

Feature Articles

This month's focus: **Public Money in Japan**

Investment of Public Money in Equity Instruments: History and Current Status in Japan and Merits and Demerits

Yosuke Mitsusada, CMA

Contact point : mitsusada.info@gmail.com

As of the end of 2022, with the term "public money" being discussed in connection with equity acquisitions, we identify four main groups of public money actors. First, the Bank of Japan uses funds from its quantitative and qualitative easing programs to purchase ETFs. Second, public pension funds such as the GPIF invest in equities. Third are the various public-private funds that have invested in (supported) Japan Airlines, Renesas Electronics, and others (with accumulated investment and loans amounting to 2.5 trillion yen as of 2020/3). And fourth is the ¥10 trillion university fund established by the Japan Science and Technology Agency (JST) starting in 2021. This paper will review the historical background and objectives of these four types of public money investment programs and then discuss their merits and demerits.

On a balance basis, (1) the Bank of Japan's ¥51.3 trillion and (2) the public pension funds' ¥59.5 trillion are by far the largest. As these two public money pools account for around 15% of the market capitalization of the TSE 1st section, consideration should be given to the adverse effects (such as the loss of the market's price discovery function and resource redistribution function) of increased passive investment. Consideration should also be given to exit strategies in preparation for QT, and communication with the market. (3) Although the balance of public-private funds is only 1.1 trillion yen as of 2020/3, it will not lead to the revitalization of the nation's economy if such investment pressures on the private sector, and if the sunset clause does not work well to encourage transfers from the fund investee companies to the private sector over a certain period of time. (4) For the ¥10 trillion university fund, I believe it will be important to ensure a stable 3% real return on average along with proactive disclosure of the investment track record, investment policy, and policy background.

Expectations and Concerns about the Japanese Version of the University Fund

Kimie Harada

Contact point: kharada002s@g.chuo-u.ac.jp

The Japanese version of a university funding program was established to create a fund similar to endowment funds in Europe and the United States. Unlike Western funds, the source of funding for the Japanese university fund comes from the sale of FILP bonds, which are a type of JGB, the proceeds of which are invested in the market and profits distributed to selected universities. Discussions on how to select universities and how to distribute the investment profits are progressing, but the fund has been experiencing double-digit negative returns in the most recent year. Details on how to deal with the situation where the investment does not produce any profit for multiple years and how to repay the huge amount of debt have not yet been determined.(continue to Next Page)

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Moreover, concerns remain as to whether the principles of the market have been conveyed to university personnel, whether the fund structure is well known, and whether participating universities have been adequately informed of their responsibility to repay the FILP in the future. Although the trustee financial institutions are expected manage the fund in accordance with the rules, they should take into account the possibility that taxpayers' money will be used to make up losses in the event that the fund fails to continue to generate investment profits.

The Road to Becoming an Asset Management Nation Utilizing BOJ ETFs

Shingo Ide, CMA

Contact point: side@nli-research.co.jp

Twelve years have passed since the launch of the Bank of Japan's ETF (exchange-traded fund) purchase policy, and the cumulative amount of purchases has exceeded 36 trillion yen. While the effect of repeatedly expanding the scale and buying on a daily basis was weak, investors were highly vocal in their criticisms. In recent years, however, the Bank has effectively stopped buying ETFs, and the focus has shifted to what to do with an ETF portfolio with a market value of over 50 trillion yen. In this paper, while reviewing the BOJ's ETF purchasing policy, we make a proposal for the utilization of ETFs held by the BOJ as a sovereign wealth fund (SWF), with reference to the university fund, with the aim of contributing to the long-term expansion of the national interest.

Restructuring of Public-Private Funds: Toward Mitigating Government Failure

Hideaki Tanaka

Contact point: hideakit@meiji.ac.jp

The government explains how public-private funds are inducing private investment and providing risk capital for venture companies, but government failure is significant. Many funds are created and compete with each other. Some funds are accumulating losses and governance through the use of key performance indicators (KPIs) is weak. Therefore, restructuring and the consolidation of funds and private-oriented management are inevitable if such funds are to play their expected role.