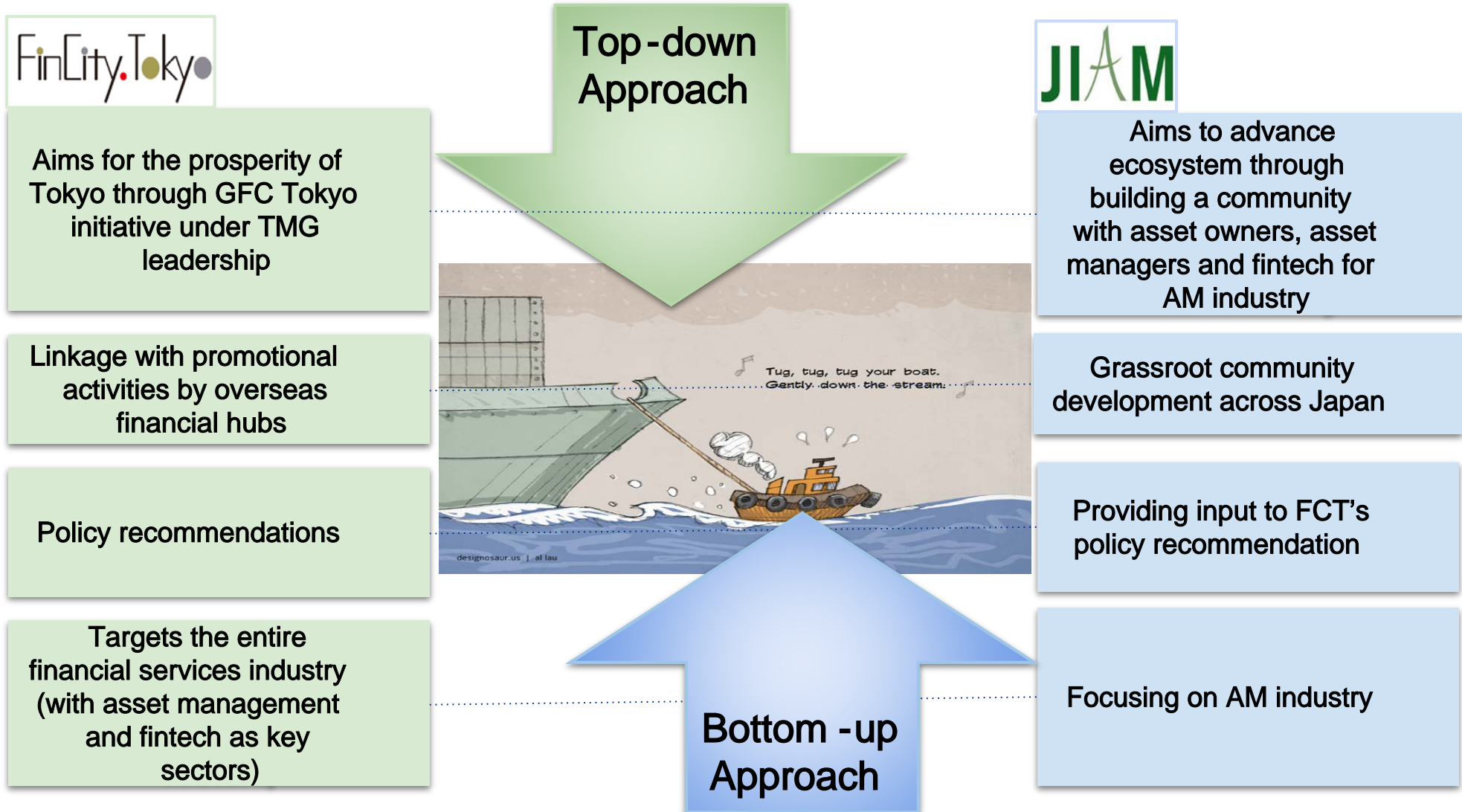


# Use of Alternative Data for Asset Management Firms in Japan through Tokyo Data Highway

March 2020



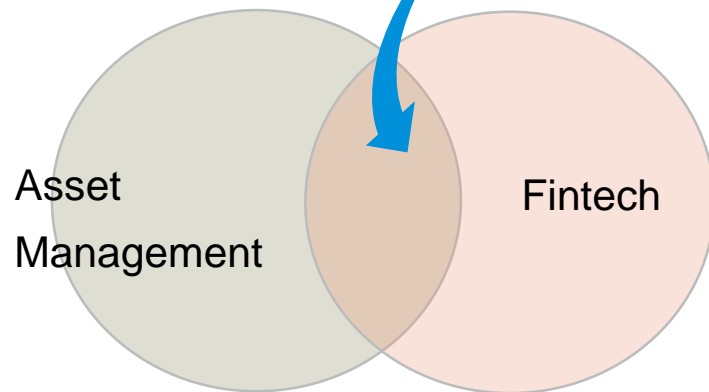
# JIAM and FinCity.Tokyo both work for Global Financial City Tokyo (FCT) initiative but with a complementary approach



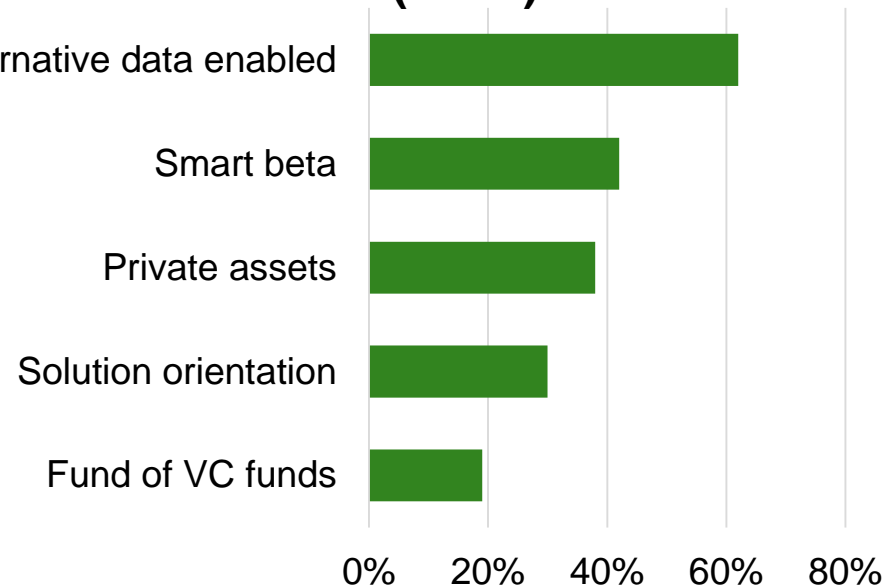
# Why Alternative Data?

- *JIAM's previous survey on fintech for the asset management sector revealed that over 60% of firms interviewed expressed an interest in products and strategies utilizing alternative data.*
- *At the same time over 70% consider alternative data as too expensive and questioned whether improvement in performance may be attributed.*

## Focus Areas of Global Financial City Tokyo



## Product focus going forward (N=26)

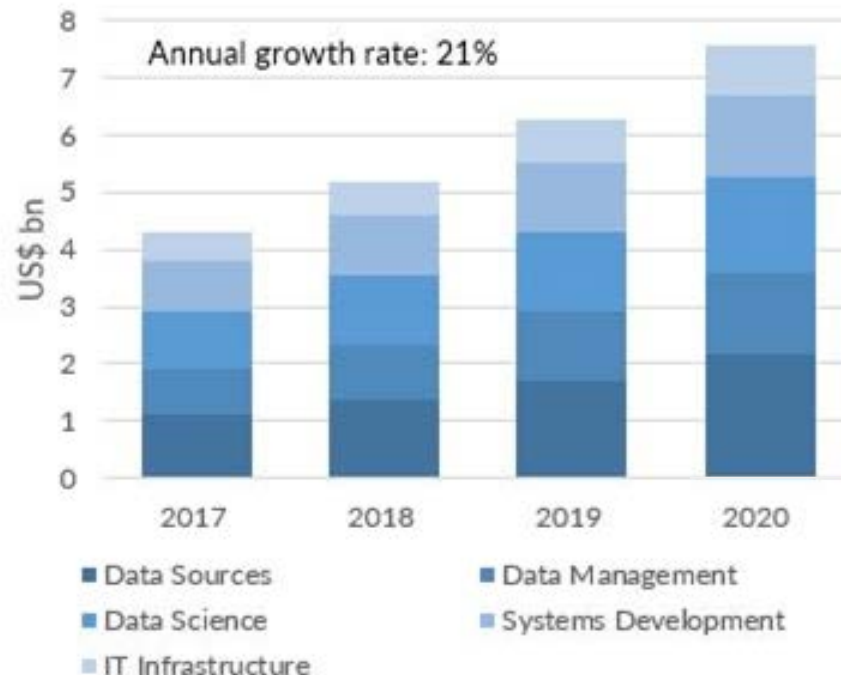


Source: Fintech for Asset Management in Japan “Key takeaways from interviews with 26 asset management firms” JIAM, December 2018

# Global trends

- *Opimas estimates the market size for alternative data to exceed USD 7 billion by 2020.*
- *What is the state of utilization of alternative data in the Japanese asset management industry and what are the challenges against its growth?*

## Spending on Alternative Data for Trading and Asset Management



20bn?

