

# **JIC's Mission and Investment Strategy**

## **Establishment of JIC Venture Growth Investments**

2020.7.8

## 1. JIC's mission (P.4 – P.7)

- JIC aims to generate a virtuous cycle of risk capital to support next-generation industries in Japan. To achieve this vision, JIC promotes open innovation as a means of supporting growth and enhancing the international competitiveness of Japanese businesses. JIC approaches these challenges by stimulating private sector investments in open innovation together with JIC's own investment while fostering investment professionals.

## 2. JIC's investment strategy (P.8 – P.10)

- JIC invests in funds established under JIC's initiative and in private sector funds.
- JIC VGI is established under JIC's own initiative.

## 3. Establishment of JIC Venture Growth Investments (P.11 – P.20)

- JIC Venture Growth Investments (JIC VGI) will help to promote Japanese innovation and improve its international competitiveness through growth-investments to startup companies.
- With the development of the VC market, the need for risk capital that can support companies at every stage, including the growth stage has been growing. JIC VGI will provide risk capital to help companies reach a new level of business growth.
- Taking a bird's eye view of industry road map, JIC VGI identifies industrial areas where the supply of risk capital for growth-stage startups is insufficient and determine its targeted areas in order to create new industries in Japan.

# **1. JIC's mission**

# 1) Background of JIC's Establishment

Global DX\* trends

Resolution of domestic and global social issues

**Enhance Japan's industrial competitiveness  
to ensure the sustainable development of the  
economy**

Industrial and economic revitalization is needed  
Creation of new growth companies and  
bold business restructuring



Domestic challenges

**The supply of risk capital in Japan is highly insufficient compared to other countries**



JIC's role

**Secure the funds and investment talent and to generate a virtuous cycle of risk capital**

\* DX (Digital Transformation): Companies are responding to disruptive changes in the external ecosystem (customers, markets) and driving the transformation of the internal ecosystem (organization, culture, employees), while using the Third Platform (cloud, mobility, big data/ analytics, social technology) to create value and establish a competitive advantage by transforming the customer experience both online and offline through new products and services and new business models.

(Sources: METI Study Group for Digital Transformation, DX Report: Overcoming the IT System cliff in 2025 and Full-scale Deployment of DX, September 7, 2018; Japan IT Market Top 10 Predictions for 2018; Transforming into a Digital Native Company, Dramatically Expanding Innovation in the DX Economy, IDC Japan Press Release, December 14, 2017)

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### 3) Our Mission

#### (1) Enhance the growth of next-generation companies and competitiveness



#### (2) Build a foundation for the establishment of a virtuous cycle of risk capital in Japan



## 4) JIC's Code of Conduct

- Executives and employees of JIC and authorized funds strive for top-level performance, maintaining a high standard of ethics and adhering to the Code of Conduct below.
- General partners jointly investing with JIC are also expected to respect this Code of Conduct.

