

【DII Seminar】

Global Trends and Challenges of Social Impact Investment

About INCJ, Ltd.

(@JPY110/USD)

- **Name** INCJ, Ltd.
(Innovation Network Corporation of Japan)
- **Location** 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
- **Founded** September 2018
- **Governing Law** Managed under the similar framework based on the Industrial Competitiveness Enhancement Act
- **Capital** 4.54 million USD

Shareholders

All shares of INCJ, Ltd. are owned by Japan Investment Corporation (JIC).

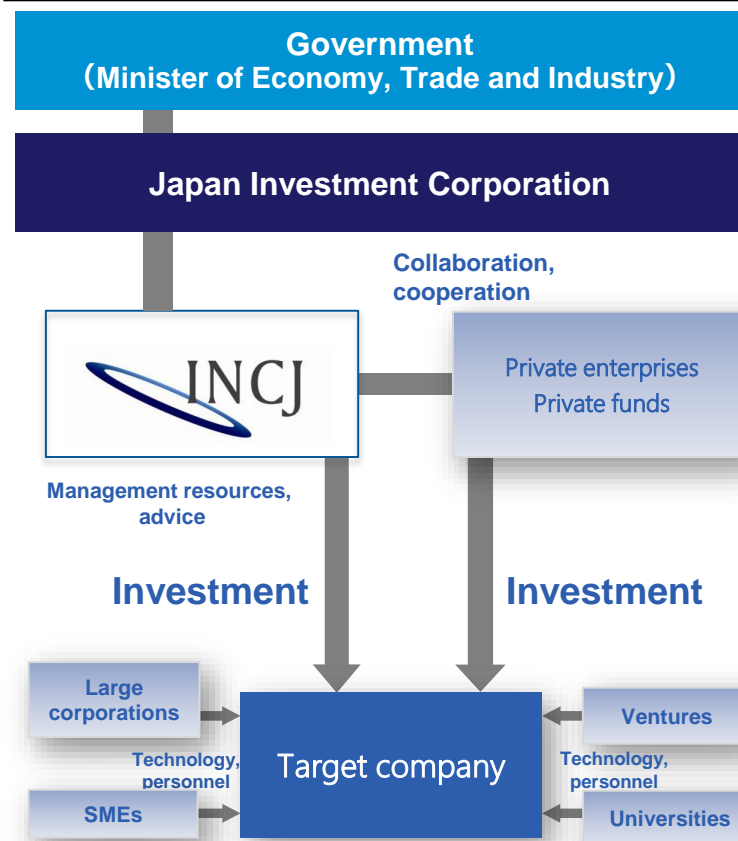
[Shareholders of Japan Investment Corporation]

- Government of Japan (investment of JPY286bn)
- 25 Corporations (JPY13.5bn in total, JPY500m each*)
*Exception: Development Bank of Japan, which contributed JPY1.5bn

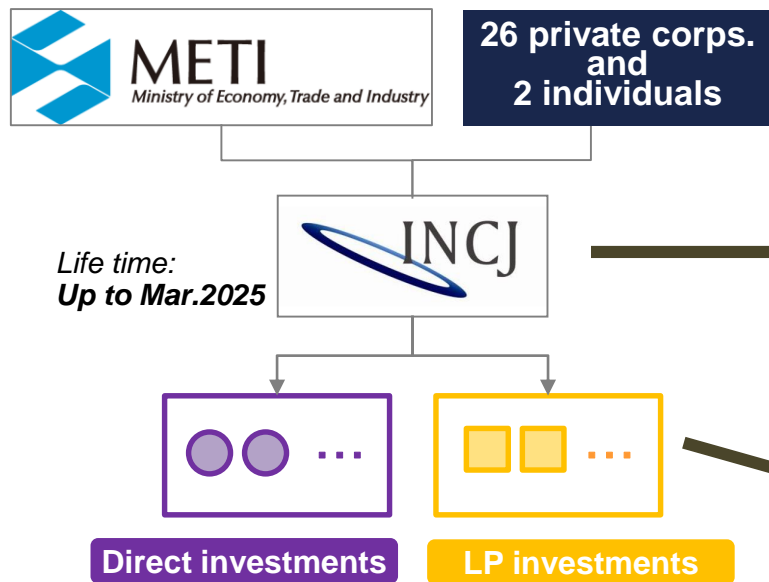
Asahi Kasei Corporation	JXTG Nippon Oil & Energy Corporation	MUFG Bank, Ltd.	Sumitomo Chemical Co., Ltd.	Toshiba Corporation
Canon Inc.	Marubeni Corporation	Osaka Gas Co., Ltd.	Sumitomo Corporation	Toyota Motor Corporation
Development Bank of Japan Inc.	Mitsubishi Chemical Corporation	Panasonic Corporation	Sumitomo Electric Industries, Ltd.	
East Japan Railway Company	Holdings Corporation	Sharp Corporation	Sumitomo Mitsui Banking Corporation	
Hitachi, Ltd.	Mitsubishi Heavy Industries, Ltd.	The Shoko Chukin Bank, Ltd.	Takeda Pharmaceutical Company Limited	
JGC Corporation	Mizuho Bank, Ltd.	Sony Corporation		

