Securities Analysts Journal

【 Vol.64, No7. July 2026】

Feature Articles

This month's focus: Implementation of Asset Owner Principles

The "Remaining Piece" of Investment Chain Reform and the Role of the Asset Owner Principles as a "Common Thread" : A Guiding Framework for Asset Owners Seeking to Enhance Their Investment Management

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As a result of continuous policy initiatives, the functions of Japan's investment chain have improved in several areas. However, it is also true that a "remaining piece" still persists. The Asset Owner Principles are expected to serve as a "common thread" that can broadly influence the diverse range of asset owners, providing them with a guiding framework for proactive thinking as they work to enhance the sophistication of their investment management.

Acceptance of the Asset Owner Principles and Initiatives to Enhance Investment Capabilities at the Pension Fund Association for Local Government Officials

Akihiro Oka

Against the backdrop of the government's policy to promote Japan as a leading asset management center, Japan's public pension funds are experiencing significant changes in their operating environment. From a practitioner's perspective, this paper outlines the acceptance of the Asset Owner Principles and the initiatives undertaken by the Pension Fund Association for Local Government Officials (PAL), one of Japan's major public pension funds, to enhance its investment capabilities. PAL is pursuing a range of initiatives, including the appropriate management of its portfolios, the selection of high-quality asset managers, the expansion of investments in alternative assets, and the strengthening of investment risk management.

The Current Status of the Acceptance of the Asset Owner Principles and the Activities of the Corporate Pension Funds Stewardship Initiative

Akihiro Nakamura , CMA

Corporate pension funds continue to advance their acceptance of the Asset Owner Principles. This article discusses the efforts of corporate pension funds, focusing on fiduciary duty—which forms the foundation of the Asset Owner Principles—, stewardship activities under Principle 5, and Collective Monitoring, a new initiative within stewardship activities.

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University Endowments Drawing Attention in Asset Owner Principles : Current Status and Challenges of Private University Endowments through Comparison with Top U.S. Universities

Ryoichi Arai

The publication of the Asset Owner Principles in 2024 has brought university endowments into the spotlight as institutional investors. University endowments are characterized by highly predictable future cash flows, which allow them to tolerate greater liquidity risk and short-term market volatility. U.S. Ivy League universities, for example, have leveraged this characteristic by actively incorporating private assets and alternative investments, achieving returns over the past decade that have significantly outpaced inflation. These strong returns have enhanced their educational and research capabilities while also contributing to the vitality of financial markets. Expectations are rising for Japanese universities to achieve similar outcomes. However, the reality is that private university endowments in Japan—whose total assets amount to roughly ¥10 trillion—are comparable in scale to Harvard University alone, and their bond-heavy portfolios fall far short of the performance and diversification achieved by top U.S. universities. Underlying this gap are structural challenges, including the tax framework for charitable donations, risk-averse decision-making by university boards, and an excessive focus on realized gains driven by school corporation accounting standards based on historical cost principles. Endorsing the AOP is merely the first step toward addressing these challenges.

Articles

Share Repurchases and the TSE’s Request for Action to Implement Management Conscious of Cost of Capital and Stock Price

Satoru Yamaguchi / Nobuyuki Isagawa, CMA / Yuu Miyake

This paper analyzes share repurchases before and after the Tokyo Stock Exchange’s 2023 request for “Action to Implement Management that is Conscious of Cost of Capital and Stock Price.” We find that, following the announcement, the likelihood that firms announce share repurchase programs becomes significantly higher than before. We also find that, unlike the period prior to the announcement, firms have begun announcing share repurchase programs even when their stock prices have not declined. Furthermore, the positive effect of share repurchases on PBR becomes significantly larger after the announcement. These findings suggest that Japanese firms’ share repurchase behavior has changed in response to the TSE’s request.