

JIC Investment Activities in Accordance with Extension of Operational Period July 2024

July 16, 2024

Japan Investment Corporation

1. Review of Activities	• • • • • P. 3
2. Operational Period Extension & Future Direction	• • • • • P. 15
Reference	• • • • • P. 22

1. Review of Activities

* “Japan Investment Corporation Investment Criteria” (2018, Ministry of Economy, Trade and Industry Notification No. 194)

Investment Focus Areas

Society
5.0

Driving the creation of new businesses for Society 5.0

Support the creation of new businesses where uncertain and discontinuous growth is required, and which demand a significant amount of risk capital over a long period.



Creating “unicorn startups”

Create unicorn startups seeking sustainable growth with a competitive edge in the global economy.



Leveraging promising untapped regional technologies

Address the need for funding among regional startups from academia and such with under-utilized technologies and high revenue potential.



Promoting business consolidation across industries and organizations

Support enhancement of industrial competitiveness via bold business consolidation aiming at open innovation in the sectors with potential international competitiveness.

Investment Themes

**Deep Tech
(June 2020)**

**Life Science
(June 2020)**

**Climate Tech
(Nov. 2021)**

**Open Innovation
(Sep. 2021)**

**Seed/Pre-Seed
(Oct. 2021)**

**Growth
(June 2020)**

**Secondary
(Mar. 2022)**

**Go Global
(Sep. 2022)**

**University Spin-off
(Sep. 2020)**

**Carve-Out/Roll-Up
(June 2021)**

- Investment themes that JIC needs to address have been set, centering on four focus areas, through research on fields with policy significance but which lack private risk capital.