In alphabetical order

Organization Structure

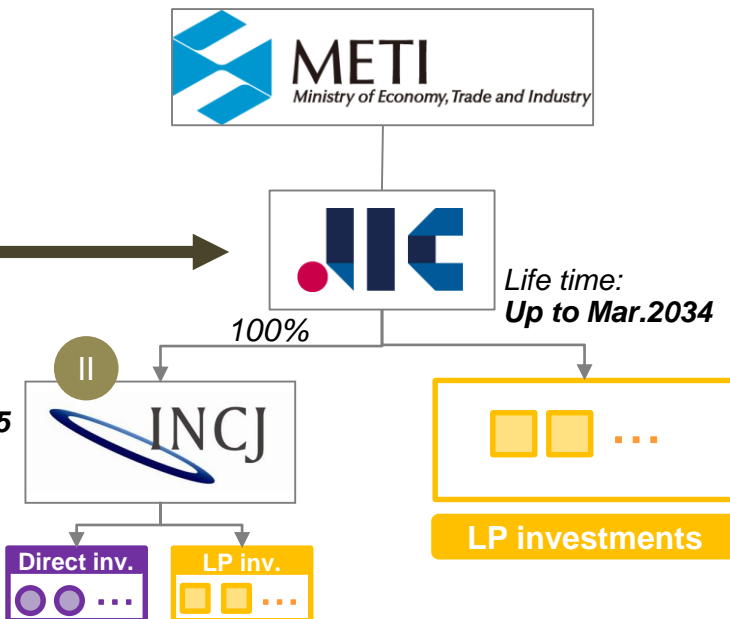


Up to Sept. 2018



INCJ made direct investments, as well as LP investments. If only a few or no private funds exist in specific investment arenas, which Japan has to empower, INCJ establishes such funds to attract private capital...

From Oct. 2018



JIC basically invests in funds and GP firms which operate investee funds. The opportunity of direct investments by JIC is strictly limited...

I

Creation of JIC

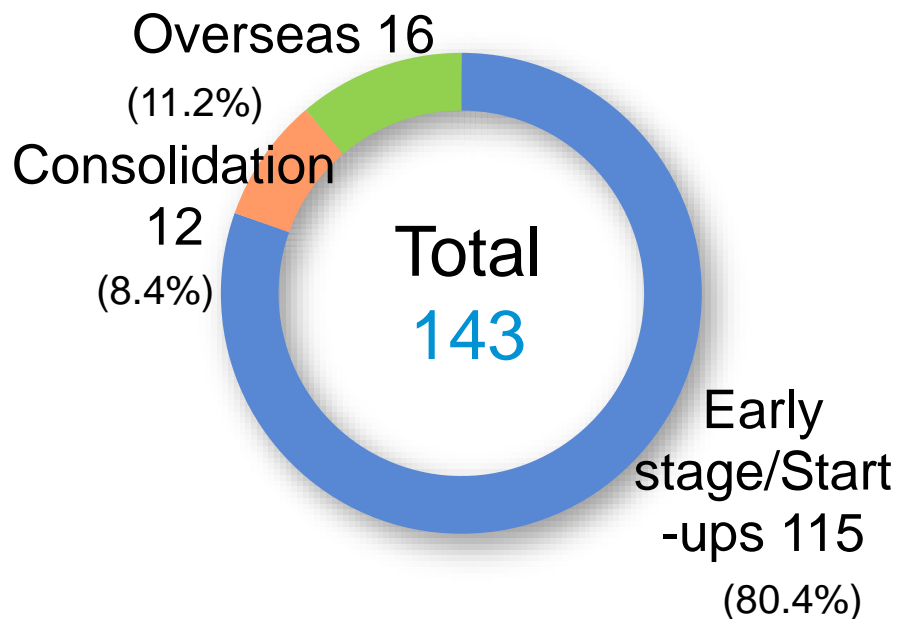
- The original INCJ was renamed as JIC
- JIC was created as a new Japanese government-backed investment firm and is slated to be operated through March 2034

