Provisional Translation

# Asset Owner Principles

**Secretariat of New Form of Capitalism Realization Headquarters**
**Cabinet Secretariat**

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**Background and purpose**

1. In order to achieve a "virtuous cycle of growth and distribution," it is important to create a virtuous cycle of funds, in which households' financial assets are invested in growing companies, and the benefits of increased corporate value are returned to households, leading to further investment and consumption.
   For this reason, it is important that entities composing the investment chain, such as households, distributors of financial products (banks, securities companies), non-financial companies, asset managers, and asset owners, perform their respective functions to create a virtuous flow of funds.
   To this end, the Government of Japan has been making efforts toward various entities through the development of the "Doubling Asset-based Income Plan" (November 2022), corporate governance reforms, and the "Policy Plan for Promoting Japan as a Leading Asset Management Center" (December 2023). As part of this effort, the "Policy Plan" calls for developing the "Asset Owner Principles," as a set of common principles for asset owners' investment, governance, and risk management, by around summer 2024.

2. Asset owners play an important role in the investment chain through the financial and capital markets, directly or indirectly, in bringing financial returns enabled by corporate and economic growth to beneficiaries.[1] To be more specific, from the perspective of pursuing the best interests of beneficiaries, asset owners should establish the purpose for investment and targets based on the financial situation they are facing. In order to achieve the purpose and targets, asset owners should scrutinize investee companies and entrusted financial institutions, which are expected to bring the best benefits to beneficiaries and lead to medium- and long-term growth, increase the corporate value of investee companies as well as enhancing competition among entrusted financial institutions.
   Therefore, the Government of Japan hereby establishes a set of common principles that are useful for asset owners to fulfill their responsibility to manage their assets (fiduciary duties), taking into account the best interests of beneficiaries.
   To discuss the development of the Asset Owner Principles, the Working Group on the Asset Owner Principles was established under the Sub-Committee on Promoting Japan as a Leading Asset Management Center of the Council of New Form of Capitalism Realization in March 2024. The Working Group held discussions a total of four times and, based on these discussions, the Cabinet Secretariat published the "Asset Owner Principles" on August 28, 2024.

[1] Beneficiaries are persons or entities who benefit from the asset owner's asset management performance.

**Role of Asset Owner Principles (The Principles) —Principles-Based Approach—**

3. Asset Owners are a broad range of organizations, including but not limited to public pension schemes, mutual aid associations, corporate pension schemes, insurance companies, the funds of JST, educational corporations who manage financial assets and others. Even though the size of asset owners and the type of funds managed vary, all asset owners are expected to use the Principles to check their own preparedness for pursuing the interest of beneficiaries, and enhance understanding, dialogue, and collaboration by demonstrating the preparedness to their respective stakeholders [2] or externally, which will lead to improvement in their investment capabilities.

4. However, given the wide range of asset owners and the variety of their challenges, the Principles adopt a principles-based approach that sets out and requests the acceptance of common principles among asset owners so that asset owners can deliver appropriate investment outcomes to beneficiaries in accordance with their own circumstances, instead of a rules-based approach that prescribes actions to be taken by asset owners in detail.

5. Also, unlike laws or legally binding regulations, the Principles are not legally mandatory. Asset owners who accepted the Principles are not necessarily required to take certain actions. Each asset owner is expected to confirm and examine the meaning of the Principles and decide whether to support and accept it or not.

**"Comply or Explain"**

6. Acceptance of the Principles does not mean that the asset owner must take actions in line with all of the Principles. The Principles adopt a "comply or explain" approach, under which entities should either comply with these principles or explain the reasons in cases where they do not comply with them.

   The Principles envisage the cases where asset owners who accept the Principles comply with each principle, and where they do not comply with part of the Principles which they believe are not suitable to them in light of their own specific circumstances and explain sufficiently the "reasons why they do not comply with" those Principles.

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[2] Asset owners' stakeholders are not identical. They include beneficiaries, fund contributors (donators, equity investors, shareholders), and other parties affected by profit and loss in the portfolio. Thus, the scope of stakeholders also varies.