Private fund managers invested by JIC for each investment theme

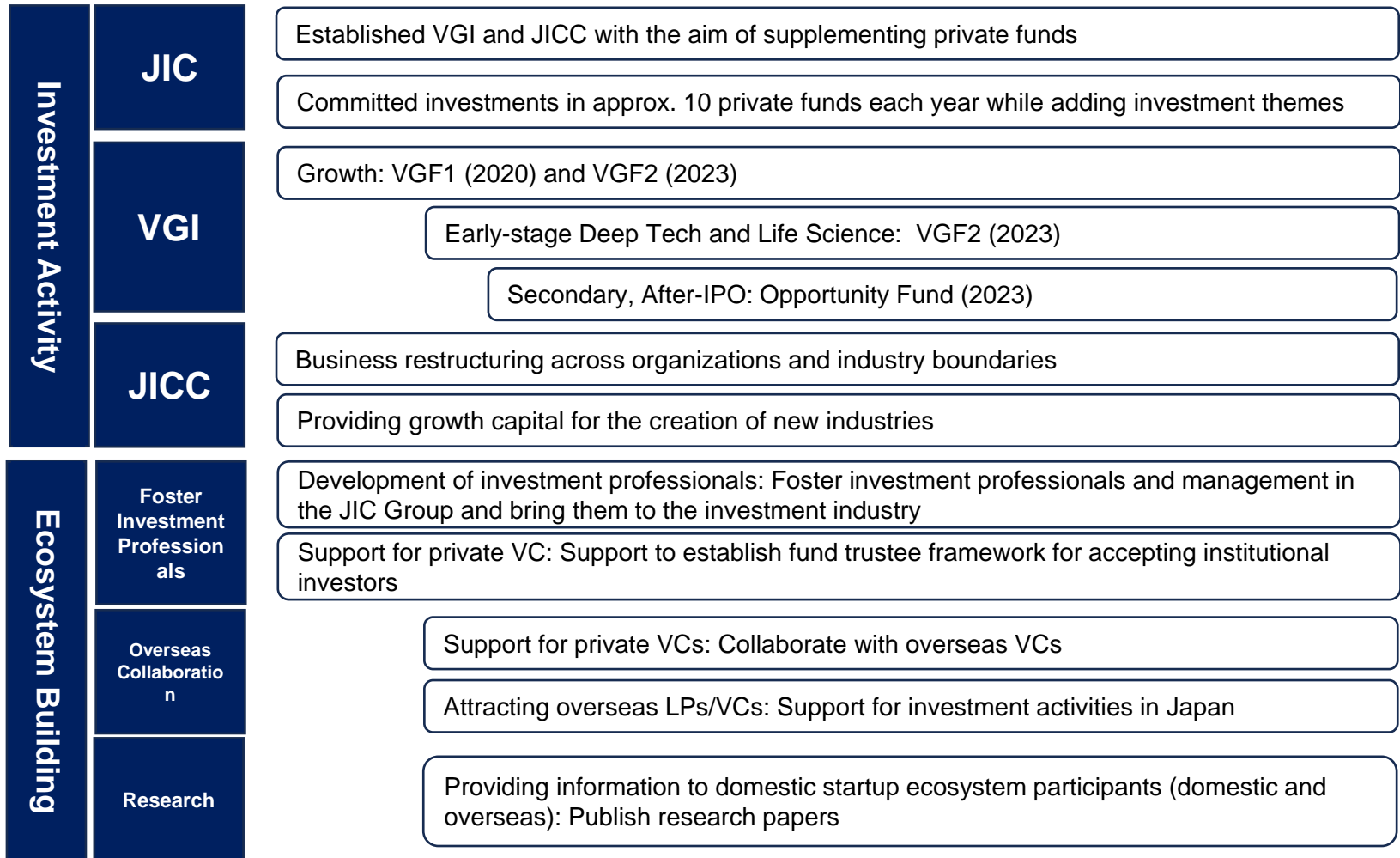


株式会社産業革新投資機構

Investment Theme	GPs in which JIC Invests
Deep Tech (DT)	Beyond Next Ventures anri MIYAKO CAPITAL DRONE FUND QB Capital GLOBIS CAPITAL PARTNERS dnx ventures KII WUV DIMENSION archetype* ventures Spiral Capital
Life Science	Beyond Next Ventures CATALYS PACIFIC saisei ventures AN VENTURES MedVenture Partners
Climate Tech	anri Energy Environment Investment
Seed/Pre-Seed	Beyond Next Ventures anri MIYAKO CAPITAL Genesis Ventures mint KUSABI archetype* ventures DUAL BRIDGE CAPITAL
Growth	WiL dnx ventures GLOBIS CAPITAL PARTNERS NEA atomico
Secondary	KEPPLE Regrowth Capital Management
University Spin-off	Beyond Next Ventures MIYAKO CAPITAL DRONE FUND QB Capital WUV KII TRANPOSE PLATFORM
Go Global	WiL dnx ventures GLOBIS CAPITAL PARTNERS WUV NEA vertex VENTURES AN VENTURES atomico Headline Y Combinator
Open Innovation	CATALYS PACIFIC SOZO VENTURES WiL Genesis Ventures DIMENSION archetype* ventures Spiral Capital vertex VENTURES Headline BEE NEXT
Carve-Out/Roll-Up	UNISON IA Partners

Investee funds added since previous press conference (Dec. 2023)

- JIC invests in funds (LP investment) and makes direct investments through VGI and JICC under its umbrella
⇒ Gained a certain level of understanding from market participants and policymakers through these activities.
- JIC has added new initiatives in response to market trends, policy developments and expansion of its management resources



- Approximately four years have passed since JIC began its investment activities in September 2020 and JIC recognizes that certain achievement have begun to emerge although it is too early to assess results.

Risk capital supply

- Ratio of total JIC commitments to Japanese VC to total Japanese VC commitments raised for 2018-23(*) is about 12% (same ratio for government owned institutions in Europe is around 20%)
- Cover supply shortages without disrupting the market's investment discipline

Attracting private capital (VC fund level)

- With respect to domestic private funds in which JIC has invested, the amount of committed investments by private LPs that participated after JIC's commitment was about 1.7 times the amount of JIC's investment commitment

Initiatives in new fields

- Direct secondary funds that acquire equity stakes in startups
- Provide growth capital to listed startups

VC support for domestic/overseas institutional fund entrustment

- The operational structure and partnership contracts of JIC's portfolio VCs have been improved to a level that is consistent with the expectations of institutional investors investing globally
- Follows up with GPs on an ongoing basis after commitments are made to address aspects of fund management that require further development

Support for launch of new GPs

- The first, second and third funds for the GP account for more than two-thirds of JIC's private fund investments

First: 10; Second: 7; Third: 8

Cooperation with overseas GPs

- Invests in global funds managed by prominent overseas VC firms interested in investing in Japan, starting from January 2023, with the goal of promoting collaboration with domestic VC firms/startups
- Collaboration with domestic VCs and feedback for them and investment in domestic startups have begun

Research reports

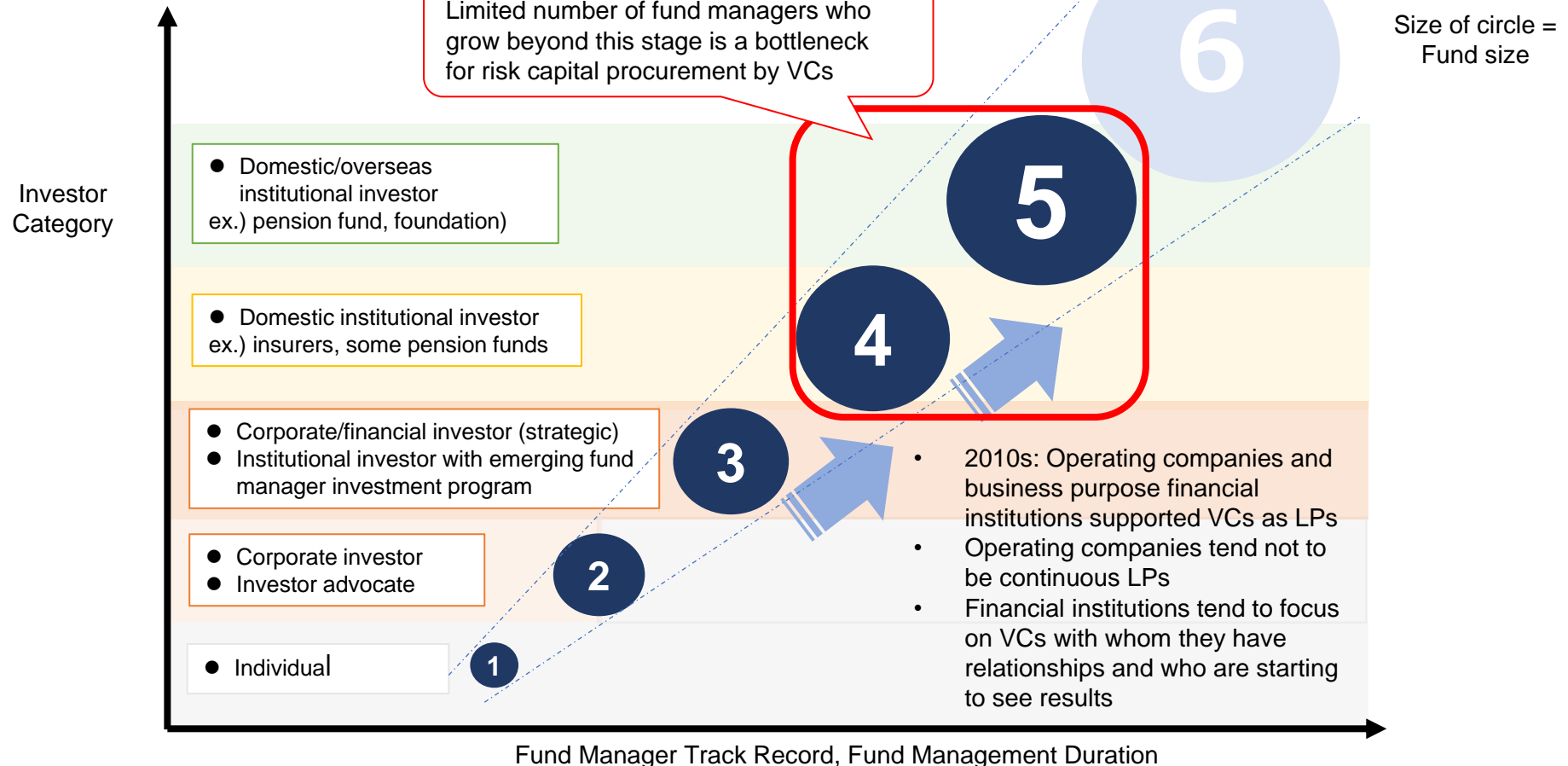
- Publish twice-yearly reports in English and Japanese focusing on trends in the domestic startup and VC markets
- Published research reports: "Ecosystem Support by Foreign Government-owned Investment Institutions" and "The Challenge of Supplying Risk Money for Later-Stage Deep Tech Startups"