**Integrity & Discipline**

**Excellence & Professionalism**

**Accountability & Responsibility**

**Respect & Teamwork**

## **2. JIC's investment strategy**

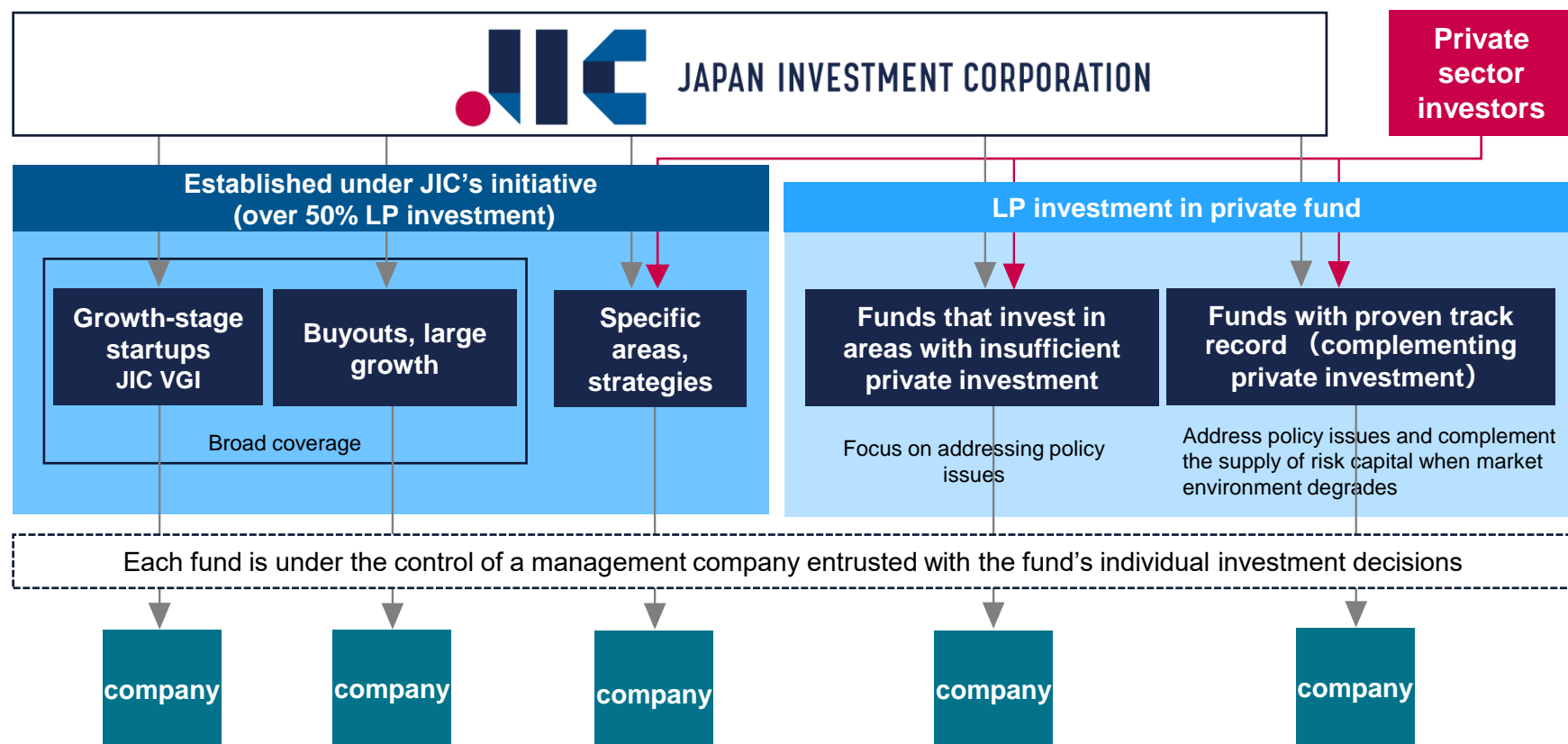


# 1) JIC's Fund Investment Strategy



株式会社産業革新投資機構

- JIC invests in funds established under JIC's initiative and in private sector funds
- JIC VGI is established under JIC's own initiative
- JIC will continue to consider investments based on its funds' strategy and its principle of complementing the private sector.