2030



# Objectives and scope of the survey

Objectives	<ul style="list-style-type: none"><li>● To make policy recommendations to debottleneck the obstacles preventing use of alternative data</li><li>● To enable the advancement of the asset management industry in Japan</li></ul>
Interviewees	<ul style="list-style-type: none"><li>● Targeting ~20 Japanese asset management firms</li><li>● Those belonging to banks, securities firms, insurance firms but also independent and foreign affiliated firms</li><li>● Teams which use alternative data (e.g. quants, corporate planning, research, risk management)</li></ul>
Content	<ul style="list-style-type: none"><li>● Definition of alternative data</li><li>● State of use of alternative data (e.g. types of data, team and staffing, budget)</li><li>● Factors impeding use of alternative data and expectation for government, trade associations, JIAM in resolving them</li></ul>
Timing	Q4 2019- Q1 2020

Interim report  
based on interviews with 14  
Japan based asset management  
firms

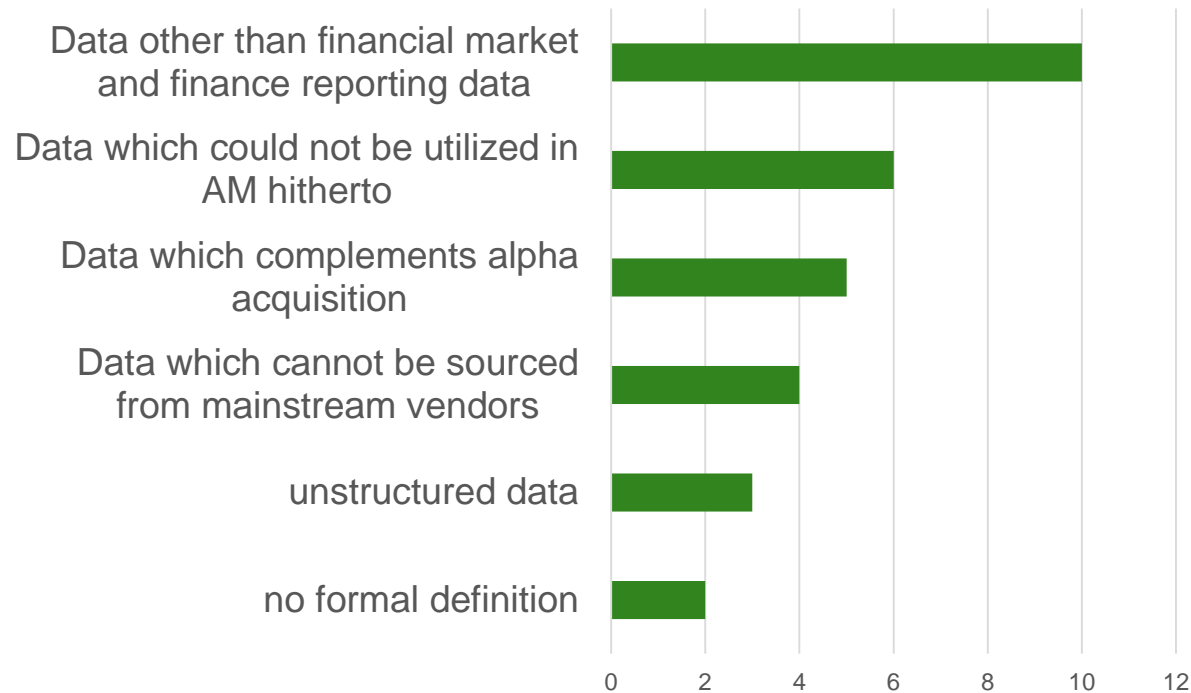
# Attributes of the firms interviewed

AUM (USD)	Affiliation with				Total
	Banks	Securities	Insurance	Independent	
~10bn				3	3
~100bn			3		3
~500bn	4	1	1		6
500bn+	1	1			2
<b>Total</b>	<b>5</b>	<b>2</b>	<b>4</b>	<b>3</b>	<b>14</b>

# 1. Definition of “Alternative Data”

- *Definition of alternative data varied by firm*
- *There were also views that strict definition was not necessary as what is considered as “alternative” can change with time.*

***How would you define “alternative data”? (N=14, multiple answers)***

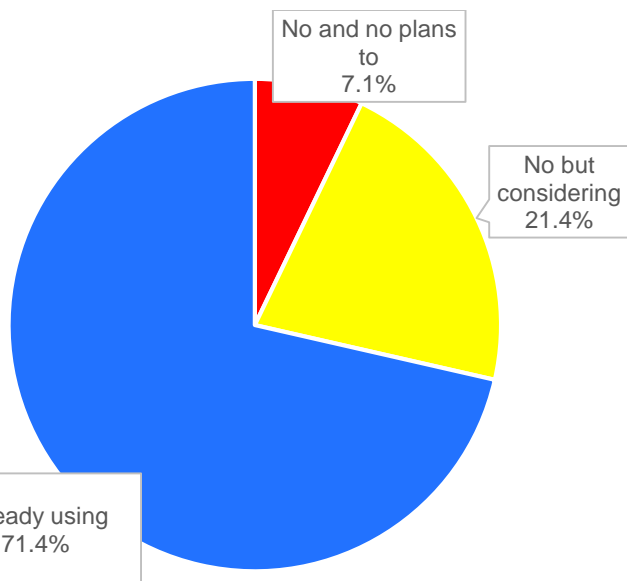




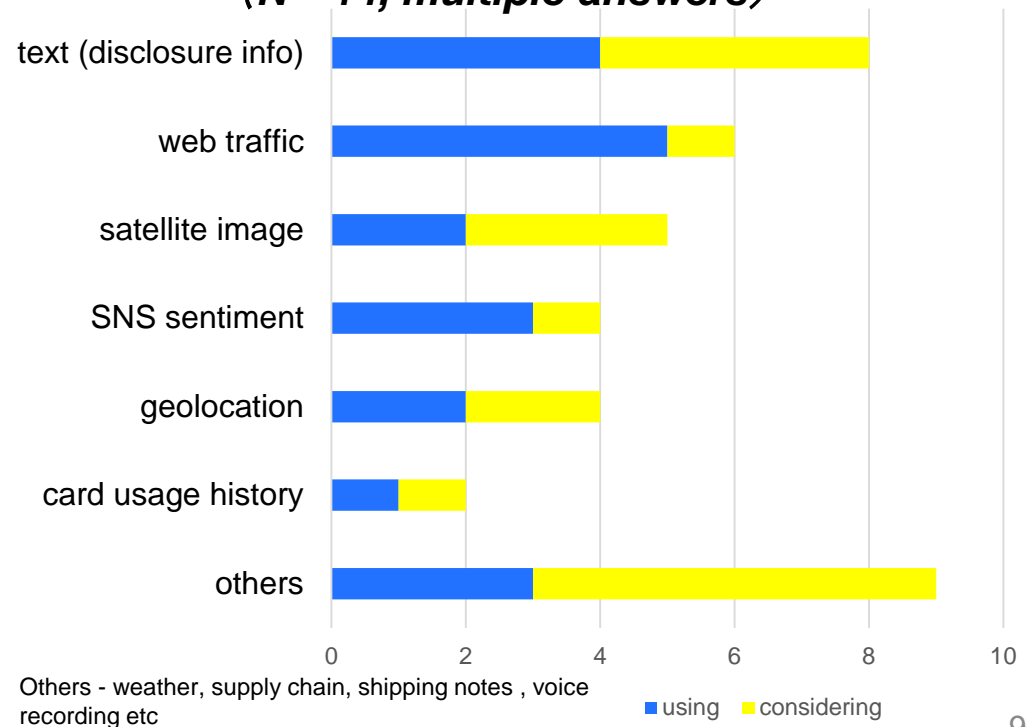
## 2. Utilization of alternative data

- *Many Japanese asset management firms utilize alternative data*
- *Use of text data related to financial reporting is widespread among those who already utilize them*
- *There are firms which aim to use them for “alpha generation” but also which consider them as a data to back up their conclusion etc.*

**Do you use alternative data?**  
(N=14)



**Data which is already being used  
and which firms are considering to use**  
(N=14, multiple answers)



## 2. Utilization of alternative data

### Utilization in product development:

#### Products:

- ✓ AI enabled **stock-picking** utilizing alternative data for **mutual funds** for retail investors (5 firms)
- ✓ Use of **geolocation** data for **REIT** funds (1 firm)
- ✓ Private placement fund (1 firm)

#### Others:

- ✓ **Marketing**, in order to make better use of alt data which is expensive (2 firms)
- ✓ **Risk Management**, early indication for geopolitical risk events (2 firms)

### Aspirations:

- ✓ “ *We want to move away from strategies that solely rely on market information*”
- ✓ “ *We want to be able to develop replicable alpha generation patterns by using recording of our daily strategy meetings*”

# *For reference:* Use of alternative data by international AMs

Europe based firm A

AUM – USD 10+ bn

Style – Quantitative Systematic

- A lot of non-market data (which can be seen as) “alternative data” is already being used as normal, eg Firm A’s trading execution data, filing of position to regulators, supply chain and relationships
- Alternative data and machine learning highly utilized for optimization trade execution which is often overlooked by conventional asset managers
- In addition, they are using credit card history, image, highway traffic and marine traffic etc as “extra financial datasets”

Europe based firm B

AUM – USD 20+ bn

Style – Systematic Managed Futures

- Would define alternative data as “unstructured data”
- Have used disclosure info extensively for forecasting share price. Another interesting use is to gather past data, analyze words and reclassify industry sectors and develop new investment strategies.
- Satellite image to forecast farm yields and predict commodity price.
- Set up a data center with 100 ppl to gather data but had to close due to difficulty in economic justification.