Support for VCs seeking funding from domestic and overseas institutional investors

- Japanese VCs' funding from operating companies and financial institutions has increased while future growth potential is limited
- The number of domestic GPs (VCs) receiving funding from domestic and foreign institutional investors has been gradually increasing

2019: fewer than 10 VCs ⇒ 2024: expansion to approx. 20 VCs

Among JIC portfolio VCs, 7 VCs received their first commitment from domestic or overseas institutional investors following JIC's commitment



- Most institutional investors consider investment opportunities after GP's third fund because establishment of the third fund often aligns with initial investment results from the GP's first fund becoming apparent
- Due to no realized returns for the first fund or uncertainty about the ability to generate returns, the consideration of investment may be deferred to the GP's fourth fund or even later
- To increase the number of GPs that can gain the trust of institutional investors and secure funding commitments from them, JIC needs to work with GPs until they raise their third fund in many cases

JIC investee No. 1 fund



JIC investee No. 2 fund

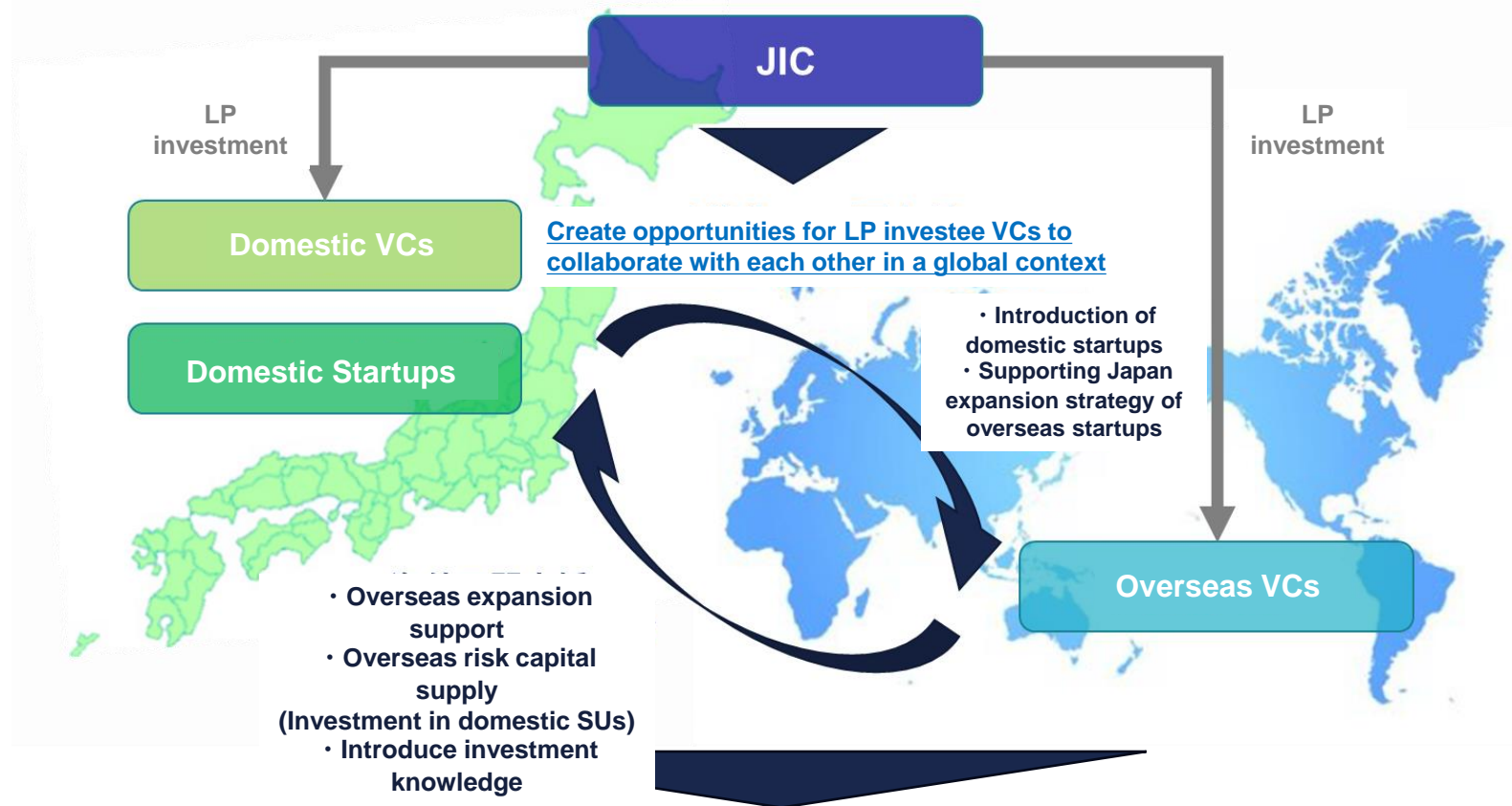


JIC investee No. 3 fund



Policy for Go Global

- Starting in 2023, JIC began making LP investments in overseas VCs with the aim of supporting the growth and development of the Japanese startup ecosystem and supporting Go Global activities of Japanese startups.