7. When explaining the reasons why an asset owner does not comply with some of the principles, the asset owner should take care of ensuring that its stakeholders fully understand the explanation.
   It is also necessary for asset owners to explain the status of implementation with the principles they comply with, so that their stakeholders can easily understand the status.

8. In complying with the Principles, asset owners who accept the Principles are expected to take actions with appropriate decisions and various ingenuity according to the situations they are in, and to review their activities as necessary.

**Others**

9. In order to visualize the acceptance the Principles, the asset owners who accept the Principles are expected to report their status to their corresponding Ministries. The Government will make and publish a unified list that shows the asset owners who accept the Principles, with the help of the corresponding Ministries.
   Given the size of their asset under management (AUM) and the kind of their funds, the asset owners who accept the Principles are also expected to publicly disclose the following items on their website:
    - Their intention to accept the Principles;
    - The status of each principle to be complied with; and
    - If there is a principle not to be complied with, an explanation of the reason;

10. The Cabinet Secretariat and relevant Ministries and Agencies will review the Principles appropriately and consider revising them as necessary, taking into account social circumstances and other factors.

## The Principles

In order for asset owners to fulfill their responsibility to manage their assets (fiduciary duties), taking into account the best interests of beneficiaries,

**1. Asset owners should take into account the best interests of beneficiaries. In doing so, they should determine the purpose of investing, and then set investment targets and policies based on the purpose through an appropriate process, taking into account the economic and financial situation. The purpose of investing, targets, and policies should be reviewed as appropriately in response to changes in situations.**

**2. Asset owners need to make decisions based on their expert knowledge, in pursuing the best interests of beneficiaries. They should develop an appropriate structure, by securing talents with sufficient knowledge and experience, in order to realize the investment purpose and policies set forth by Principle 1. They should make such a structure function properly, and consider using external knowledge and outsourcing when needed to receive and enhance expert knowledge.**

**3. Asset owners should choose investment methods appropriately to achieve the investment targets, based on the investment policies, from the viewpoint of the interests of beneficiaries, not those of themselves or third parties. Asset owners should appropriately manage risks, including by diversifying the investment portfolio. In particular, when they entrust investment to other entities such as financial institutions, the asset owners should select the optimal investment trustee while managing conflicts of interest. The choice of the investment trustee should be reviewed periodically.**

**4. Asset owners should provide information on the status of asset management ("visualization") and engage in dialogues with stakeholders, in order to fulfill accountability to stakeholders.**

**5. Asset owners should give consideration to the sustainable growth of investee companies by conducting stewardship activities by themselves or through the investment trustee, in order to achieve the investment targets for beneficiaries.**

**Principle 1.**
Asset owners should take into account the best interests of beneficiaries.[3] In doing so, they should determine the purpose of investing, and then set investment targets and policies based on the purpose through an appropriate process, taking into account the economic and financial situation.[4] The purpose of investing, targets, and policies should be reviewed as appropriately in response to changes in situations.

**Supplementary Principles**

1-1. Asset owners should clarify, and review if necessary, the purpose of investing, such as who the beneficiaries are —who should receive the return from the investment— and for what purpose they make an investment.

1-2. Asset owners should set investment targets[5] to achieve the investment purpose, such as specific returns and tolerable risks, taking into account the kinds of their funds, their capabilities and AUM, and a long-term forecast of the economic and financial environment. In addition, asset owners should set investment policies to achieve the investment targets, including a specific asset composition ratio (basic portfolio), approaches to risks, and the scope of the asset class to invest in, based on the economic and financial environment.

1-3. Asset owners should establish an investment purpose and policies under an organizational structure that is capable of making decisions, based on sufficient expert knowledge following appropriate procedures.

1-4. Asset owners should regularly review the policies to ensure that they remain responsive to their purpose and targets in response to changes in their structure or capabilities and stakeholders, as well as changes in the economic and financial environment.