# *For reference:* Use of alternative data by international AMs

US based firm C

AUM – USD ~200 bn

Style – Quantitative

- No set definition for alt data. Seen as an extension of quants strategy and therefore do not see need to treat it differently and have no dedicated team.
- Long investment horizon therefore data needs to be available for a long period.
- Use text (disclosure related) and SNS data. Experimenting POS data use. Sat image and location data are not being used. Text favored because of potential wide usage.
- Alt data is used not only for stockpicking/ investment decisions but also for risk management.

US based firm D

AUM – USD ~100 bn

Style – Quantitative

- Consider themselves as a tech company rather than an investment management firm with a team of large number of data scientists.
- PMs are working directly with technology/ data partners. In this sense, their PMs are very different from conventional PMs.
- Use 20,000 data sets to analyse equities. Interested in diversifying data sets to analyse Japanese equities.
- Outsource data cleansing to data providers in order to concentrate on data analysis.

# 3. Budget for subscribing alternative data

- *None of the respondents had budget earmarked to buying alternative data*
- *Often it is included in corporate-wide research budget*
- *Elaboration on “linkage to better performance” and “optimization of company strategy” seems key for securing budget.*

R&D budget etc is used in the absence of a budget specific to alternative data

*“Because it is difficult to develop products using alternative data only, we do not have a budget which is specific to alternative data purchase”*

*“We purchase alternative data using company wide research/R&D budget and process/ analyse data”*

*“It is realistic to use budget linked to product development in R&D or research budget”*

*“It is difficult to link data purchases to specific funds as the cost would affect the fund performance”*

...Having said that we cannot depend on R&D budget etc indefinitely

*“We can allocate budget as R&D but it is down to the portfolio manager to demonstrate a strong desire and persuasive skills to obtain it”*

*“We have not yet been able to create a virtuous cycle of using alt data ⇒ increased profitability ⇒ further need for using alt data”*

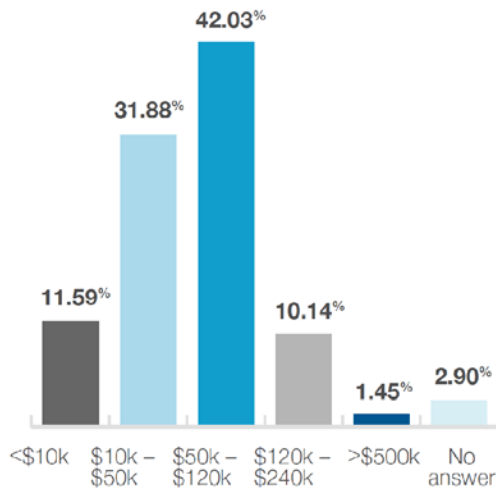
# Budget for alternative data purchase (overseas)

- *\$50K~\$120K is the common budget range for alt data purchase overseas*
- *More than half of buyers find them overpriced*
- *Nearly 60% do not have budgets specific to alt data*

## DATA BUYERS

Buyers most see an **alt-dataset pricing average** between **\$50k** and **\$120k**

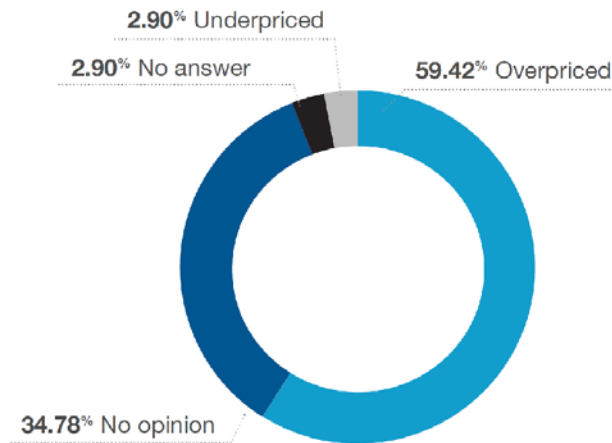
WHAT IS THE AVERAGE ANNUAL PRICE OF A DATASET THAT YOU LOOK AT?



## DATA BUYERS

**More than half of buyers** think alternative datasets are **overpriced**

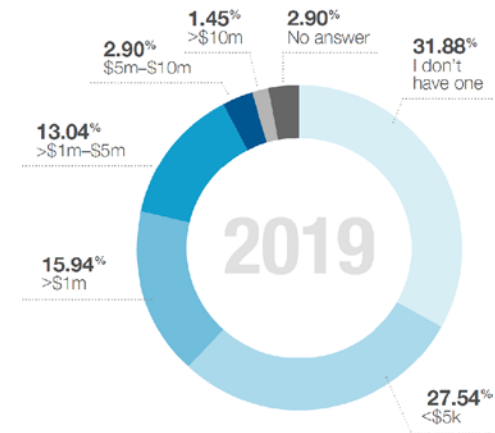
OUT OF DATASETS YOU'VE LOOKED AT IN THESE CATEGORIES, WHAT DO YOU THINK OF THE PRICING?



## DATA BUYERS

**Nearly 60 percent of buyers have a tiny or zero alt-data budget for 2019.** A full third, however, now have a budget that exceeds \$1 million

WHAT IS YOUR ANNUAL ALTERNATIVE DATA BUDGET FOR 2019?



Source: "State of the Alternative Data Market 2019 –Pricing Survey Report-," BattleFin and AlternativeData. Org.

## 4. Challenges facing the use of alternative data

*The main challenges are “reliability and sustainability of data (including its legal standing)”, “talent” and “cost”*

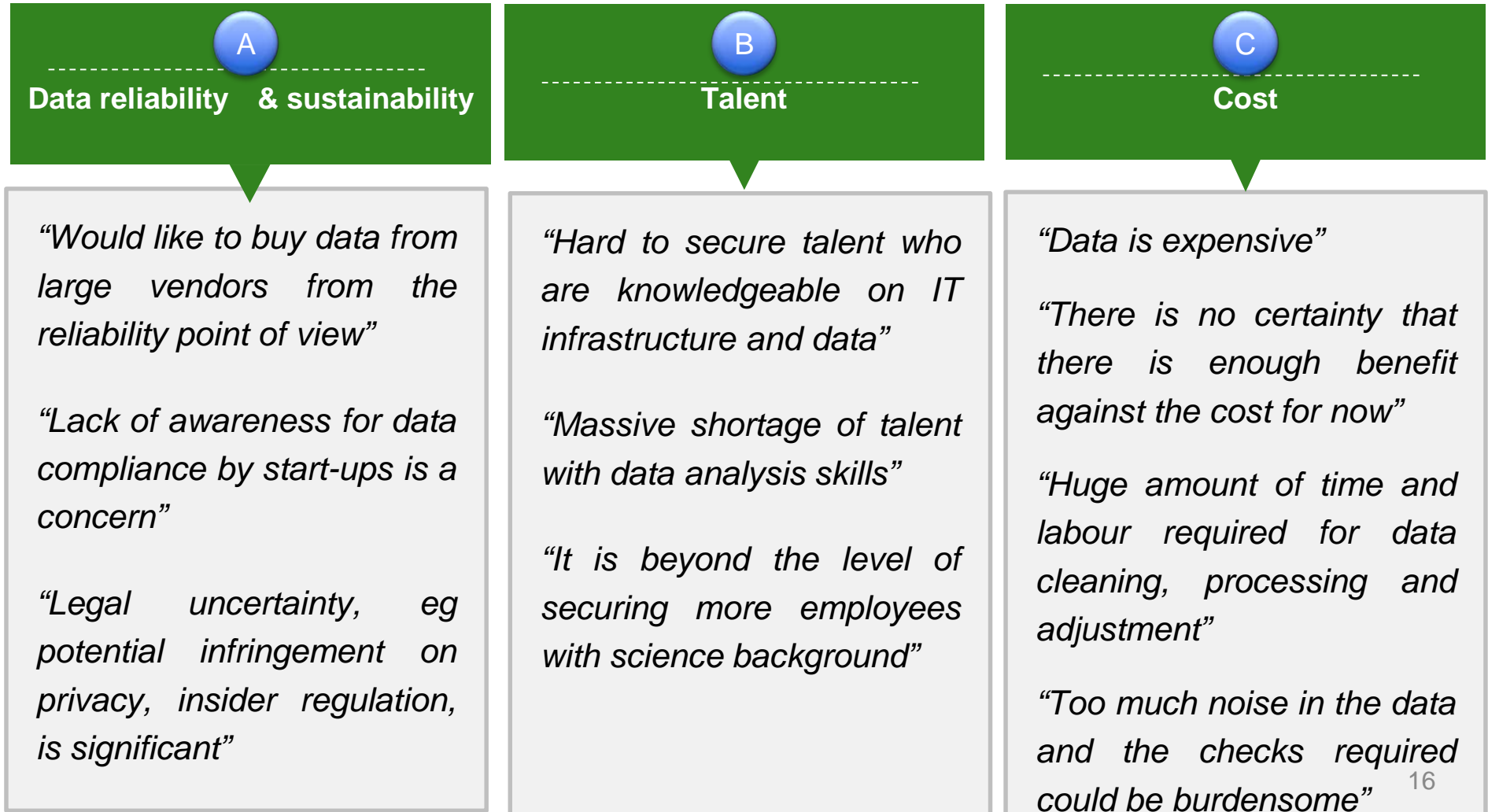
***What are your challenges against using alternative data? (N=14, multiple answers)***