Jan. 2023 commitment



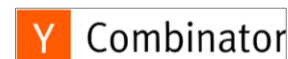
April 2023 commitment



Feb. 2024 commitment

+

Global accelerators



June 2024 commitment

Overview of Go Global support

- By strengthening collaboration with overseas VCs, JIC expects to support the growth and development of the Japanese startup ecosystem and accelerate Go Global activities of Japanese startups.

Strengthen collaboration between domestic, overseas VCs

- Establish points of contact for domestic & overseas VCs, provide opportunities for mutual networking
- Support to share deal flow for investment in domestic startups expected to take Go Global actions



Hold joint events

- Knowledge sharing on overseas startup ecosystem formulation
- Provide know-how of creating unicorn startups

Drawing on comprehensive data and analysis of both domestic and international markets, policy developments and emerging investment opportunities, JIC formulates its investment strategy. This research is then shared publicly through the JIC website (Japanese and English).

JIC conducts research on domestic and international market trends for its own investment activities.

Some of the findings are available here for reference.

To be released occasionally



March 29, 2024

Global and Japan Venture
Capital Market Update • 2023



Global and Japan Venture Capital
Market Update • 2023

Startups

October 13, 2023

Global and Japan Venture
Capital Market Update •
2023H1



Global and Japan Venture Capital
Market Update • 2023H1

Startups

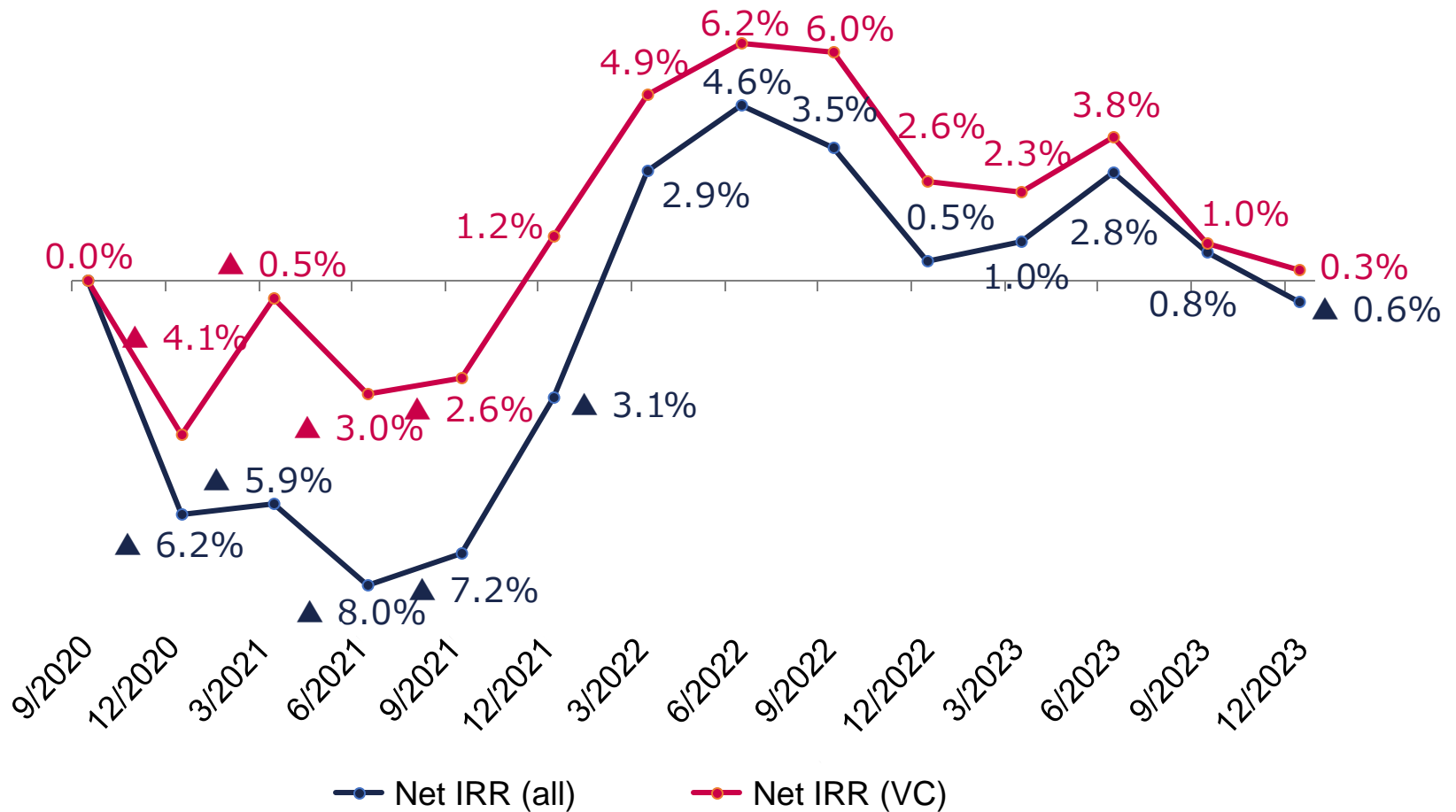
- Fund portfolio performance since its inception in September 2020 is as follows (as of December 31, 2023)
- VCs: Aggregated by the vintage year of each fund. Funds that commenced their investments earlier have already recorded unrealized capital gains.
- PE: JICC investment just begun to be included as of end of December , and investments were in the negative phase of the “J-Curve”.