II

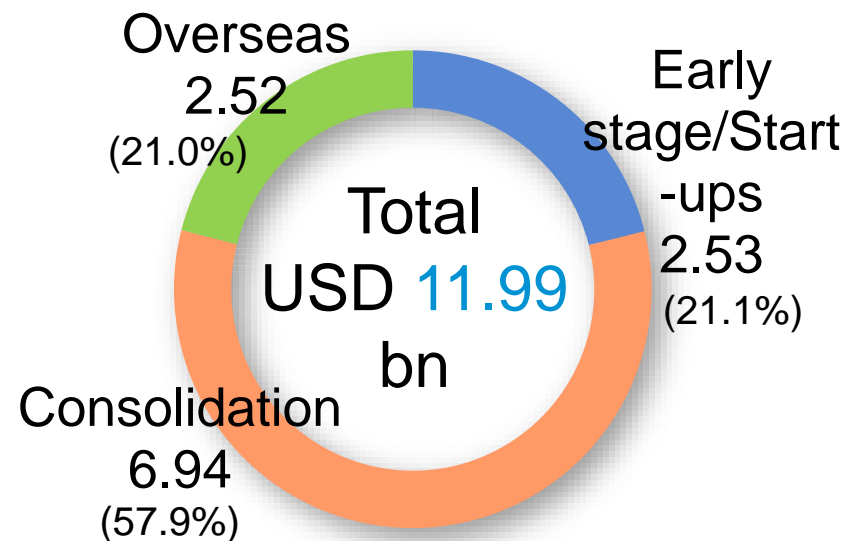
Carve-out of the new INCJ from JIC

- The new INCJ was carved out from JIC as a 100% subsidiary of JIC
- In addition, the new INCJ assumed share holdings of all existing portfolios of the original INCJ from JIC

Number of investments



Investment approved

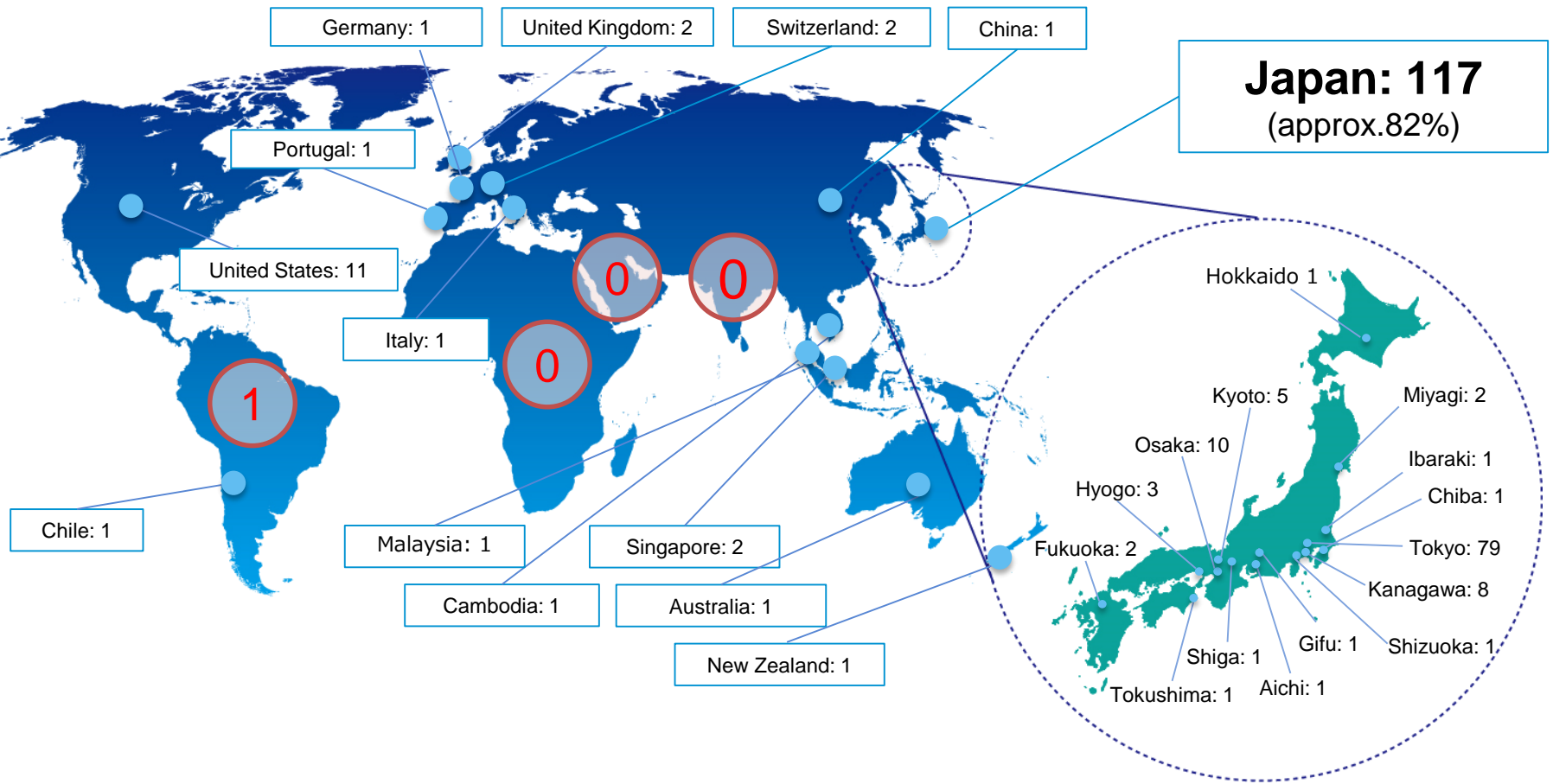


Exit (partial exit) / Total

56件 / 143件

as of October 31 2019

Investment portfolio (by geographic area)



as of October 31 2019

Financial return focused

Social impact focused



Financial Only

Responsible

Sustainable

Impact

Impact Only

Ordinary investment

(expectation toward financial returns is the same as general investments)