# 4. Challenges facing the use of alternative data

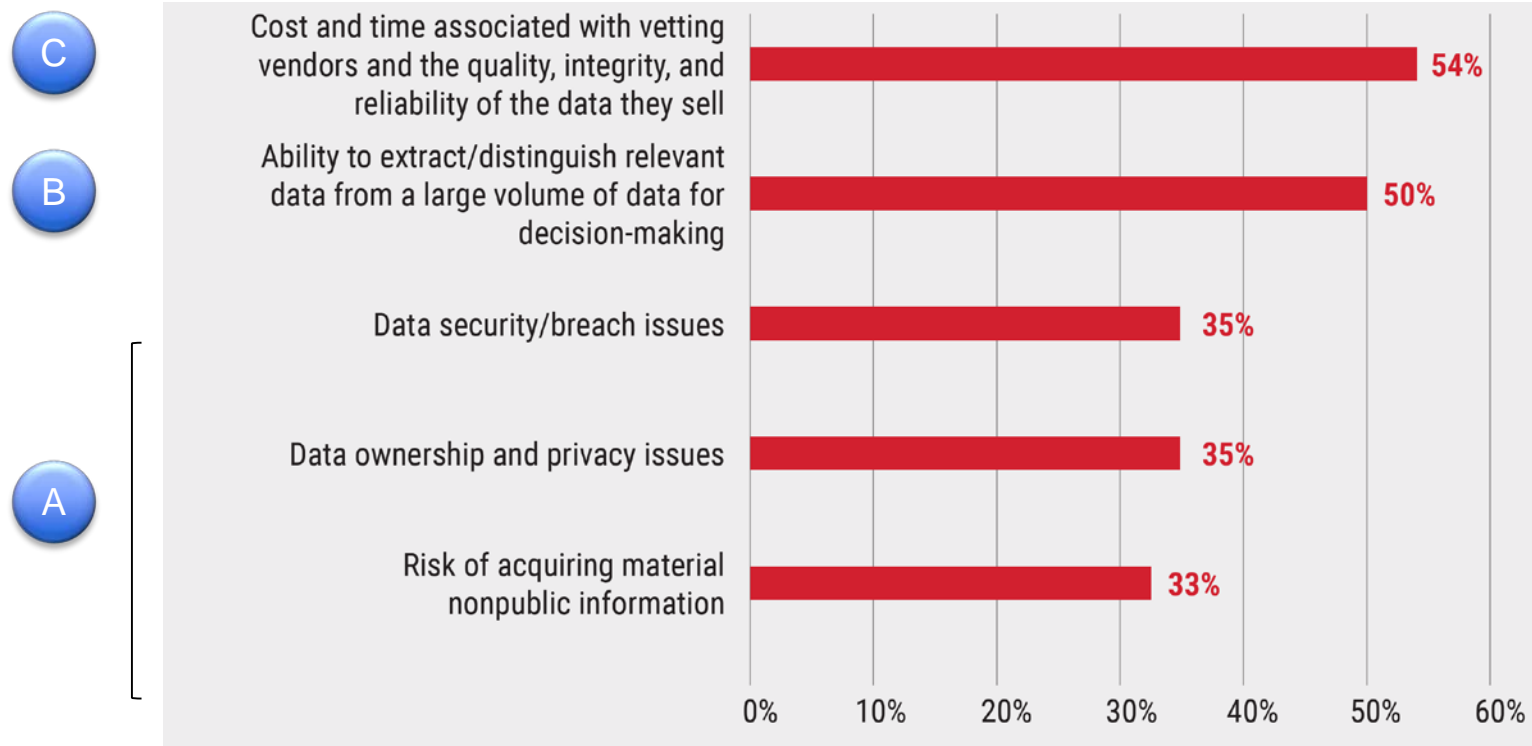
*Some of the challenges are beyond the efforts of individual firms and would require the entire industry to tackle.*



# Challenges facing use of alt data (overseas)

- *“Cost and time associated with vetting vendors” and “capability for using data” are identified as issues overseas.*
- *In Japan prerequisites for using data (eg infrastructure and talent) are the large challenges.*
- *But there are also many similarities/ common issues.*

**Which of the following are your major concerns when gathering/purchasing and using alternative data?**



Source: “Alternative Data=Better Investment Strategies, But Not Without Concerns”, Lowenstein Sandler, September 2019.

# 5. Potential Solutions to the challenges

*Japanese asset management firms source data individually and clean/structure them. How to use alternative data should be the competitive edge and support for necessary infrastructure to enable firms to truly utilize data would be needed.*

Challenges	Possible solutions
<b>A</b> Data reliability and sustainability	<ul style="list-style-type: none"><li>• Legal clarification so that users can use data without exposing themselves to data breach risks</li><li>• Guidelines on compliant use of alternative data</li></ul>
<b>B</b> Talent	<ul style="list-style-type: none"><li>• Development of data experts as part of advanced financial professionals development program (e.g., Revision of CMA Securities Analyst qualification)</li><li>• Government support to universities in developing talent</li></ul>
<b>C</b> Cost	<ul style="list-style-type: none"><li>• Opening data with high utilization potential, promotion of API connection and creating a platform</li><li>• Guidelines for alternative data infrastructure</li></ul>

# Key Takeaways & Proposed Next Steps

## Takeaways

- High level of interest by asset managers to use alternative data
- Usage is not widespread – often a small team of data experts and quants experimenting
- Main challenges against broader usage are data reliability (including legal certainty), talent and cost
- A more fundamental challenge of getting the prerequisites (ie IT infrastructure and having the right talent) also requires resolving at some AM firms

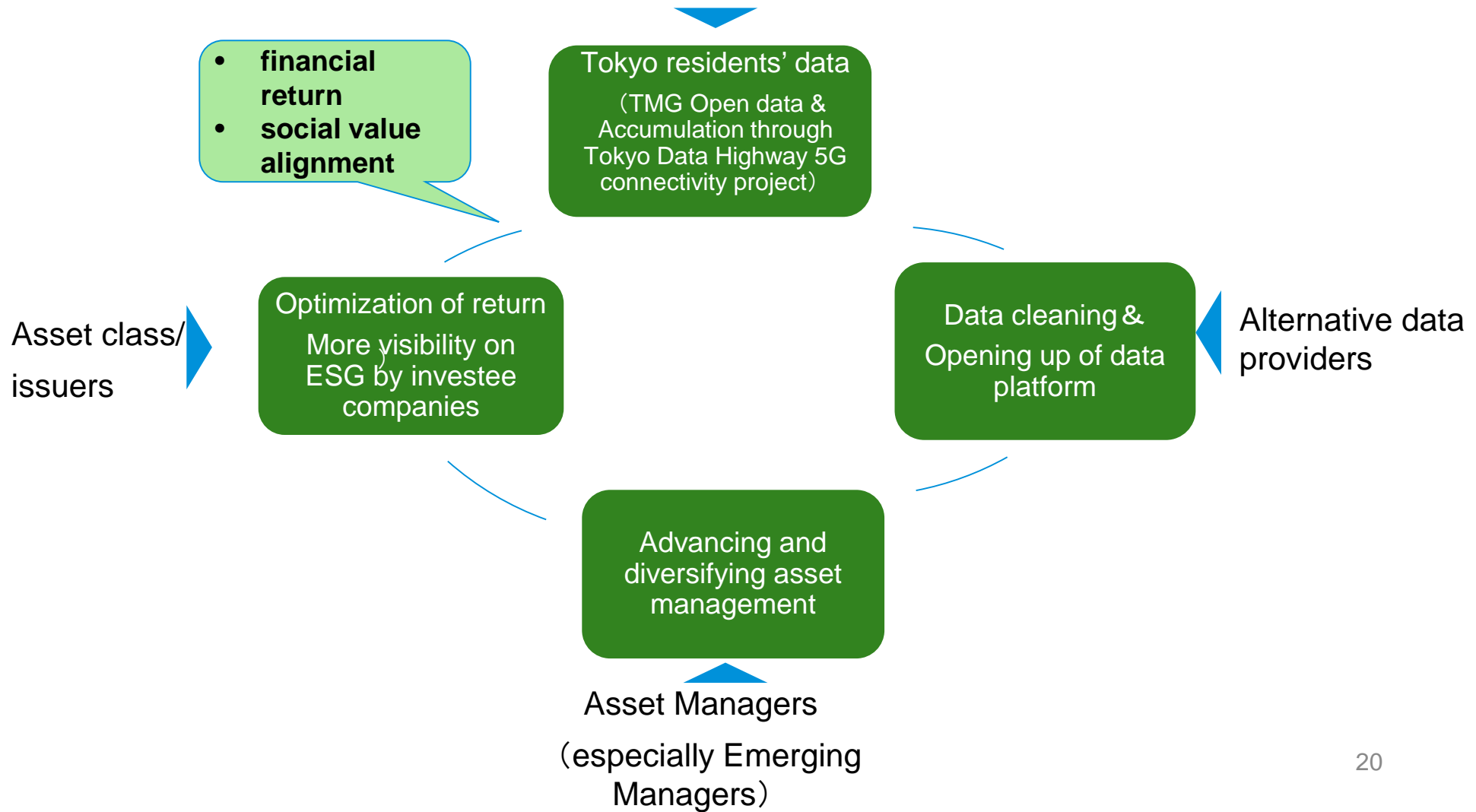
## Proposed Next Steps

- What can we do to support to grow this emerging trend which can contribute to enhance the Japanese asset management industry?
  - Liaising with government agencies (e.g., FSA, METI) on data utilization guidelines and talent development
  - An event involving vendors and users of alternative data and government agencies to exchange views and information
  - Workshops as a TMG initiative to bring the players and stakeholders together to address the challenges identified