Overview of fund investments (with VC performance by vintage)

(as of December 31, 2023) (JPY)

	Number of Funds	Commitment Amount	Paid-in Amount	Progress Rate	Multiplier (vs. paid-in amount)			
					Distribution (DPI)	NAV (RVPI)	Distribution + NAV (TVPI)	Net IRR
Total	39	1,631.0B	219.2B	13.4%	0.00x	0.99x	0.99x	▲ 0.6%
VC	35	497.0B	161.4B	32.5%	0.00x	1.00x	1.00x	0.3%
(~2019)	5	17.7B	16.8B	95.1%	0.02x	1.29x	1.31x	15.1%
(2020)	3	125.0B	82.4B	65.9%	0.00x	0.97x	0.97x	▲ 1.3%
(2021)	5	29.2B	17.5B	60.0%	0.00x	0.95x	0.95x	▲ 4.3%
(2022)	14	66.5B	22.1B	33.1%	0.01x	0.98x	1.00x	▲ 0.4%
(2023)	8	258.5B	22.6B	8.7%	0.00x	0.96x	0.96x	▲ 8.7%
PE	4	1,134.0B	57.8B	5.1%	0.00x	0.95x	0.95x	▲ 6.1%

Net IRR trend



2. Operational Period Extension & Future Direction

Extension of operational period

- JIC's operational period (investment period) has been extended to make it possible to invest in funds whose duration extends beyond March 2034
 - Continue to make LP investment in VC funds after 2024.
 - Funds whose duration exceeds 10 years can be targeted.

		~2022	2023	2024	2025	2026	...	2034		2050		
Private Funds	Original	LP investment in fund possible until 3/2024		Investment / return period for startups by funds in which JIC commits to invest by 3/2024								
		Private LP investment (end-March 2024)		(end-March 2034)								
	Revised	Allows LP investment in funds whose duration exceed 10 years										
		Private LP investment										
JIC Subsidiary	Original	VGF1 (investment period: 5 years)						2033 (max. term)				
		PEF1 (investment period: 5 years)						2032 (max. term)				
		VGF2 (investment period: 5 years)						Actual 2034 (max. term)				
		VGI Opportunity Fund (investment period: 5 years)						Actual 2034 (max. term)				
	Revised	Possible to establish follow-on funds and funds with new strategies										

Revision of JIC investment mandate

(Minister of METI public notice)

- Investment mandate for JIC based on Article 102, Paragraph 1 of the Industrial Competitiveness Enhancement Act were announced in June 2018 via the Minister of Economy, Trade and Industry public notice. All JIC investment activities have been in accordance with these mandate.
- Based on the revision of the Industrial Competitiveness Enhancement Act and the industrial policy orienting that (“New Direction of Economic and Industrial Policies”), the public notice of the Minister of Economy, Trade and Industry will be revised (public comment ongoing).
- In the new mandate draft, the basic approach includes domestic investment for sustainable growth and addressing social issues to realize a virtuous cycle of innovation, which will lead to the change of priority investment areas accordingly.

Focus areas under current mandate

- ✓ Driving the creation of new businesses for Society 5.0
- ✓ Creating “unicorn startups”
- ✓ Leveraging promising untapped regional technologies
- ✓ Promoting business consolidation across industries and organizations



Focus areas under new mandate draft

- ✓ Creating a virtuous cycle of domestic investment and innovation
- ✓ Creating and developing startups
- ✓ Utilization of untapped regional management resources of university spin-offs, medium-sized companies and others
- ✓ Promoting business restructuring in response to changes in market and business environment

* JIC's investment themes continue to be included.

Key points of new investment mandate (METI Minister public notice)

- While new investment mandate draft retains the current priority investment areas, these areas are reconfigured. Examples of specific industrial areas are added, and medium-sized companies are clearly mentioned as target.

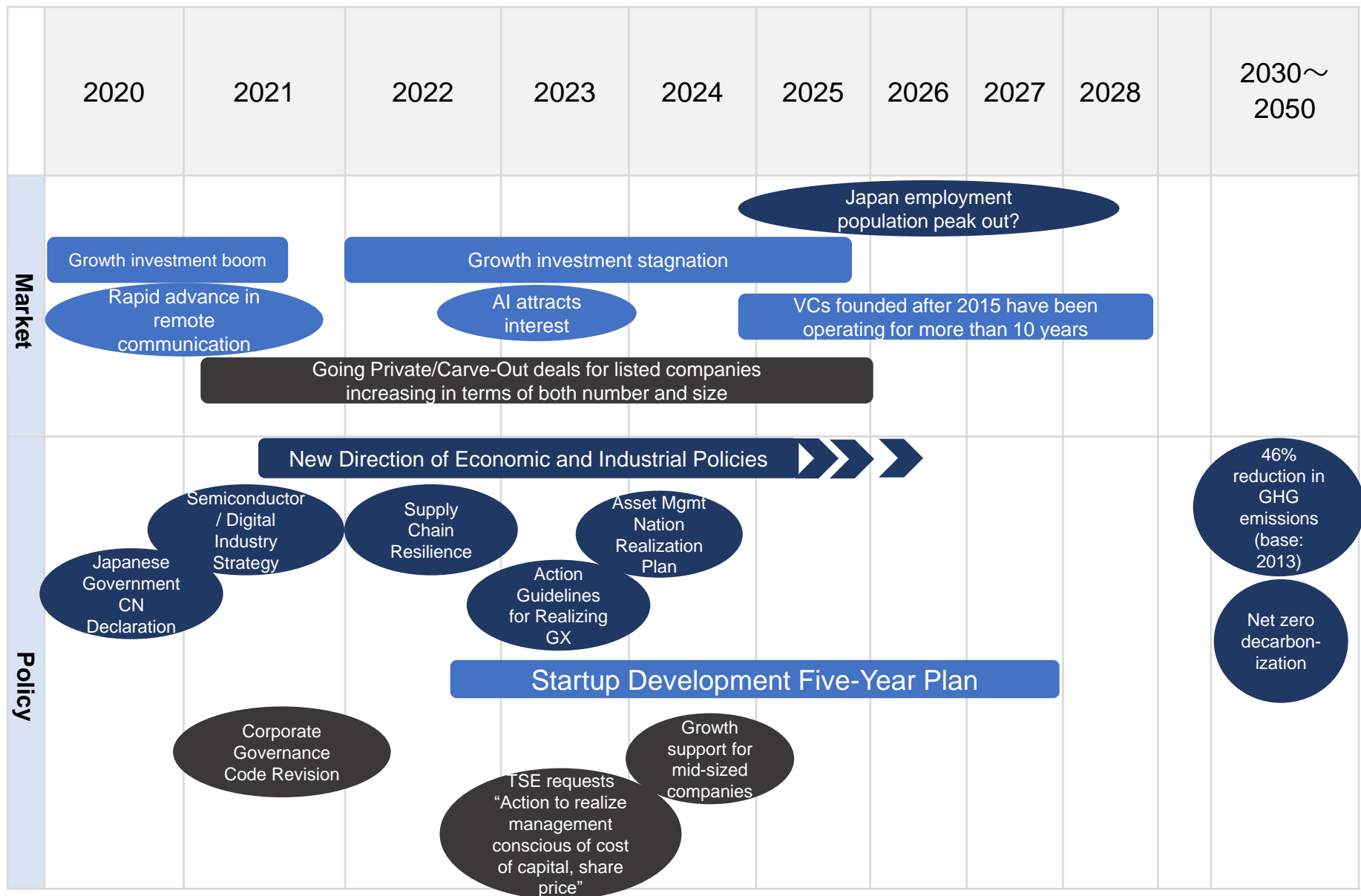
Current	Revised (Draft)	Points added to the draft proposal
① Driving the creation of new businesses for Society 5.0	① Creating a virtuous cycle of domestic investment and innovation	<ul style="list-style-type: none"> Background: In addition to the realization of a Society 5.0 society, the creation of new businesses and innovation to address new social issues have been added to maintain and strengthen industrial competitiveness Example: In addition to current business areas*, the following have been added: In response to global social issues, business fields such as semiconductors, storage batteries, industrial machinery, aircraft/next-generation air mobility, medical equipment, etc., where demand is expected to increase domestically over the medium to long term, and business activities that combine these, etc.
② Creating “unicorn startups”	② Creating and developing startups	<ul style="list-style-type: none"> Investment themes (seed, growth, secondary, etc.) as picked by JIC are added Investment that will significantly accelerate development of the startup ecosystem
③ Leveraging promising untapped regional technologies	③ Utilization of untapped regional management resources of university start-ups, medium-sized companies and others	<ul style="list-style-type: none"> Targeting local university spin-off startups, medium-sized companies and others that possess technologies with high earning and innovation potential and which are not being fully utilized due to a lack of risk capital and human resources
④ Promoting business consolidation across industries and organizations	④ Promoting business restructuring in response to changes in market and business environments	<ul style="list-style-type: none"> Targets: business sectors contributing to industrial competitiveness (①) and medium-sized companies (③) Provide funds to businesses that can respond to recent changes in the business environment through business restructuring and renewal, and that are significant in policy involving medium- to long-term growth investments and industry restructuring (If conducted by JICC, there must be risk/reason that is difficult for the private sector alone to handle)