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[3] Equality among beneficiaries (for example, adjustment of conflicts of interest between current and future beneficiaries) should not be ignored.
[4] For some asset owners, the investment purpose is legally defined and the investment targets is determined by the corresponding minister in terms of the regulation.
[5] Depending on the asset owner, the investment targets here include not only those setting a target return and aiming at it with minimum risk but also those aiming at maximized return within an acceptable amount of risk.

**Principle 2.**
Asset owners need to make decisions based on their expert knowledge, in pursuing the best interests of beneficiaries. They should develop an appropriate structure, by securing talents with sufficient knowledge and experience, in order to realize the investment purpose and policies set forth by Principle 1. They should make such a structure function properly,[6] and consider using external knowledge and outsourcing when needed to receive and enhance expert knowledge.

**Supplementary Principles**

2-1. Asset owners should identify the knowledge necessary for ongoing and appropriate asset management[7] and for management of risks entailed in the achievement of investment targets. Furthermore, they should establish a governance structure under which the expertise is secured, and supervision and enforcement work properly together.
In doing so, in light of the size of AUM of asset owners and the kind of the funds, if necessary, asset owners may appoint a Chief Investment Officer (CIO), with a background in asset management or trading in financial markets. In this case, asset owners should clarify the CIO's mandate and conduct necessary supervision.[8]
If the asset owners' knowledge relies on only one specific person, concerns about the continuity of expertise after the CIO leaves the position and the risk of corruption due to inappropriate relationships with the entrusted asset management company become relatively higher. Therefore, the asset owners should keep an eye on securing appropriate human resources in a planned manner.

2-2. Asset owners should consider appointing an external expert or using external organizations, such as financial institutions, external consulting companies, OCIO,[9] or industry associations when needed, in order to supplement and enhance asset owners' knowledge and expertise.
In doing so, a fee should be paid in accordance with the added value the external expert or organizations provide.

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6 Equivalent to the selection of investment methods in the Principle 3, from the viewpoint of the interests of beneficiaries, not those of themselves or third parties, asset owners are required to manage conflicts of interest so that organizational structures such as the selection of CIO are established.

7 Compliance and accurate understanding of the portfolio are needed for appropriate asset management and risk management.

8 Depending on the AUM of the asset owner, it may be necessary to develop organizational structures, such as an asset management committee, a risk management committee or a nominating committee for CIO.

9 Outsourced Chief Investment Officer. The applicant is registered as an Investment Advisory and Agency Business Operator or Investment Management Business Operator and conducts or provides comprehensive management of the portfolio or advisory service.

**Principle 3.**
Asset owners should choose investment methods appropriately to achieve the investment targets, based on the investment policies, from the viewpoint of the interests of beneficiaries, not those of themselves or third parties. Asset owners should appropriately manage risks, including by diversifying the investment portfolio. In particular, when they entrust investment to other entities such as financial institutions, the asset owners should select the optimal investment trustee while managing conflicts of interest. The choice of the investment trustee should be reviewed periodically.

**Supplementary Principles**

3-1. Asset owners should compare and examine a variety of investment methods, including the selection of the entrusted companies, based on whether they may contribute to the achievement of the investment purpose and targets, and whether they conform to the investment policies, from the viewpoint of investing in good faith and fair conduct while taking into account the best interests of beneficiaries.[10]

3-2. Asset owners should, in light of their investment purpose, select investment methods taking into account diversification of AUM, diversification of periods, and liquidity. AUM should be segregated and appropriate risk management should be implemented.
In this regard, asset owners could prepare for changes in the economic and financial environment by using stress tests, if necessary depending on the size of their AUM and the kind of their funds, taking into account VaR[11] or other quantitative risk indicators.