# Use of TMG open data x advancement of AM industry x asset formation for Tokyo residents

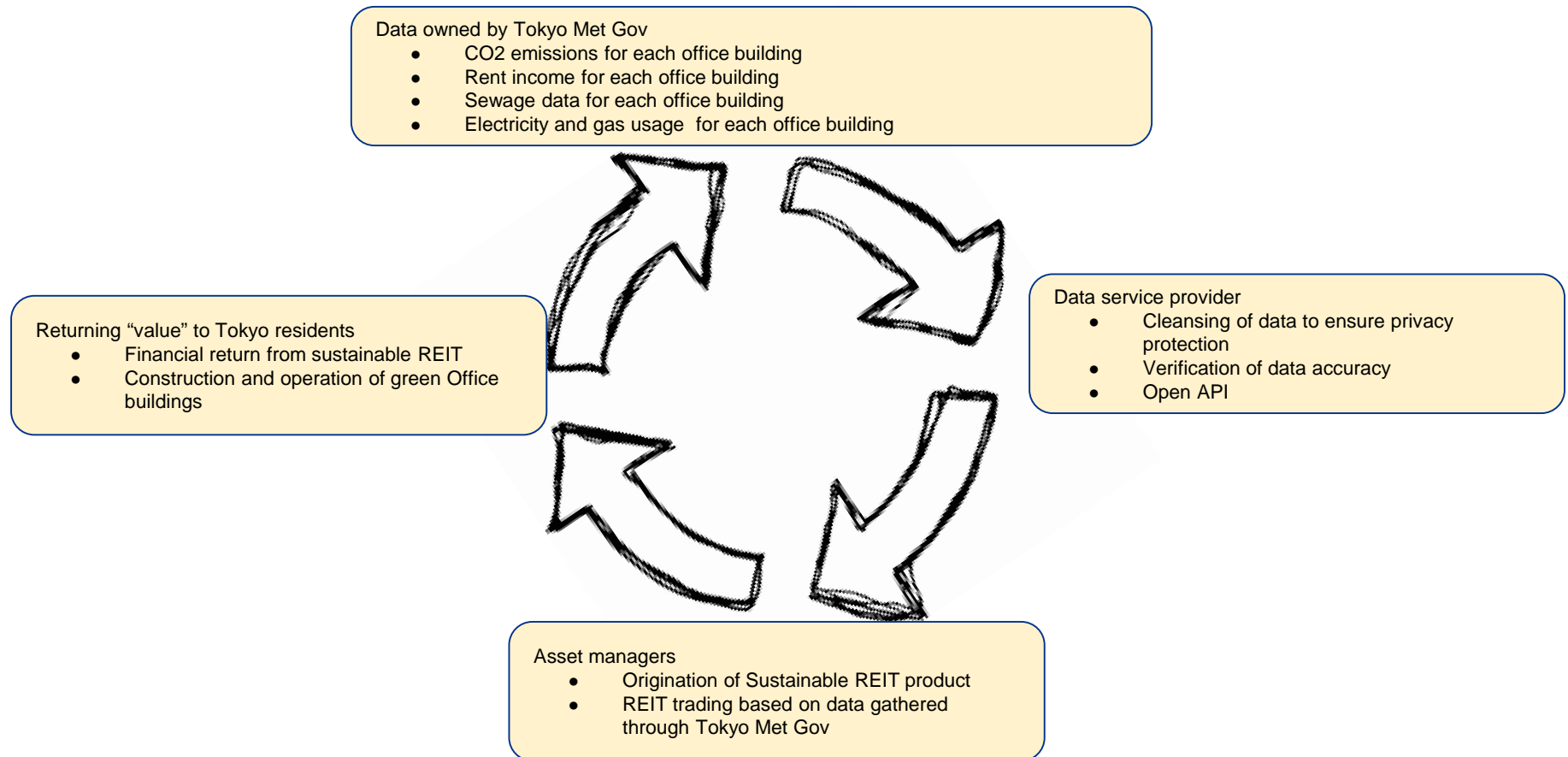
Tokyo residents & TMG affiliated business entities

ILLUSTRATIVE



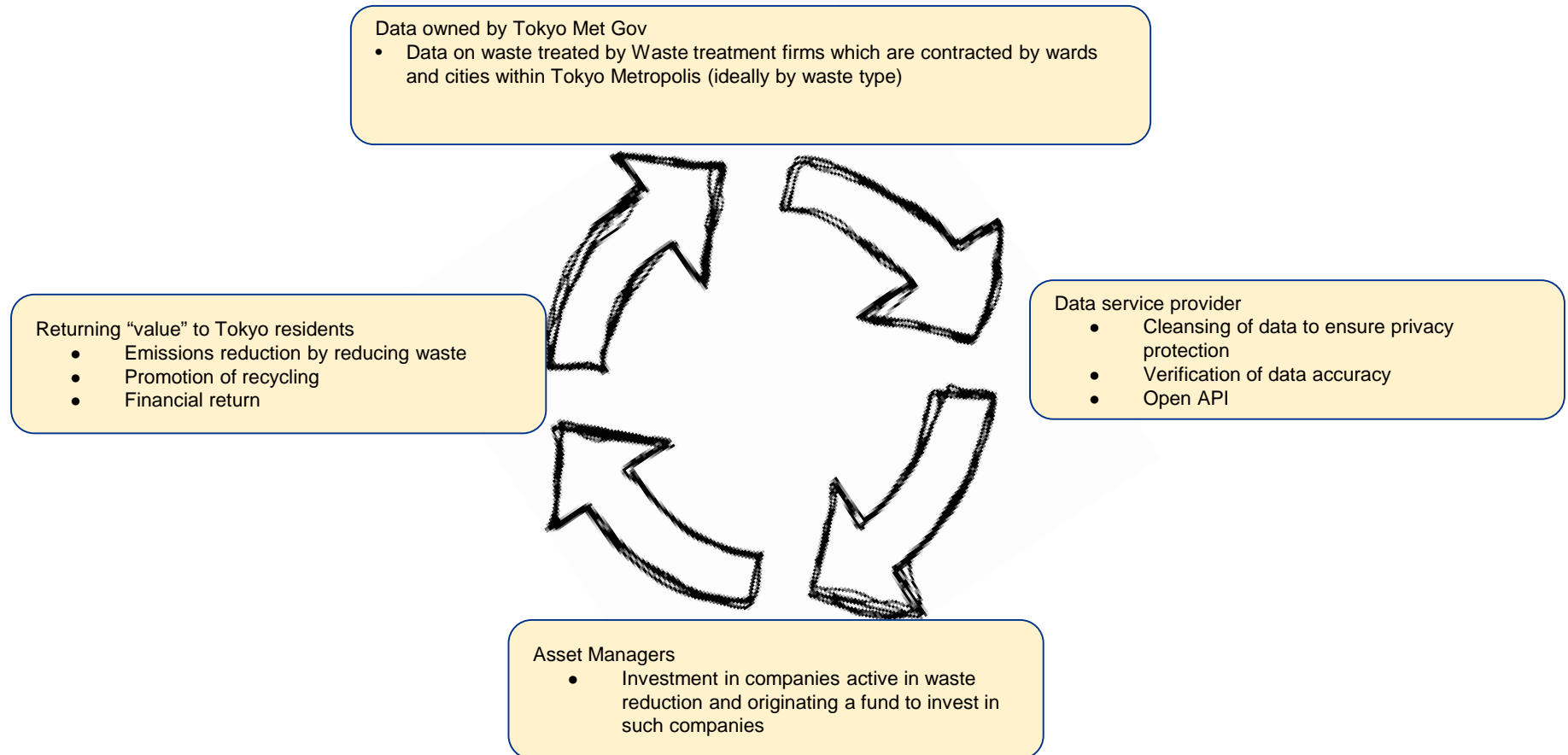
# Possible examples:

## 1) Sustainable REIT



# Possible examples:

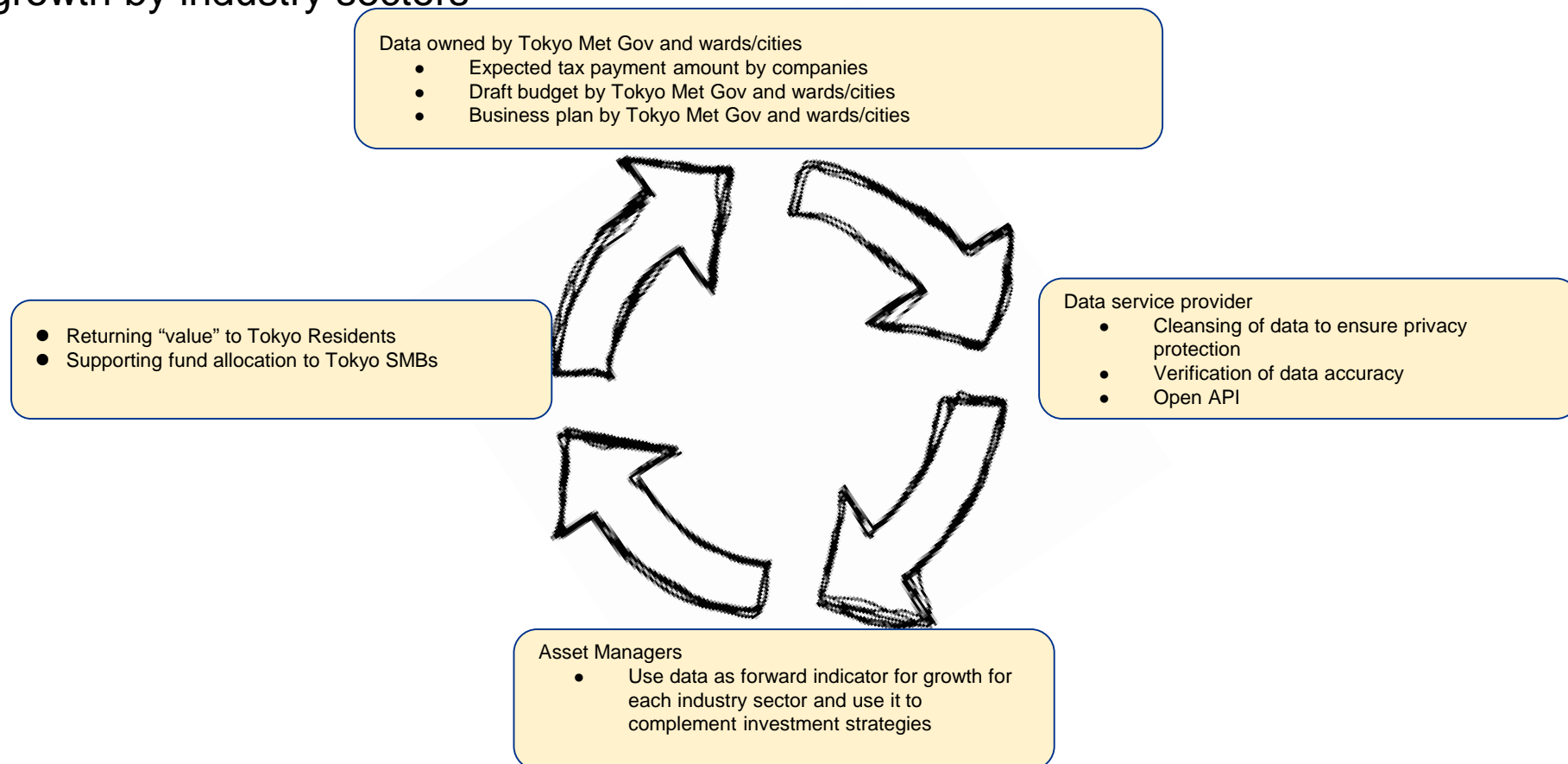
## 2) Tokyo waste reduction/ paperless/plastic-less company fund





## Possible examples:

3) Data on tax projection of Tokyo based companies and budget allocation by Tokyo Metropolitan Government and wards/cities  $\Rightarrow$  forward projection of growth by industry sectors



# 東京都オープンデータ・ファンド・チャレンジ (仮) の提案

東京都オープンデータ



東京金融賞  
TOKYO  
FINANCIAL  
AWARD

東京金融賞表彰

アイデアソン ーデータ  
を活用した運用  
アイデア募集



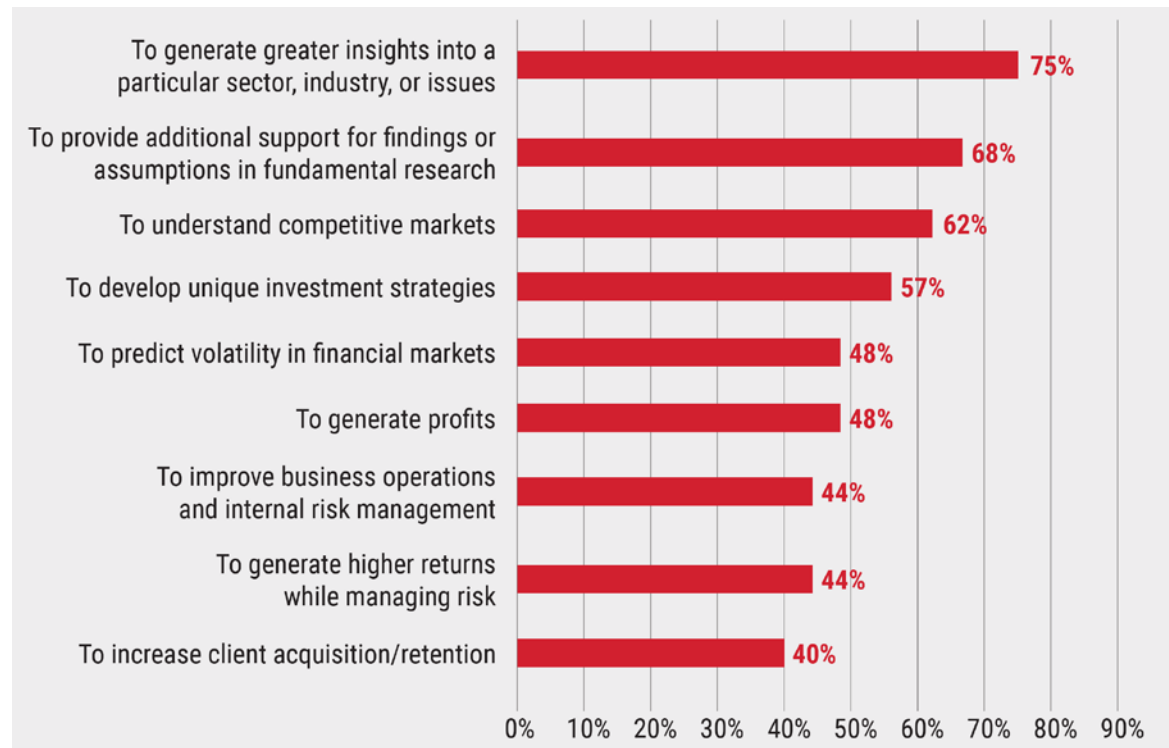
審査

# Appendix

# Purpose for using alternative data (Overseas)

*“Generating greater insights into particular sectors.....” and “additional support for findings/assumptions in fundamental research” are the main drivers. More than 40% responded “Generating profits”, “generating higher returns”*

**For which of the following purposes do you use alternative data? (Select all that apply.)**



(Source) “Alternative Data=Better Investment Strategies, But Not Without Concerns”, Lowenstein Sandler, September 2019.