- **Ensuring the policy of complementing private sector**, proactively collaborate with private investment funds, etc.
- **Strive to improve the environment for fund managers so that domestic private funds can be nurtured, achieved sustainable growth, and undergo renewal.**
- Strive to **develop new investment managers**
- **Establish an appropriate structure**, developing a medium-term support policy and financial plan of JIC

Additional notes

- With respect to areas to be added under the new investment mandate, JIC will study market trends, consider the JIC Group's role and formulate a policy to proceed with initiatives

* Currently identified business areas: social implementation of technologies related to the Fourth Industrial Revolution, such as AI, IoT, and robotics, and business fields that can be globally competitive, such as biotechnology, drug discovery, healthcare, mobility, space, materials, and electronic devices.



Challenges in current investment themes and considerations for strengthening actions

Deep Tech Life Science Climate Tech

- Risk Capital: Continued lack of private investment capital, especially for emerging managers struggling to raise funds
- Global: Lack of players capable of supporting global business development and financing from the initial stage
- Capitalist Diversity: Capitalists with science evaluation skills and experience in successful startups expected
- Funds with terms longer than 10 years: Dealing with R&D projects that require a long period of time to go from seed stage to commercialization and exit requires investment in funds with terms longer than 10 years
- GX-related: In relation to GX-related transition finance, which is expected to require a long-term holding period, it is necessary to research the capital structure to attract risk capital and, if applicable, the role of JIC.

Seed/Pre-Seed

- Recognize that it will be necessary to provide resources with many challenges by great talents and projects that are selected through early identification to create startup with huge success ; the major challenges are how to create an environment where talented people take on more challenges and how to create successful startups

Growth

- Issue: Lack of players focusing on the growth stage
 - ✓ Current initiatives: Scale existing funds, and attract global players
 - ✓ Future Expectations: Emergence of players who can obtain investor traction and raise large sums of funding (including crossover and growth stage investments by listed stock managers)
- Lack of post-IPO growth funds: addressed by VGI Opportunity Fund; expecting participation from private players

Secondary

- Lack of direct secondary players remains an issue

Academia Spin-off

- Many local VCs are small-scale, and it is necessary to devise measures to utilize technologies lying dormant at local universities from the perspective of JIC LP investment support

Go Global

- Collaborate with global accelerators to increase the number of Japanese entrepreneurs taking on overseas programs
- Seek an opportunity to collaborate with global Deep Tech VCs that are interested in investing in Japan

Carve-Out/ Roll-Up

- JIC has made only two LP investments due to limited scope and number of targets for investment
 - ✓ Many private buyout funds achieve their fundraising goals
 - ✓ The number of funds investing mainly in carve-outs and roll-ups is limited
- Larger carve-out deals: Some deals require participation of government-backed funds due to a lack of private-sector risk capital
 - ✓ JICC: Actively considering participation as a co-investor in large private sector-led carve-out projects from the perspective of complementing private sector funding

Attracting Overseas LPs

- Challenge: Limited number of global LPs investing in Japanese VC
(Foreign LPs are highly interested in investing in mid-sized Japanese buyout funds)
- Actions:
 - ✓ JIC members speaking at overseas conferences
 - ✓ JIC members communicate with overseas LPs to help cultivate interest in domestic VCs
 - ✓ Regular publication of English-language research papers on the Japanese market and other topics

