

“Good Companies” Achieving Both Economic and Social Benefits to be Deemed Necessary to Society

The concept of sustainability management, which entails working to achieve both economic and social benefits, is gaining attention, and there are those long-term investors that have begun offering their full support to “good companies” that are deemed necessary to society going forward. We arranged a discussion between Kazuhiro Arai, founder of KAMAKURA INVESTMENT MANAGEMENT CO., LTD., and President Aoi of MARUI GROUP CO., LTD., on the new potential that can be created through a focus on happiness, helpfulness, and inclusion.

Kazuhiro Arai

Director
General Manager, Asset Management Division
KAMAKURA INVESTMENT MANAGEMENT CO., LTD.
(at time of discussion)



Hiroshi Aoi

President and Representative Director
Representative Executive Officer
MARUI GROUP CO., LTD.



Asset Building and Society Building through a New Type of Finance

Aoi: Prior to starting up KAMAKURA INVESTMENT MANAGEMENT, Mr. Arai, I understand that you were at the forefront of the financial field. Today, you are still in finance, but on the opposite side of the field. What prompted you to undertake this drastic change?

Arai: I realized that there was a limit to the extent to which I could manage assets based on numbers. I previously worked at Barclays Global Investors Ltd. (currently BlackRock Japan Co., Ltd.), which was then the world leader in quantitative investment, which is based on numbers. There, I treated investment as a science. I would statistically analyze the performance forecasts of analysts from across the globe and use the results of these analyses to conduct stock trades in which trillions of yen would change hands. However, I developed a serious, stress-related illness in 2007, which led to my decision to leave this company. It was then that I encountered *Nihon de Ichiban Taisetsu ni Shitai Kaisha* (“The Company That Should Be Most Valued in Japan”), a book written by Koji Sakamoto. This book transformed how I viewed the world. Up until then, I only saw companies as things to be traded based on numbers, but this book made me realize that companies are driven by people. Looking to take an approach toward investment that was the polar opposite of my previous approach, I started up KAMAKURA INVESTMENT MANAGEMENT.

Aoi: So, you could say that you saw both poles of the investment world. However, one cannot help but think that investment trusts would not function at the opposite pole. How do you balance this new approach with the need for functioning trusts?

Arai: KAMAKURA INVESTMENT MANAGEMENT provides an environment in which we can guarantee the returns of 4% to 5% that represent the minimal necessary amount for customers’ asset building. The only other conditions we care about are the social benefits of companies; we seek to invest in good companies that contribute to society. We cannot resolve social issues without funding companies that are not concerned with profits. Even if we do not realize profits in the short term, if we invest in a mixture of companies that have grown to the point of generating income and companies that are not yet at this stage, we should be able to guarantee returns for our customers. This type of investment based on social benefits is what I wanted to do. I had hoped to be the type of financier that companies need, and I therefore committed myself to standing by companies in both the good times and the bad times.

Entrenchment of Sustainability in Corporate Culture as the Most Basic Growth Strategy

Aoi: How many companies do you invest in?

Arai: We invest in 63 companies. We invest in companies that remain true to their vision or to their desire to



Kazuhiro Arai

Director
General Manager, Asset Management Division
KAMAKURA INVESTMENT MANAGEMENT CO., LTD. (at time of discussion)

After working at domestic trust banks and foreign asset management companies, a serious illness prompted Mr. Kazuhiro Arai to establish KAMAKURA INVESTMENT MANAGEMENT together with four of his colleagues in 2008. Yui 2101, an investment trust overseen by Mr. Arai, has continued to adhere to its unique style of evaluating companies based on their benefits to society and disclosing all investees. On July 31, 2018, this trust boasted more than 19,000 private investors and net assets of over ¥37.2 billion. Mr. Arai has written books on topics such as how to achieve success through principled investment, the knowledge of work and money held by happy people, and sustainable capitalism.



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Kazuhiro Arai



be a good company. We have withdrawn investment from a total of seven companies in the past. The reasons for these withdrawals have included acquisitions, delisting, and other formal issues. Other reasons have involved changes in policies following the appointment of new managers that made it impossible for us to continue pursuing the social good together with these companies.

Aoi: It is common for Japanese companies to change their leader once every four years. Changes in leadership bring changes in management policies, and the new policies can sometimes be 100% different from the prior policies. I believe it would be better for companies to keep the same leader for at least a decade. If not, it will be impossible to truly root the idea of being a good company or of sustainability within a company.