Investments that take into consideration ESG (ESG investments)

Investments in projects that actively act on ESG

Investments in projects whose objectives are solving social problems (impact can be traceable)

Market-return

Below-market return

No intention to make profits

Ordinary investment

ESG investment

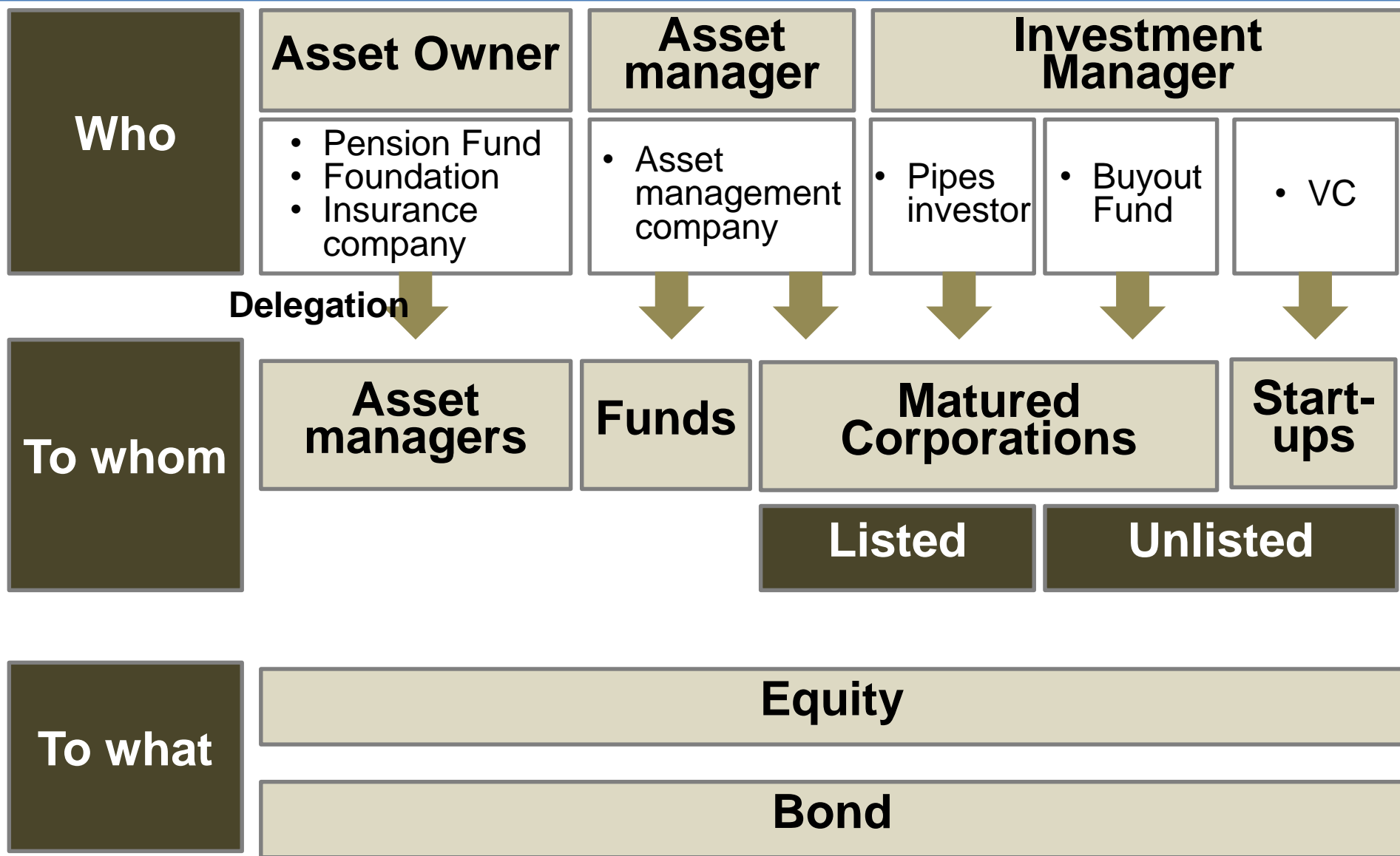
Donation