Expanding VC Diversity

- Challenge: Recognize lack of diversity in domestic VC strategies, background and gender of capitalists and value-added propositions for startups
- Actions: Actively consider the first funds of managers who can realize diversity
 - ✓ Capitalist background
 - ✓ Investment strategies, value-added proposals for startups
 - ✓ Japan Fund by Global GP

Creating Large-Scale Success

- Challenge: Creation of mega-ventures/new industries
- Actions
 - ✓ Communicate with GPs to raise VC return targets matching to global LP expectation
 - ✓ Risk capital: Increase funding from institutional investors for secondaries, after-IPOs, and crossover between listed and unlisted
 - ✓ Global: Attract overseas VCs and support efforts to Go Global from founding stage

Collaboration between Global VCs/Accelerators and Domestic VCs/Startups

- Challenge: Startup ecosystem has little contact with global ecosystem
- Actions
 - ✓ Hired personnel for collaboration and ecosystem support to promote collaboration between overseas VCs and domestic VCs/startups which JIC has been working on since 2023
 - ✓ JIC will provide support for strengthening the ecosystem other than LP investment including support for organizing events, starting in 2024

Reference

Measures for increasing the supply of risk capital to the startup ecosystem



株式会社産業革新投資機構

- Individual fund
 - ① VC structure: Increase in the number of funds with a management structure and sophisticated operations that are trusted and accepted by domestic and overseas institutional investors
 - ② Attractive returns: “3x net and meaningful distribution performance” or “2x net + a convincing story” are required to attract investments from domestic and overseas institutional investors
- Startup: Increase in projects with high potential for success including global market expansion



Improve investment structure



Operate at the appropriate fund size



Sophisticated fund management and investor relations

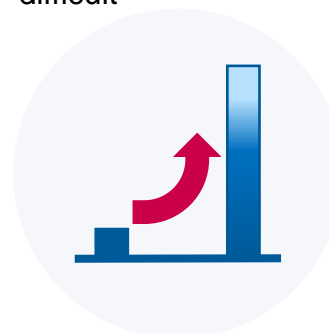


Increase in startups expected to make huge success



Attractive VC returns

- Increasing risk capital supply is an outcome, not an objective
- Putting the increase in the fund supply itself as the objective and resulting in the significant increase will lead to poor expected return and make sustainable market growth difficult



- ① Investments in leading Japanese startups by global GPs
- ② More attractive domestic VCs as an asset class
- ③ Increase in VCs attracting funds from domestic and overseas institutional investors

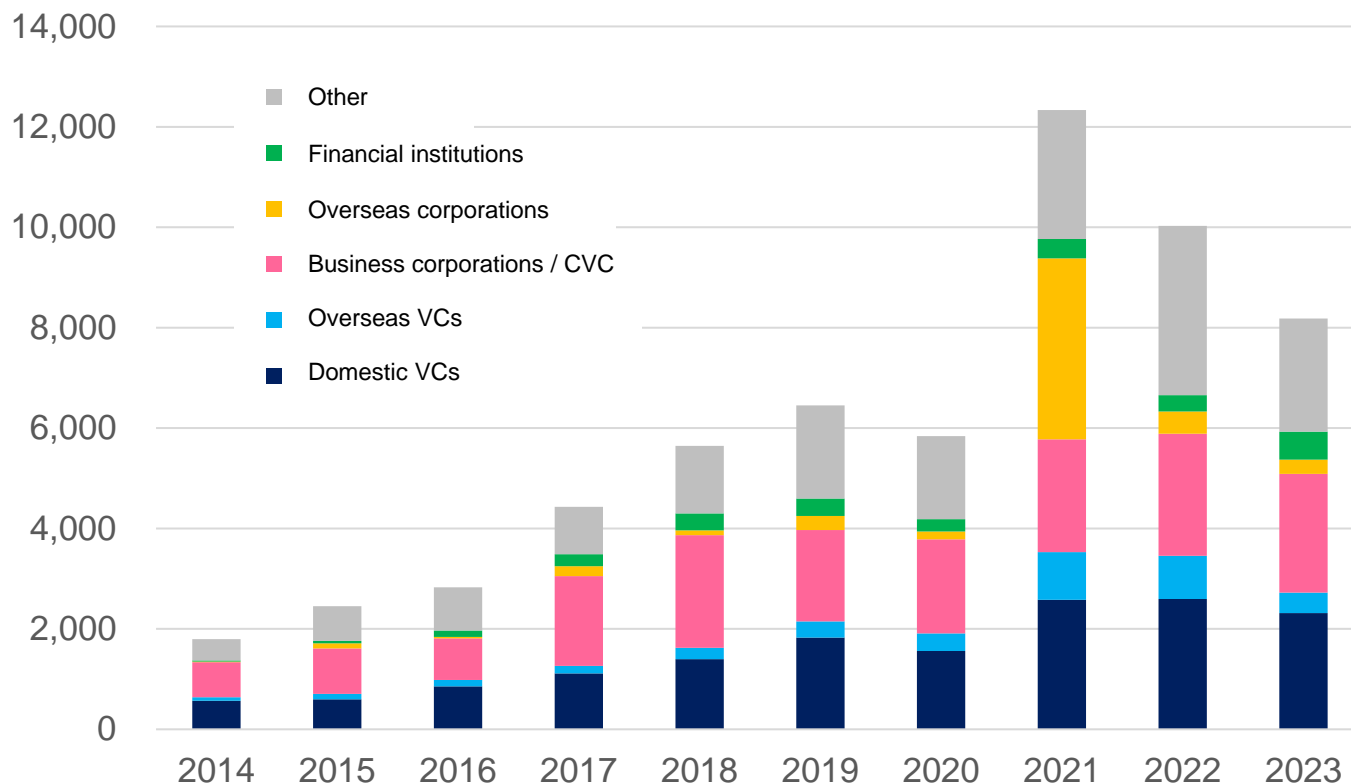


- Inflow of domestic and overseas direct investment funds
- Inflow of funds to VCs from domestic and overseas institutional investors

- Investment in domestic startups has expanded about 10-fold over the past 10 years and currently stands at about JPY800 billion per year.
- During the same period, the driving force has been investment by operating companies as one of the efforts for open innovation.
- The goal of Keidanren and the government's Startup Development Five-Year Plan is the investment size of 10 trillion yen per year by FY2027. All parties involved are expected to work toward the creation of the next generation of growth companies.