## 2) Types of Investment by JIC



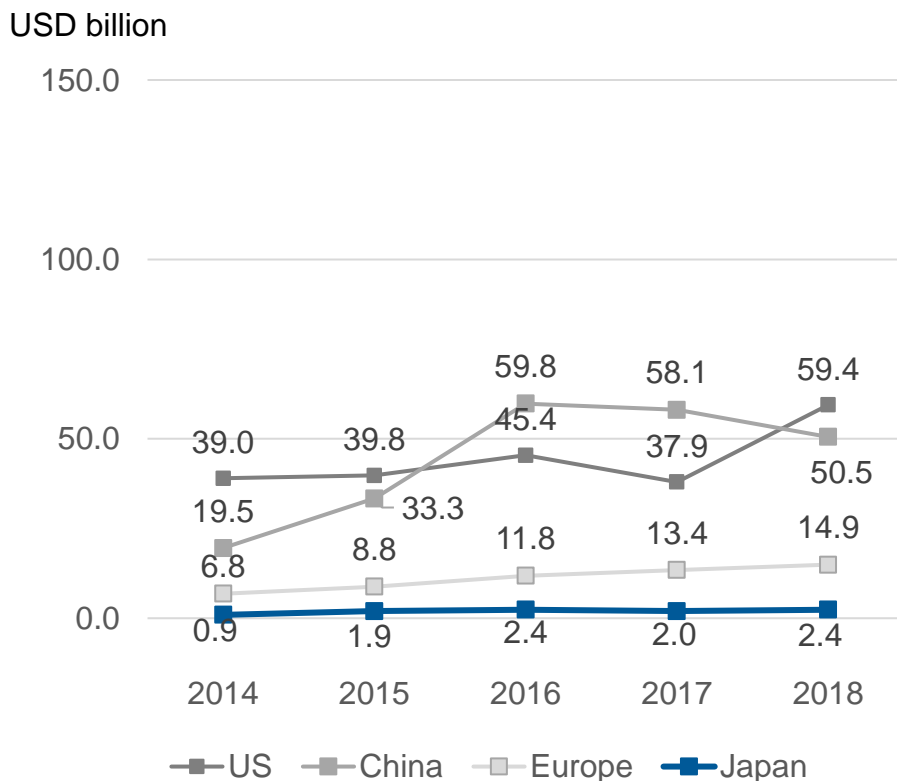
Manager	Strategy	Investment candidates	LP investment stake	Investment amount per fund	Complementation of private sector investment
Investment management company established under JIC's initiative	Broad coverage	One VC and one PE fund	First fund: JIC 100% Second fund onwards: JIC + External investors	VC: JPY120 bn, PE: JPY 200 bn (+joint investment fund JPY 200 bn)	<ul style="list-style-type: none"> <li>Follow policy issues and invest in sectors, stages, and strategies where private investment is insufficient</li> </ul>
	Specific areas, strategies	Considers multiple areas	Less than 100%	JPY10s of billions	
Private-sector investment management companies	Sectors and strategies where private investment is insufficient Ex: Life sciences, materials, manufacturing, regional areas, etc.	Funds that can expect to receive capital from institutional investors now and in the future	Evaluated on a case-by-case basis	JPY10s to JPY100s of billions	<ul style="list-style-type: none"> <li>Invest in areas where private investment is insufficient</li> <li>Supply risk capital to proven funds to address the shrinking of LP capital</li> <li>Complement and serve as a catalyst for private sector investment</li> </ul>
	All areas in which JIC invests	Funds with a proven track record (address reduction in new commitments by LPs)			

### **3. Establishment of JIC Venture Growth Investments**

- Internationally, risk capital is targeted to US venture businesses, while in Japan few new funds are being established. Creating unicorns in Japan will require raising the supply of risk capital to international levels.