Negative screening

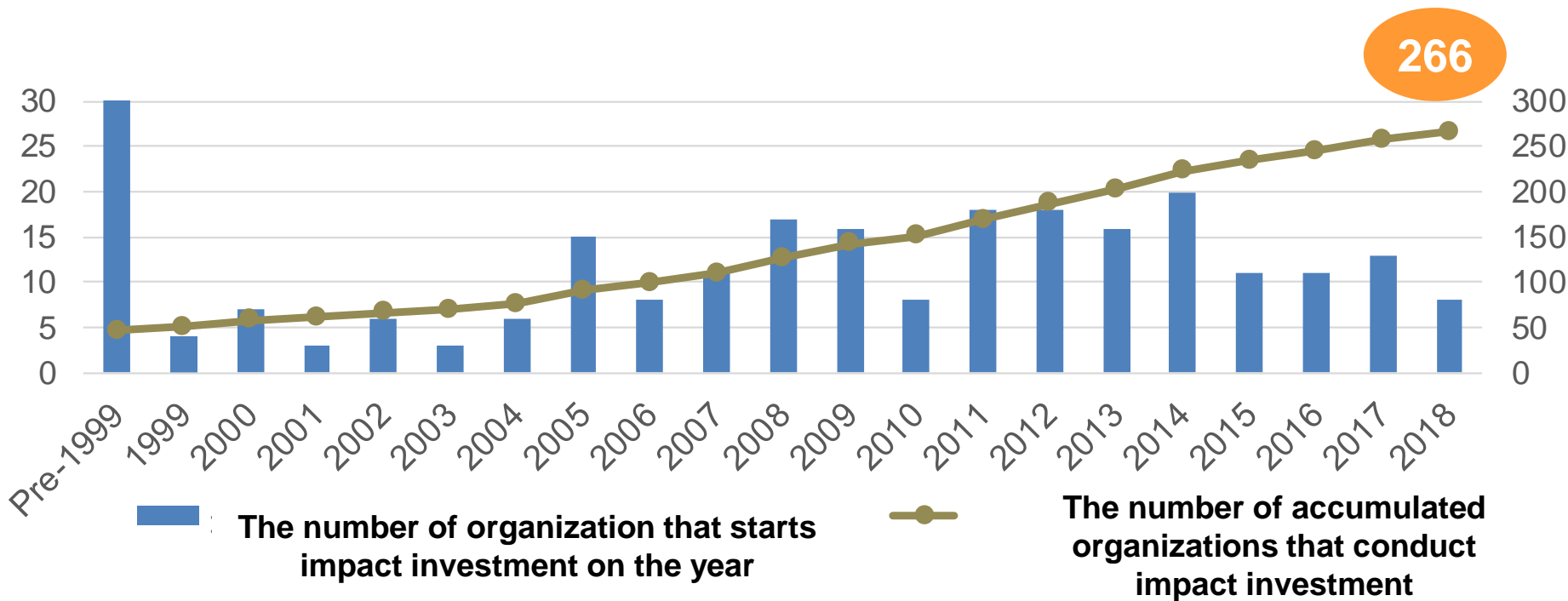
Positive screening

Impact investment





The number of global impact funds



About 16% of the respondents answered that they have been involved in impact investing for more than 20 years.

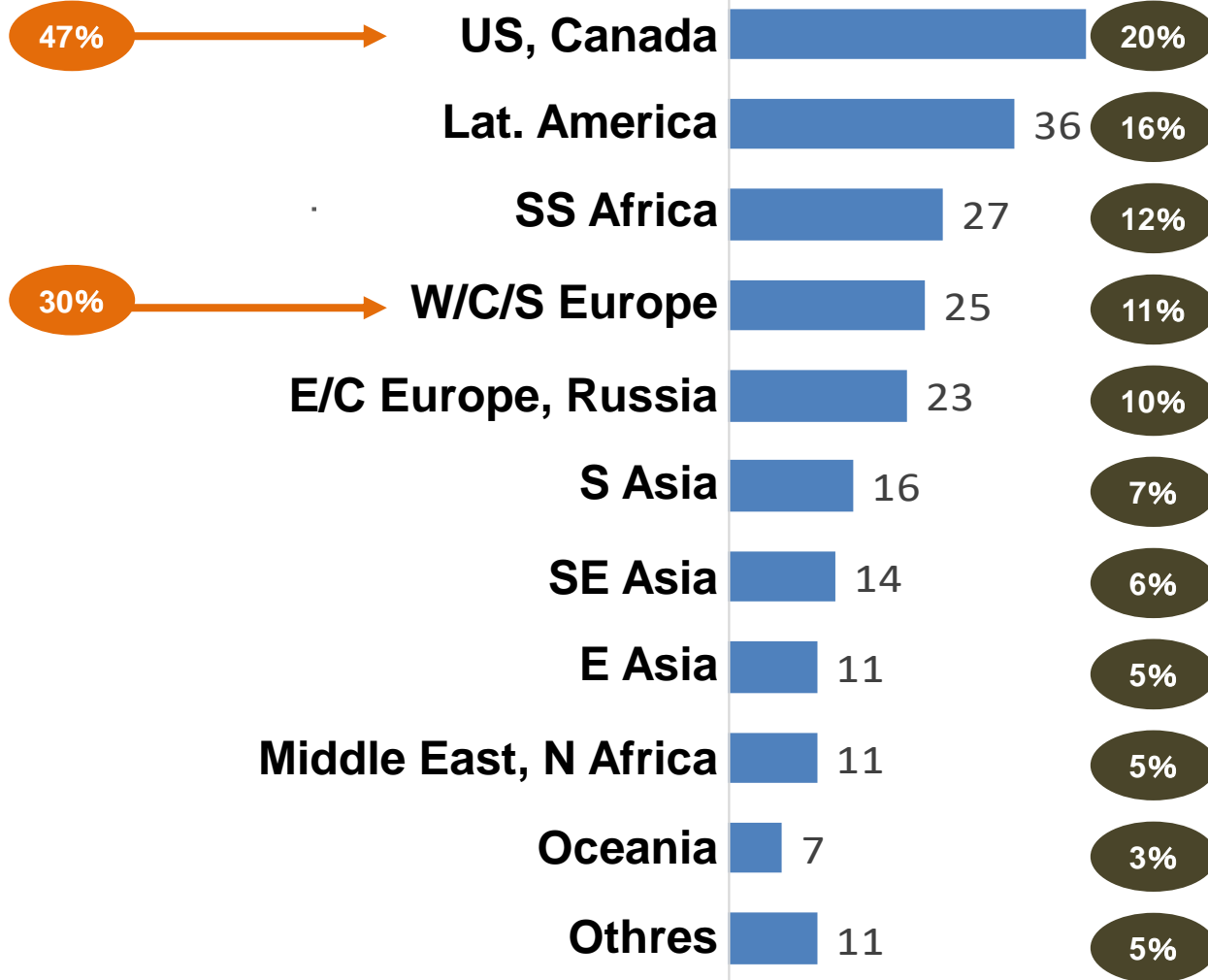
Where are those impact funds located? where such impact funds deploy their capital to?