Investments in Japan Startups by Investor Type

(Unit: 100M yen)

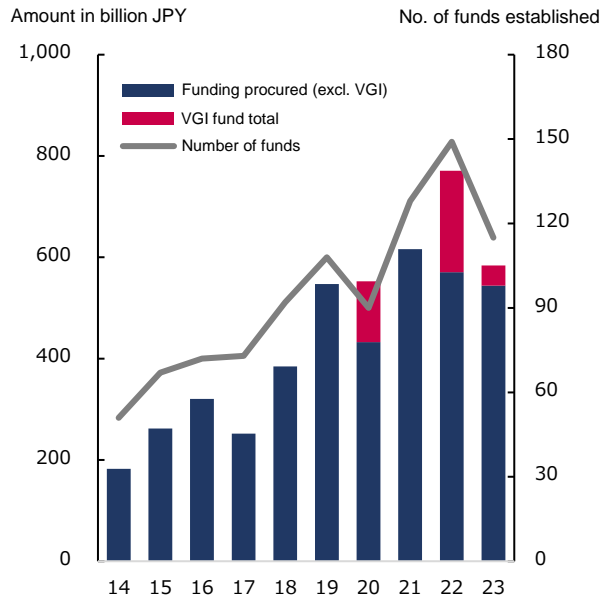


Note: "Overseas corporations" in 2021 includes PayPal's acquisition of Paidy for JPY300 billion

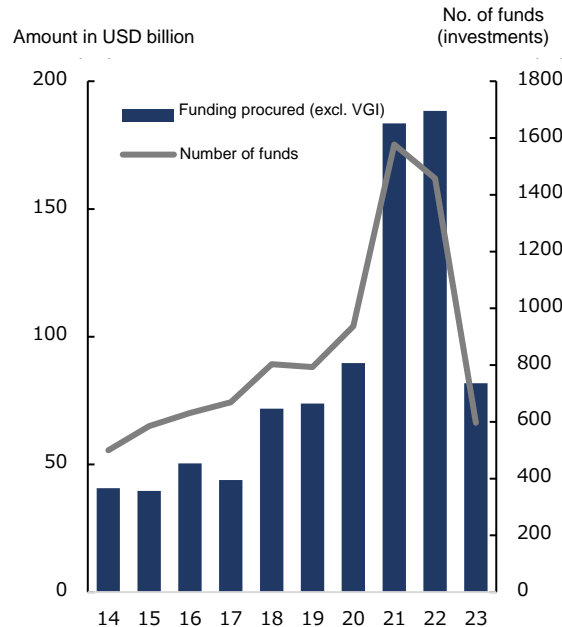
Source: Compiled by JIC based on INITIAL "Japan Startup Finance H1 2023"

- Currently, the amount of fundraising by VC firms which are investing in domestic startups is about JPY500 billion per year which is still small in scale, compared to US VCs which are approximately JPY20 trillion.
- The annual amount of European VC fundraising which was about JPY500 billion 10 years ago had expanded to JPY3 trillion by 2021-2022. This growth in the European VC market may serve as a useful reference for Japan's VC market growth and expansion

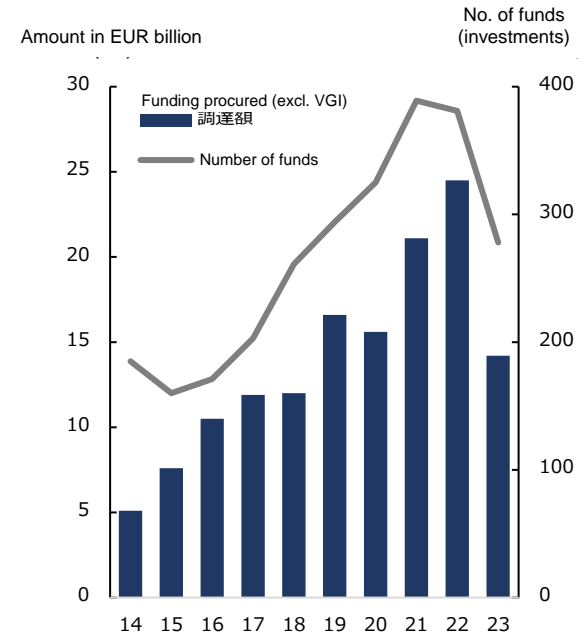
Japan (by launch year)



U.S.



Europe



(Notes)

- JIC-related investments included in the above VC funding in Japan are as follows:
 - VGI: 120 billion yen (2020), 200 billion yen (2022), 40 billion yen (2023)
 - Commitments by JIC to private domestic VCs: 69.5 billion yen (funds established 2018-2022)

A simple calculation shows that the investment amount by the JIC Group mentioned above accounts for 12% of the total market (fund creation year 2018-2023 cumulative).

Source: Compiled by JIC based on INITIAL, PitchBook, Investment Europe

Cautionary statement

- This publication has been prepared solely for informational purposes. This document is not or relate to disclosure materials mandated by the Financial Instruments and Exchange Act of Japan.
- This publication should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any financial product, transaction or investment strategy.
- The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons.
- The information in this document has been developed internally and/or obtained from sources believed to be reliable; however, neither JIC nor the author guarantees the accuracy, adequacy or completeness of such information.
- The information and analysis herein do not constitute advice of any kind, are not intended to be used for investment purposes, and neither JIC nor any of its subsidiaries or their respective officers, directors, shareholders, employees or agents accept any responsibility or liability with respect to the use of or reliance on any information or analysis contained in this document.
- The report is a copyrighted work of JIC and may not be published, transmitted, broadcast, copied, reproduced or reprinted in whole or in part without the explicit written permission of JIC.