Arai: I agree completely. This is one of the reasons that many of the companies we choose for investment are still led by their founder or are family businesses.

Aoi: The majority of companies that keep the same leader over the long term are of this nature. I see this as a serious issue. When thinking about the future, it seems apparent that other companies will also need to install long-term leadership if we are to realize a sustainable society. I recently had the opportunity to speak with an individual from Marks & Spencer Group plc of the United Kingdom. This individual stated that sustainability is the most basic growth strategy and that view did not need to change no matter who managed the company. This commitment to sustainability has entrenched this concept in the corporate culture of Marks & Spencer throughout its 124-year history.

Arai: It takes a decade or two for a manager to shape the corporate culture of their company. I think that the restraint

function of corporate governance should actually be designed to ensure that managers and employees are remaining true to the purpose of their company and that the appropriate corporate culture is being fostered. The belief that it is better to replace managers after short terms in office may be common, but this belief is mistaken.

Managers' Resolution to Shape Society through Their Business as Important Aspect of ESG

Aoi: I think that the evaluation of companies based on ESG factors is a positive trend.

Arai: The concept of ESG itself is a positive development. However, if we only focus on raising scores using ESG evaluations, then there is a risk that all companies will end up becoming the same. Individuality and resolution are of utmost importance to companies. People cannot be inspired by a lack of resolve. Sometimes, my customers lodge complaints citing the unclear nature of a company's business. When I receive such a complaint, I go speak with the management of the investee, looking to see the resolve of managers. I want to see the commitment of management to shape society in a certain way through their business. If I do not see such resolution, I will not feel compelled to invest in a company.

Aoi: MARUI GROUP preaches the overarching values of co-creation and inclusion. Nonetheless, when I asked several new recruits why they wanted to join the Company, I was still surprised when all of their answers involved our commitment to inclusion. A strong message will attract a strong response. This realization has reaffirmed my commitment going forward.

Arai: The future of a company is decided by its



employees, and the opinions of employees are a company's most important intangible asset. The happiness of employees and the atmosphere of a company are factors that we are not yet able to quantify. Nonetheless, KAMAKURA INVESTMENT MANAGEMENT is currently researching means of tracking these metrics. We hope that such research will help us ensure that these assets are evaluated.

Fundamental Purpose of Financing as Bringing Joy

Aoi: What type of customers does KAMAKURA INVESTMENT MANAGEMENT serve?

Arai: All of our approximately 19,000 customers have a high degree of social awareness and most are in their 30s or 40s. Around 60% of these customers conduct cumulative investments. We have committed ourselves to standing by the companies we invest in, even during when performance is bad. This resolve was tested by the Great East Japan Earthquake. After the earthquake, many funds saw an outflow of capital as investors predicted catastrophic damage to the Japanese stock market. However, not one of our customers canceled their accounts.

Aoi: If one predicts a downturn in the Japanese stock market, they will likely immediately sell their holdings. I find issue with this common practice.

Arai: The reason we focus on investment trusts is because I wanted to make a community that is not preoccupied with money. I see the most fundamental purpose of financing as bringing joy to all parties involved. To fulfill this purpose, it is crucial to create a financing scheme that goes beyond a simple business model.



Corporate Growth by Continuously Helping Customers and Society

Arai: I have made use of Marui in the past. The Marui of today is much different than before.

Aoi: I became president of MARUI GROUP in 2005. At this time, I looked back at our past to try and ascertain how the Company had managed to continue growing over the 70 years since its founding. What came to mind was customers saying that they had "made use of Marui," a sentiment I had been hearing since I was a child. They did not say "I went to Marui" or "I shopped at Marui," but rather they said "I made use of Marui." I then came to realize that the core value driving our growth over the past 70 years was the aspect of Marui that made customers hold this sentiment. Customers' "I made use of" translates to "we helped" from the perspective of the Company. This realization made me recognize that our struggling performance back then was a consequence of Marui's diminished ability to be of help to customers. Faced with this wall, I was reminded of our corporate philosophy, which inspired me to commence management reforms. It is for this reason that what you, Mr. Arai, do and say resonates so much with me.

Arai: My expectations for MARUI GROUP in the future are very simple. Rather than clinging to the MARUI GROUP of the past, I want you to develop a MARUI GROUP of today. The concept of inclusion that you mentioned will likely be key to accomplishing this objective. The younger generations are empowered. Accordingly, if you can attract individuals from these generations, you will be able to attract anyone. I hope to see you grow MARUI GROUP into a place where people gather, a base for social activity.

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Hiroshi Aoi