## **Fintech for Asset Management in Japan**

### **Key takeaways from interviews with 26 asset management firms (EXTRACT)**

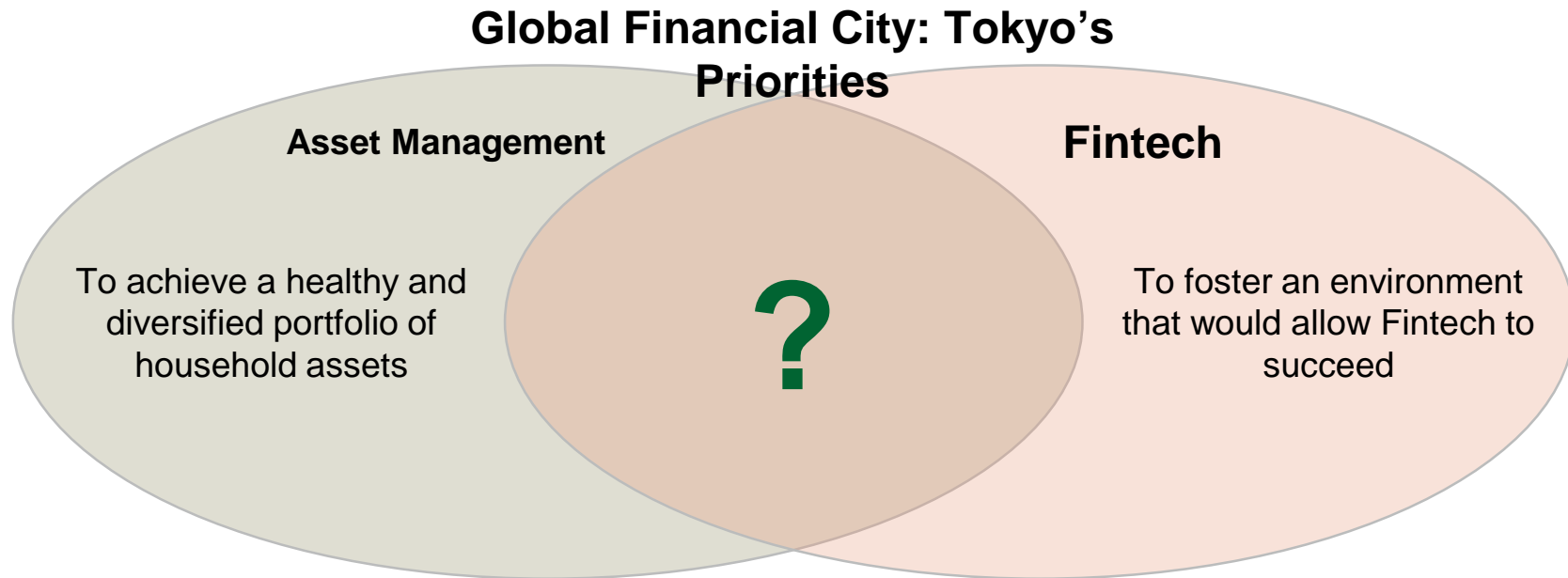
December 2018

# ***Background***

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- The advisory panel to the Governor of Tokyo on building a Global Financial City: defined asset management and Fintech as growth drivers
- Although Fintech is highly publicized, the intersection of asset management and Fintech is NOT well understood
- Fintech is largely known for B2C and P2P payment and settlement, but NOT for asset management
- JIAM launched a demo center for asset management-oriented Fintech solutions named JIAM Fintech Square
- JIAM conducted a survey to understand and assess:
  - Japan-based asset managers' expectations for Fintech
  - Key obstacles by Japan-based asset managers to adopt Fintech
  - How to modernize the entire investment value chain utilizing Fintech in Japan

# ***What is the intersection of AM and Fintech?***



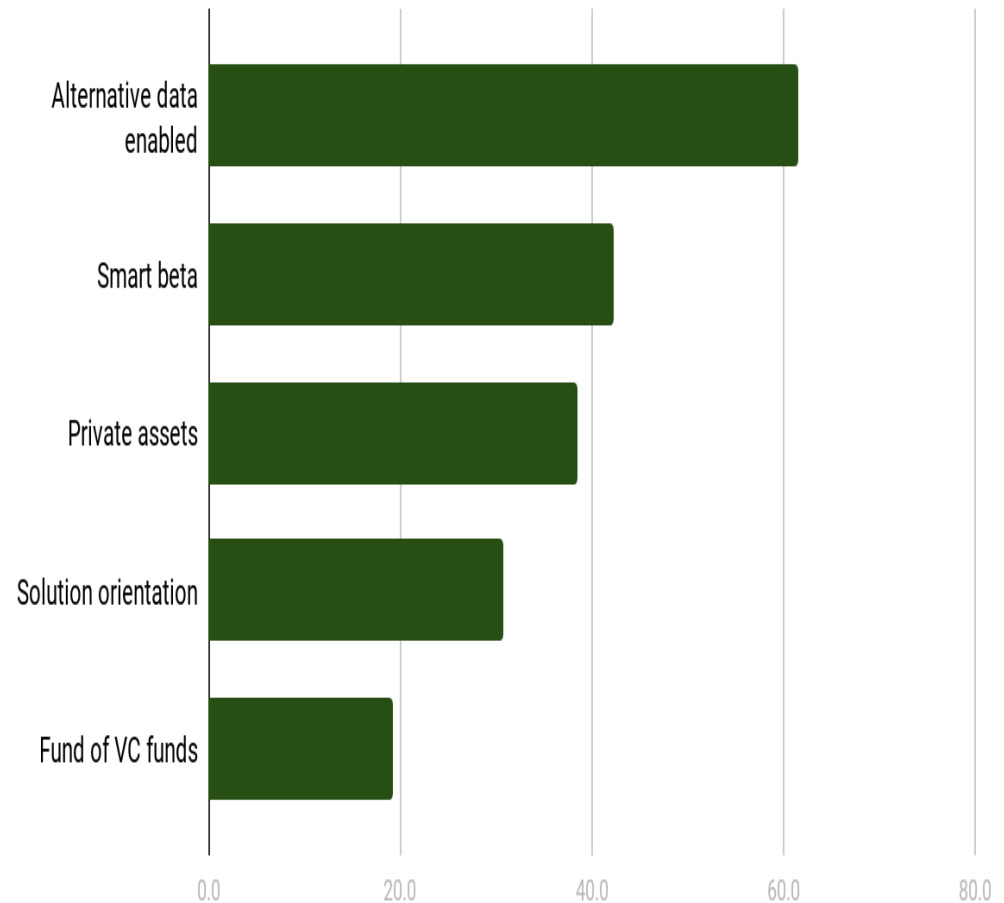
- The advisory panel for Global Financial City: Tokyo hosted by Tokyo Governor Koike and chaired by Andy Saito defined asset management and Fintech as growth drivers
- Although Fintech is highly publicized, the intersection of asset Management and Fintech is not well understood



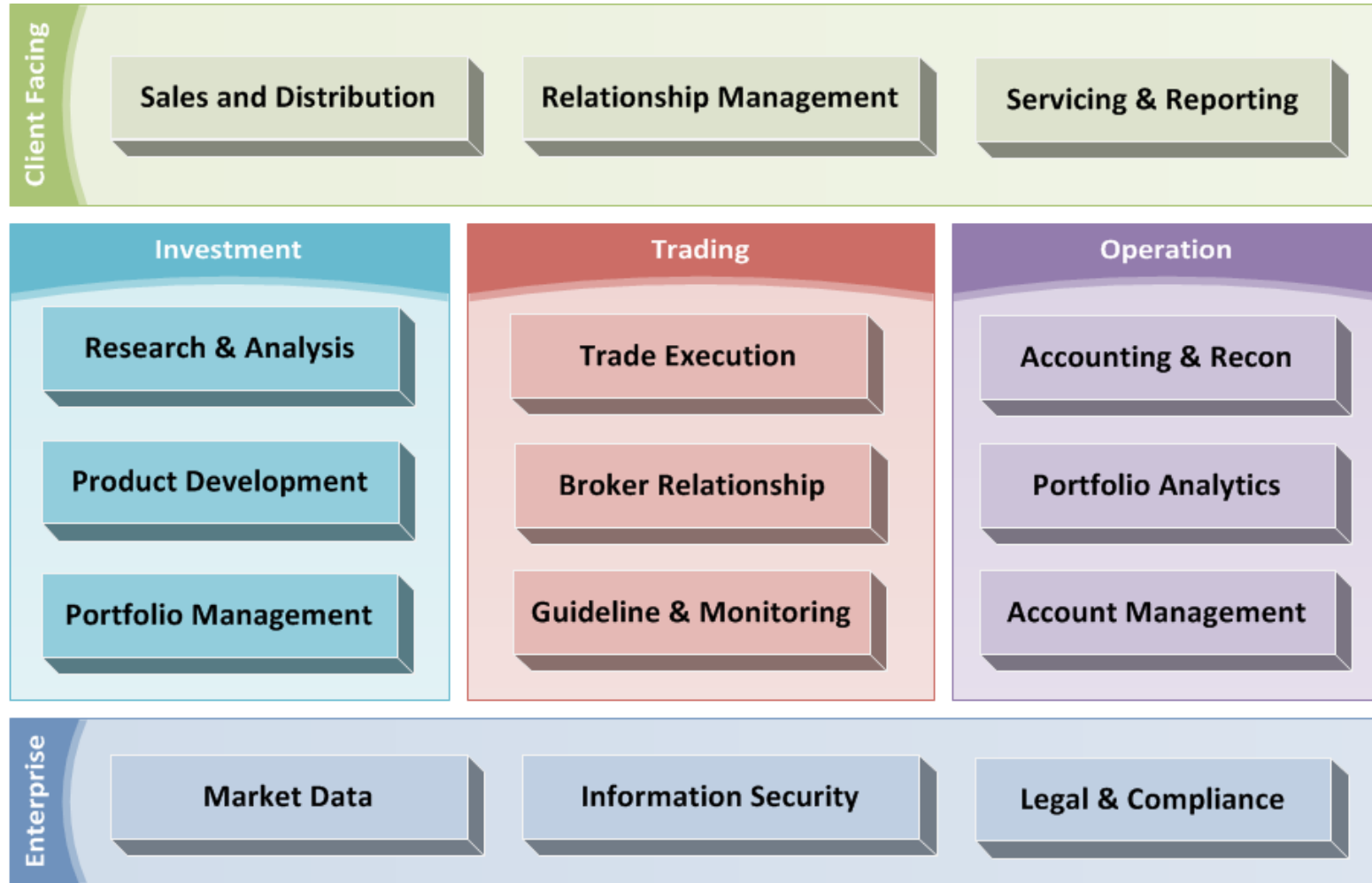
## ***Product focus going forward***

- 60+% focusing on **alternative data enabled strategies**
- ~45% focusing on low cost **smart beta** funds instead of actively managed funds seeking alpha
- ~40% focusing on **private assets** (e.g. infrastructure)
- ~30% are trying to be **solution oriented** as opposed to product push
- ~20% are focusing on **fund of VC funds**
- ~80% believe actively managed funds will be increasingly challenged to scale