Investment balance by region

Location of headquarters

(USD bn)



Total : USD228bn

Gross IRR (on USD basis)

2018

「Below-market」: EM

◆ 10.6%

「Below-market」: DM

◆ 6.9%

「Market-rate」: EM

◆ 16.9%

「Market-rate」: DM

◆ 16.9%

2017

「Below-market」: EM

◆ 8.4%

「Below-market」: DM

◆ 7.0%

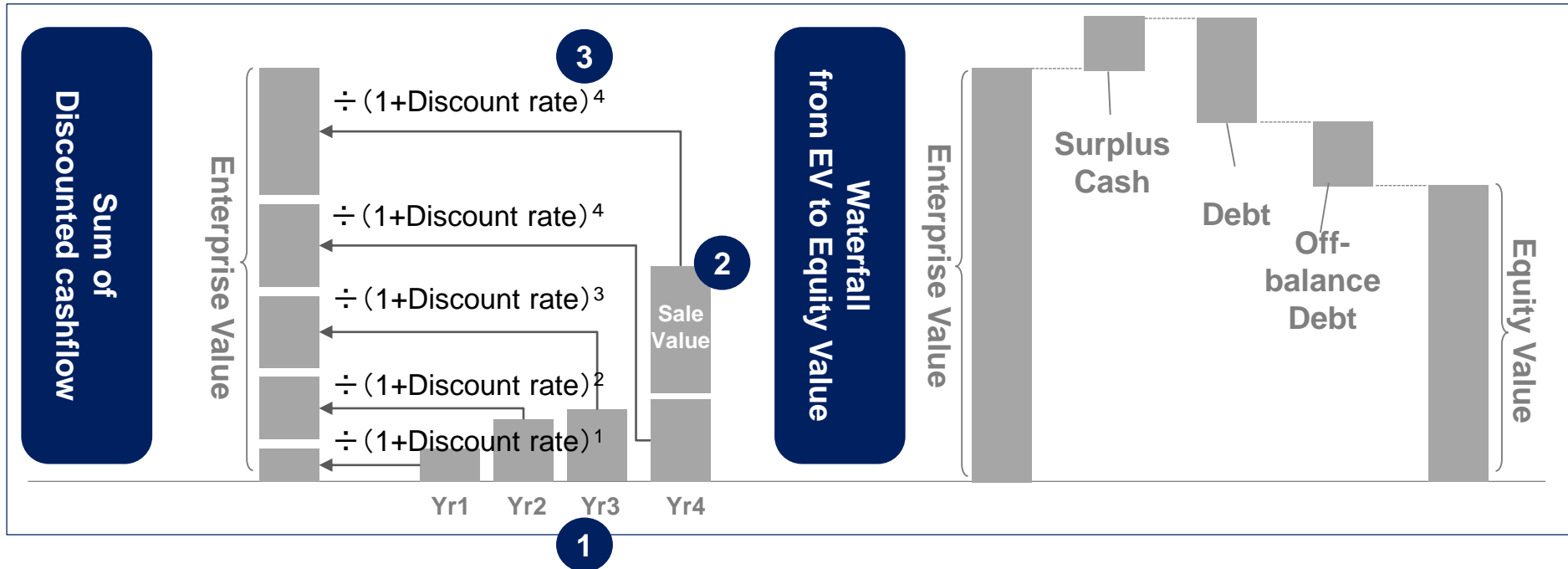
「Market-rate」: EM

◆ 17.6%

「Market-rate」: DM

◆ 17.0%

0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50%

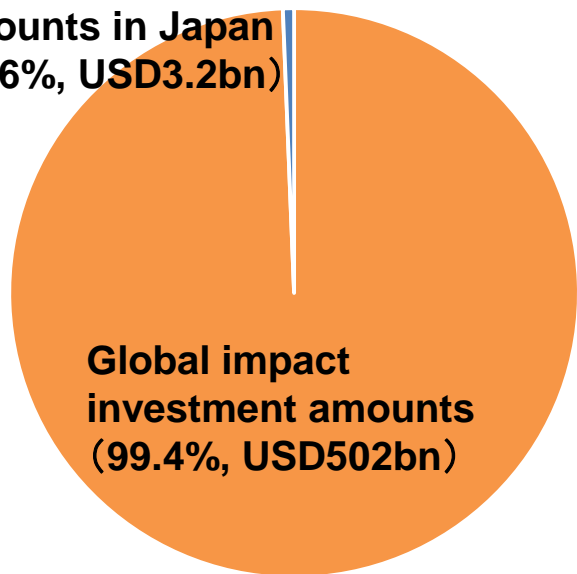


Elements to increase EV are as follows:

- | | |
|---------------------------------------|--|
| 1 Increase in future cashflow | Point I : Increase in operating cashflow |
| | <div style="background-color: #cccccc; padding: 5px;">Revenue => increase</div> <div style="background-color: #cccccc; padding: 5px;">Cost => decrease</div> |