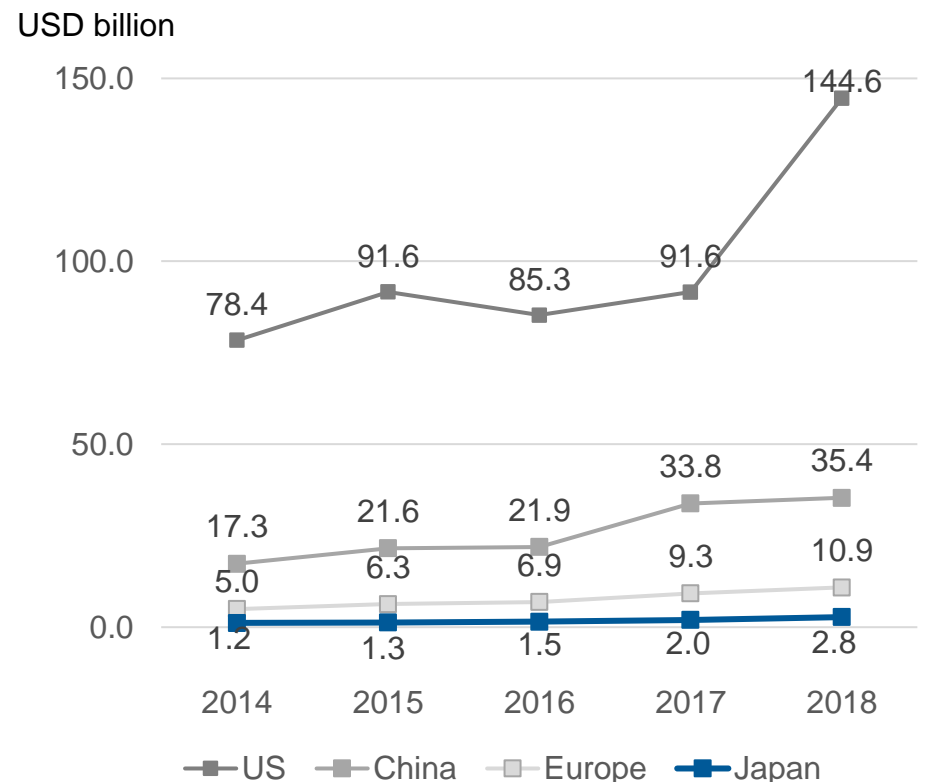
## Trends in VC fund establishment by country & region

US and Chinese funding at around USD 50 billion.  
Europe showing linear growth.  
Japan's funding remains around USD 2 billion.



## Trends in venture investment by country & region

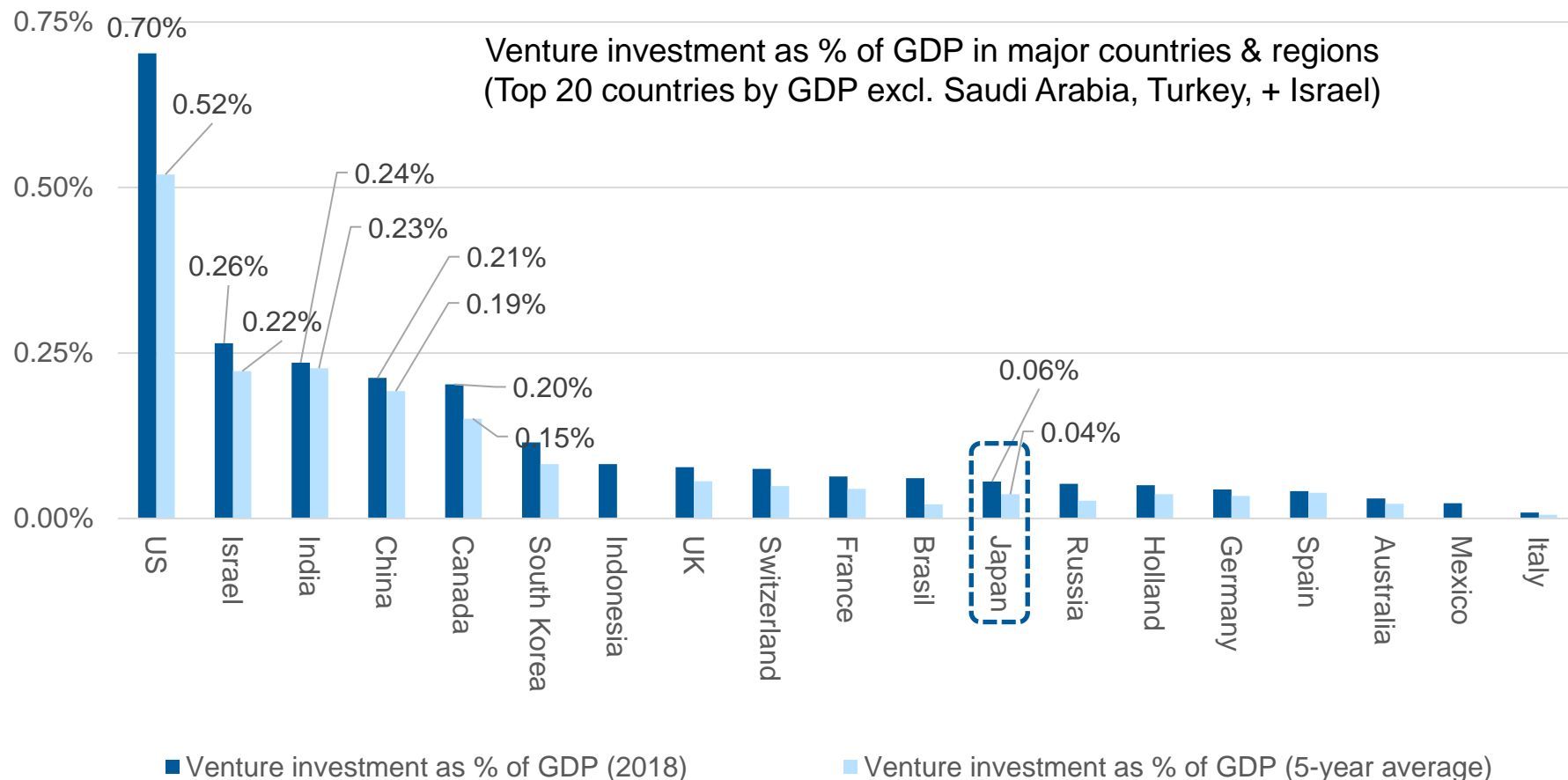
US investment trending at about 200%, great amount compared to fund establishment. (Inflow of funding to US due to limited investment candidates in other countries is assumed)