Product focus going forward (N=26, %)



# ***Where can we employ Fintech for Asset Management?***



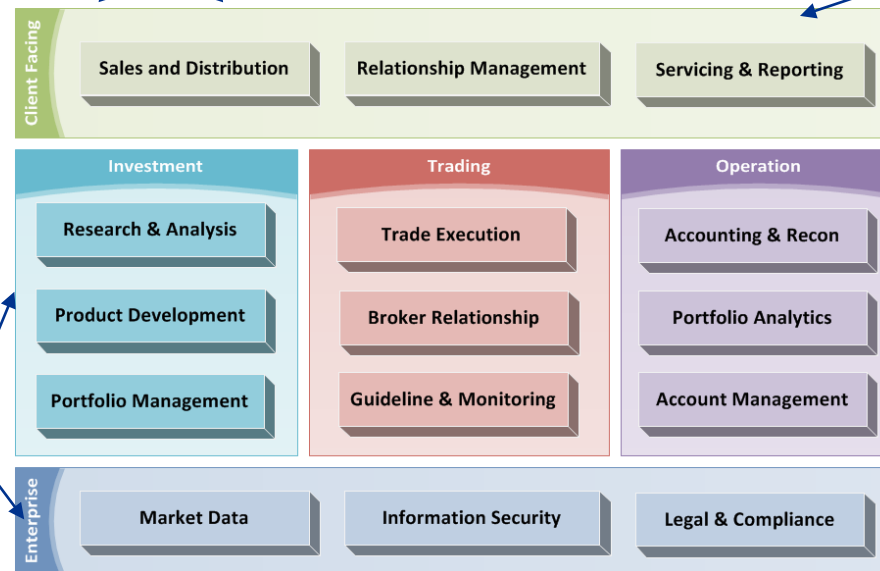
# ***Survey participants believe in Fintechs more for cost reduction than alpha generation (1/2)***

~45% trying to reduce **fund distribution costs** using advanced technologies

~50% view **Robo Advisors** as **product distribution tools** in Japan

~90% view **manual investor reporting** to be **intensive** especially for **large Japanese asset owners** that are largely **paper based**

~70% exploring use of **alternative data** sets (e.g. satellite imagery, weather patterns, credit card transactions, web traffic and social media sentiment); however, at this point alternative data is **too expensive** for **limited coverage** to justify the performance enhancement for each fund



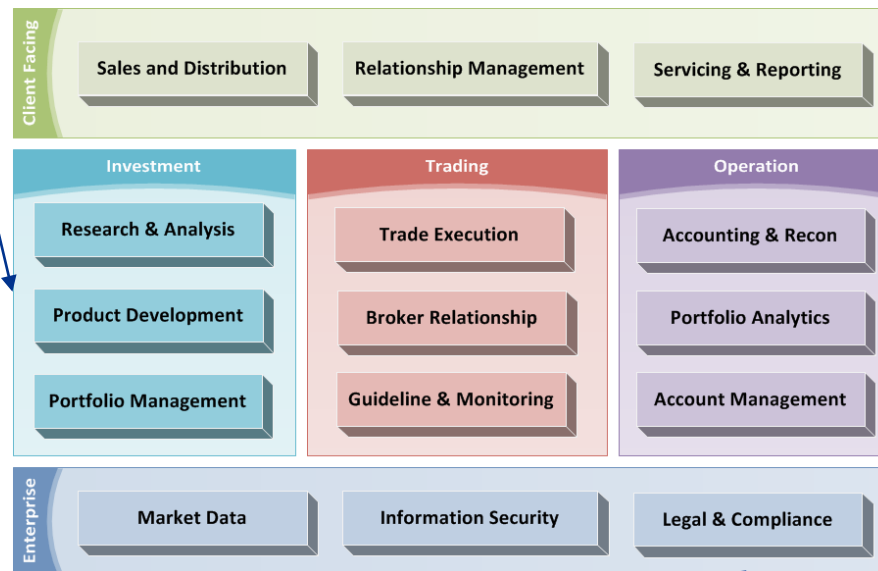
~90% view **dual NAV calculation** and **1 yen reconciliation** have almost no value added to investors, i.e. a major disadvantage for Japan-based asset managers

# ***Survey participants believe in Fintech more for cost reduction than alpha generation (2/2)***

~75% are aware that the capability of **AI for investment** is overrated, AI won't be useful unless **clean alternative data** becomes affordable

~50% interested in Fintech as a **talent pool** than Fintech products per se

~60% think **AI** can be useful for **verification** of comments vis-a-vis charts and simple client inquiry response

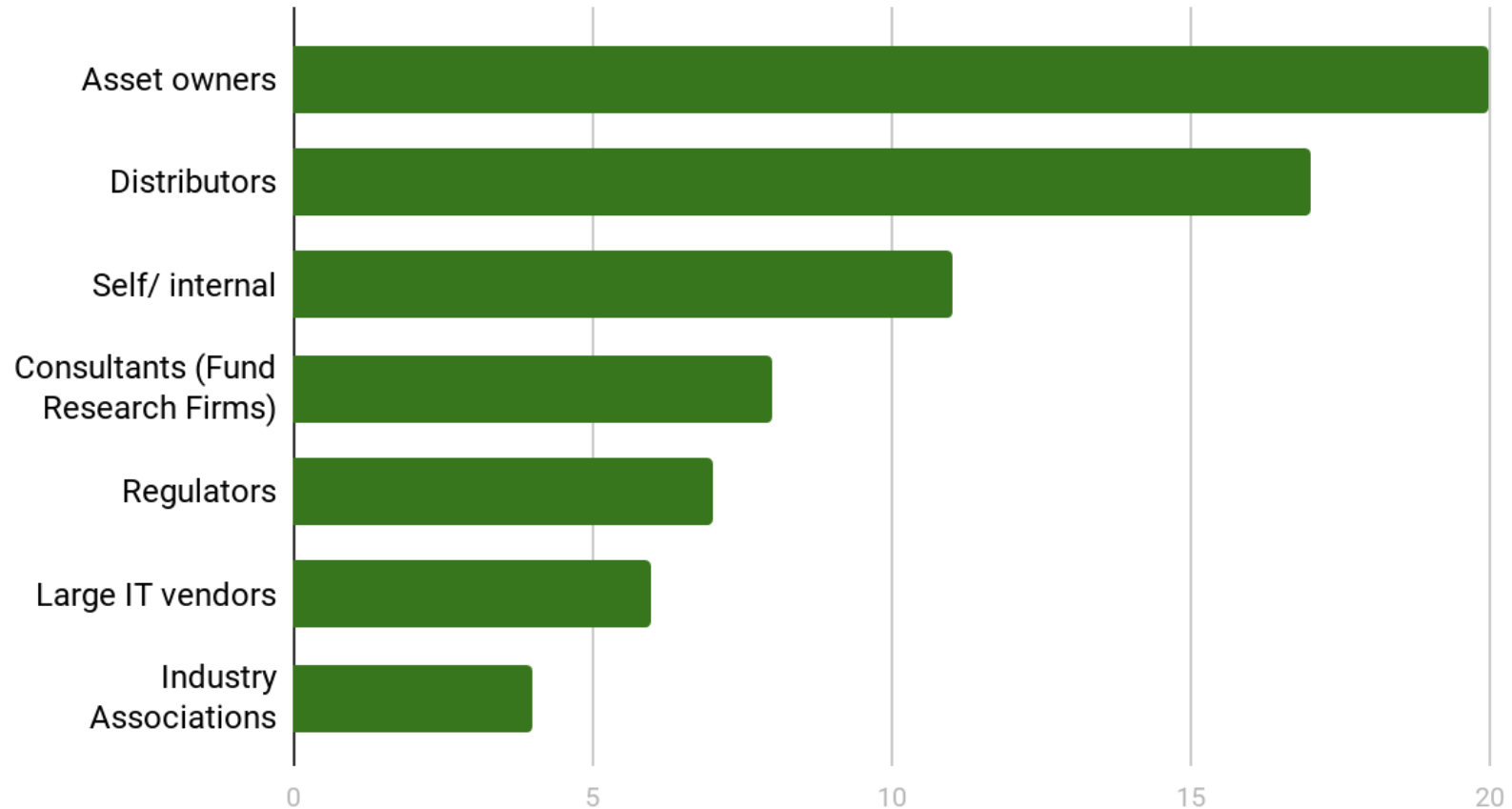


~65% view **index tracking** as labor intensive and not necessarily meaningful for ultimate investors; thus, trying to automate this process using technologies

~50% believe that **regulators** should adopt **RegTech** rather than asset managers (e.g. open API for auditing, utilization of secured chat as opposed to emails, licensing application and fund approval workflow management)

# ***Who are the bottlenecks to modernize the asset management ecosystem in Japan/ Tokyo?***

N=26, multiple answers



# About JIAM

JIAM is a not-for-profit organization which aims to contribute to “Global Financial City Tokyo” initiative by developing and advancing an ecosystem for the asset management industry, a key pillar of the initiative.

- We enjoy a collaborative relationship with both public and private sector entities in the asset management sectors which is enabled by our neutral/not-for-profit status.
- We aim to contribute to the growth of the asset management industry by crossing borders and industries.
- We conduct surveys, advocate policy recommendations and run events relating to the asset management ecosystem.