| 2 Expansion of multiple | Point II : Differentiation from competitors |
| 3 Decrease in discount rate | Point III : Compliance with ESG |
| 4 Decrease of off-balance debt | Point IV : Compliance with ESG |

Impact investment market (2019)

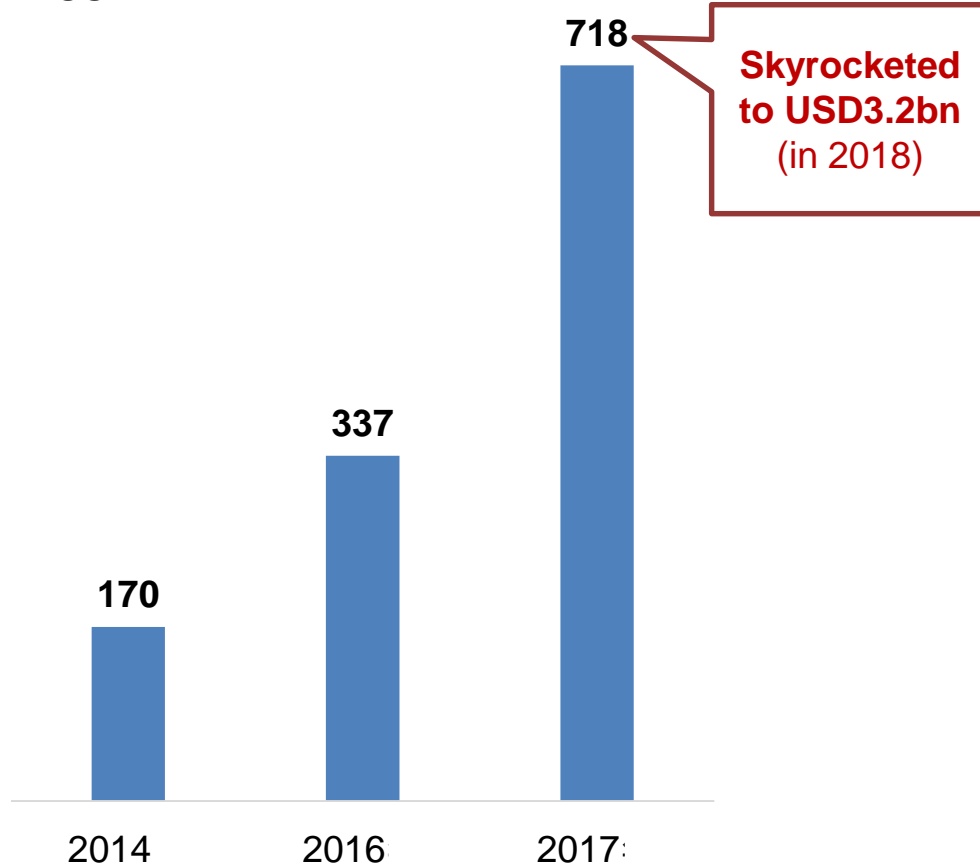
Impact investment amounts in Japan (0.6%, USD3.2bn)



Global impact investment amounts (99.4%, USD502bn)

Japan Impact investment market

USD:mn



1

Scarcity of financiers that support the first fund

- Scarcity of financiers that support impact funds from a capital perspective
- Typical financiers that support impact funds are (i)foundations, (ii)family offices, (iii)development financial institutions, and (iv)pension funds.