3-3. Asset owners should select the investment trustee from the viewpoint of contributing to the achievement of the investment purpose and targets.
Asset owners should not continue to select the same specific investment trustee just because it has been selected before or it is continuing to use the same investment methods, although entrusting all AUM to only one financial institution is not denied from the viewpoint of efficiency. In addition, they should manage conflicts of interest appropriately if there is a business relationship between the asset owners and the investment trustee or its group

[10] Asset owners may select self-management if they have sufficient investment capabilities after examining whether or not they contribute to the achievement of the investment purpose and targets and whether or not they comply with investment policies.
[11] Value at Risk. Maximum loss that can occur within a certain range of probability (confidence interval), assuming that assets are held for a certain period in the future (holding period).

financial institution. Asset owners should pay a fee in accordance with the added value provided by the investment trustee.[12,13]

3-4. Asset owners should evaluate investment trustee not only on the basis of their past performance but also on the basis of their approach to investment and their risk management methods.
In doing so, it is desirable to consider not only the brand, name recognition, and size of the AUM but also the abilities and experience of the CIO (including experience at previous companies). For example, it is important not to exclude emerging managers simply because they have only a few years of experience.

3-5. Asset owners should periodically evaluate the investment trustee and the investment methods, and review them as necessary in light of their own investment purpose, targets, and policies, in order to aim for better investment for beneficiaries.

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[12] When entrusting asset management and other multiple functions, it is important to consider the added value for each function.

[13] Consideration could be given to contingency fees.

**Principle 4.**
Asset owners should provide information on the status of asset management ("visualization") and engage in dialogues with stakeholders, in order to fulfill accountability to stakeholders.

**Supplementary Principles**

4-1. Asset owners should provide the information[14] necessary to fulfill their accountability in an appropriate manner.[15] It should depend on their characteristics, with consideration given to who the stakeholders are,[16] such as whether the investment is conducted appropriately or not in light of the investment purpose.
In doing so, asset owners should strive to make the contents easy to understand for stakeholders, while taking into account the cost associated with providing information.

4-2. Asset owners should consider providing information in a comparable form if comparison with other asset owners is useful material for stakeholders to determine whether the investment purpose can be achieved. In the case, it is desirable that asset owners disclose necessary information for stakeholders to evaluate comprehensively based on the investment policies, not by a simple comparison only with figures such as investment performance.

[14] As stated in Footnote 2, the content of information to be provided varies, depending on the characteristics of asset owners and stakeholders. Each asset owner should therefore consider to whom it should provide the information.

[15] The content of the information provided varies, depending on the characteristics of the asset owner. For example, it might be limited to introducing the investment purpose, the targets, the policies including the basic portfolio, the governance structure, and the investment regime such as the background of CIO. On the other hand, from the viewpoint of providing information to potential fund contributors and beneficiaries in the future, it may be possible to widely disclose information such as by posting it on a website.

[16] Asset owners may publicly disclose information on their websites if deemed useful due to their characteristics.

**Principle 5.**
Asset owners should give consideration to the sustainable growth of investee companies by conducting stewardship activities by themselves or through the investment trustee, in order to achieve the investment targets for beneficiaries.

**Supplementary Principles**

5-1. Asset owners should encourage investee companies to increase their corporate value and achieve sustainable growth through "constructive engagement, or purposeful dialogue" based on their own in-depth knowledge of the investee companies and their business environment or through the entrusted asset management companies, in order to achieve their investment purpose over the long term (stewardship responsibilities).
When fulfilling stewardship responsibilities, asset owners should consider accepting Japan's Stewardship Code and then take actions in accordance with the Code, based on the size of their AUM and capabilities. In doing so, one option would be for multiple asset owners to work together to monitor the stewardship activities of the investment trustee (collaborative monitoring).

5-2. Asset owners may make sustainability investments[17] that contribute to the sustainable growth of the investee companies, if necessary in light of their stakeholders' views and their own investment purposes. For example, asset owners may require entrusted financial institutions to incorporate sustainability considerations into their investments. Asset owners may also formulate a sustainability investment policy[18] and sign the PRI (Principles for Responsible Investment).

[17] By promoting the growth of investee companies and achieving sustainable growth and development of the overall economy, asset owners can aim to improve their long-term investment returns.
[18] In addition to formulating a sustainability investment policy, asset owners may incorporate sustainability factors into their general investment policy.