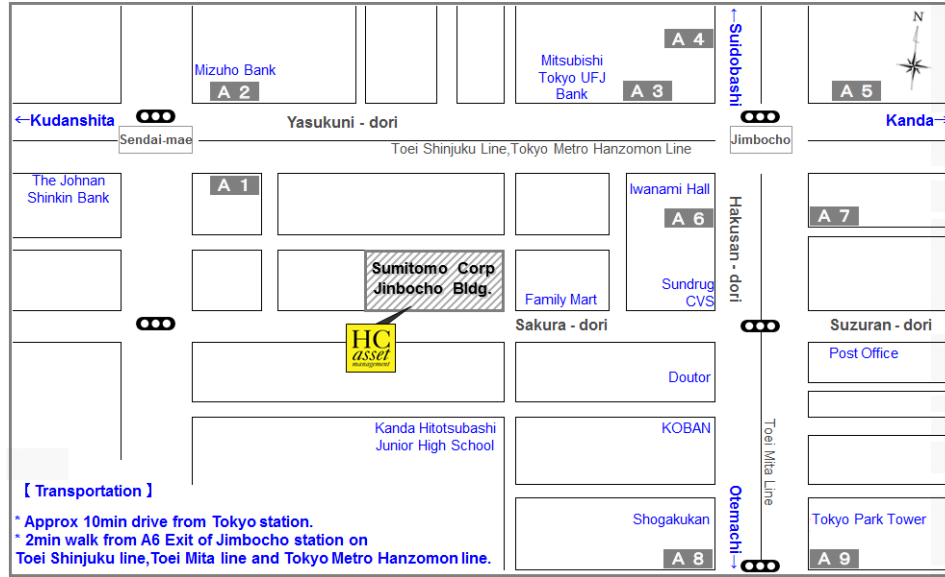
# Index

- Citigroup World Government Bond Index, Citigroup US High -Yield Market Index (Citigroup fixed income indices are developed, calculated and distributed by Citigroup Global Markets Inc.)
- Bloomberg Barclays Global Aggregate Index, Bloomberg Barclays US Aggregate Bond Index, Bloomberg Barclays US Aggregate 1-3 Year Index, Bloomberg Barclays Euro Aggregate Bond Index, Bloomberg Barclays US Mortgage Backed Securities (MBS) Index, Bloomberg Barclays World Government Inflation-Linked Bond (WGILB) Index, Bloomberg Barclays Global High Yield Index  
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- JPMorgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified), JPMorgan Emerging Local Markets Bond Index Plus (ELMI+), JPMorgan Government Bond Index - Emerging Markets Global Diversified (GBI-EM GD) , JPMorgan Government Bond Index - Emerging Markets Broad Diversified (GBI-EM BD)  
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- ICE BofAML USD Libor 1M, 3M, 6M, ICE BofAML JPY Libor 1M, 3M,6M, ICE BofAML EUR Libor 1M, 3M, 6M, ICE BofAML GBP Libor 1M,3M,6M,ICE BofAML USD Libor 3M(JPY),ICE BofAML US High Yield Master II Index, ICE BofAML Euro High Yield EUR Hedged, ICE BofAML US Treasury 1-3 Years Index, ICE BofAML US Treasury & Agency 1-5 Years Index ICE BofAML Indices is a registered trademark of ICE Data Indices, LLC or its subsidiaries.
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- TOPIX Dividend Index  
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- NOMURA-BPI Overall, NOMURA-BPI Overall, Short-term(1-3 years), Mid-term(3-7 years), Long(7 years~)  
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- Russell/Nomura Japan Index  
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- Russell 2000 Growth Index  
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- EurekaHedge Asian Hedge Fund Index, EurekaHedge Asian Hedge Fund Index(Asia ex-Japan Index) Index data is utilized under the permission for usage by EurekaHedge.
- FTSE All World, FTSE World, S&P500
- Credit Suisse Leveraged Loan Index, S&P European Leveraged Loan Index, Swiss Re USD Cat Bond Performance Index  
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# Access

## MAP



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