2

Scarcity of experienced fund managers

- the number of fund managers who lead an impact fund is scarce in Japan.
- Specifically, there are few talents who have knowledge and experience of investment in emerging countries.

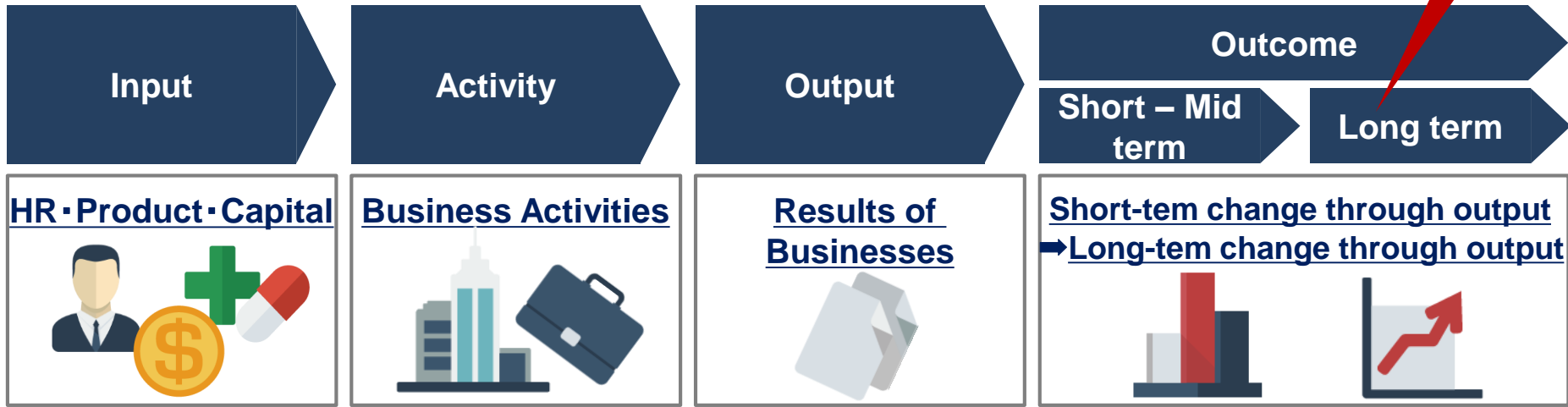
3

Weak Connectivity among relevant players

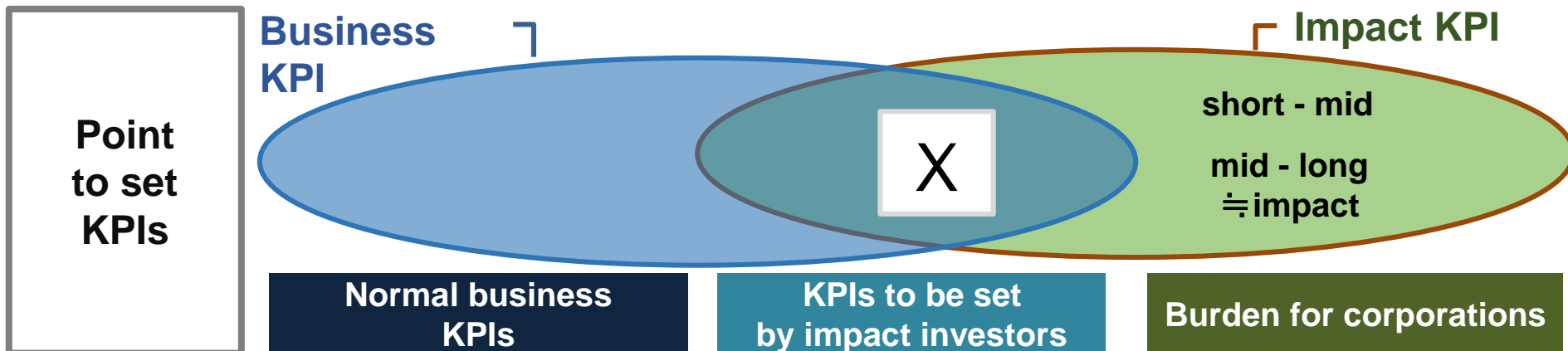
- Players are fragmented and are not connected effectively.
- Investors with ample capital can play a catalytic role to connect advisers, governments, agencies, and investee companies are needed



Logic model (≡ Theory of Change)



By back-casting... Outcome → Output → Activity → Input should be considered



Point 1 :

Impact investments are completely different from philanthropy. They are investments in pursuit of financial returns while practicing philanthropy

Point 2 :

Impact funds are asset classes that are growing and attracting even financial institutions on Wall Street

Point 3 :

The number of impact funds in Japan is quite limited as compared to Western countries. We need to anchor capital, let's say from a government-backed fund, and prepare an ecosystem where skillful impact fund managers will grow.

Point 4 :

Impact funds and investee companies need to conduct DD and report to financiers what they have done in the context of impact, allowing them to be sustainable.