Source: Venture White Paper 2018/2019 (Venture Enterprise Center), JIC edited

- Japan venture investment is lower mid range among major markets. Lifting Japan to an international level would require investment of around JPY 1 trillion (500% current domestic VC investment, JPY 200 billion).

## VC investment in major countries & regions



Source: Venture White Paper 2018/2019 (Venture Enterprise Center) and Venture capital investments (OECD), JIC edited

Promote innovation, contribute to international competitiveness and help address industrial and social issues through investment to growth-stage startups.

## Mission

- ① **Strengthen industrial competitiveness** through ample risk capital supply to growth-stage startups based on the Industrial Policy and working with private businesses.
- ② Help **resolve social and industrial issues** through accelerating innovation which is created by discovering and supporting new technologies and new businesses driving industrial transformation.
- ③ **Promote open innovation** beyond the boundaries of existing industrial sectors, aiming to encourage social implementation of innovation and contribute to the development of a domestic innovation ecosystem.
- ④ Focus on deal sourcing, hands-on approach and value-up activities including industrial collaboration, leveraging the **networks and catalytic functions** as a public and private industry fund, to maximize investment returns.
- ⑤ Through the above activities, identify and develop investment professionals and contribute to establishing a **base for deep and diverse risk capital supply in Japan**.

## Basic fund policy in support of our Mission

- ① **Engage diverse management personnel** without being confined by previous ways of thinking
- ② **Invest from a broad viewpoint** responding to changes in social structure and open to the future
- ③ **Actively cooperate with large companies** to complement the resources of venture businesses
- ④ **Collaborate broadly across industry boundaries** without being constrained by existing value chains
- ⑤ **Work as an equal partner** with industries, venture businesses and investment portfolio

## Structure

- Investment Limited Partnership (LPS): VGF1 (In accordance with the Act on Investment Limited Partnership agreements)
- General Partners (GP):
  - JIC Venture Growth Investments (VGI)
- Limited Partners (LP):
  - Japan Investment Corporation (JIC)
  - VGF1 Officer and Employee Investment Limited Partnership (VGF1 OEILP)

## Fund/Investment scale

- Fund size: Approximately JPY 120 billion
- Investment scale per company: Approximately JPY 1.0 billion – JPY 5.0 billion

## Investment areas

- Areas that contribute to encouraging industrial innovation and resolving social issues
- Assumed Series B to Middle, Growth and Later Stage

## Investment period

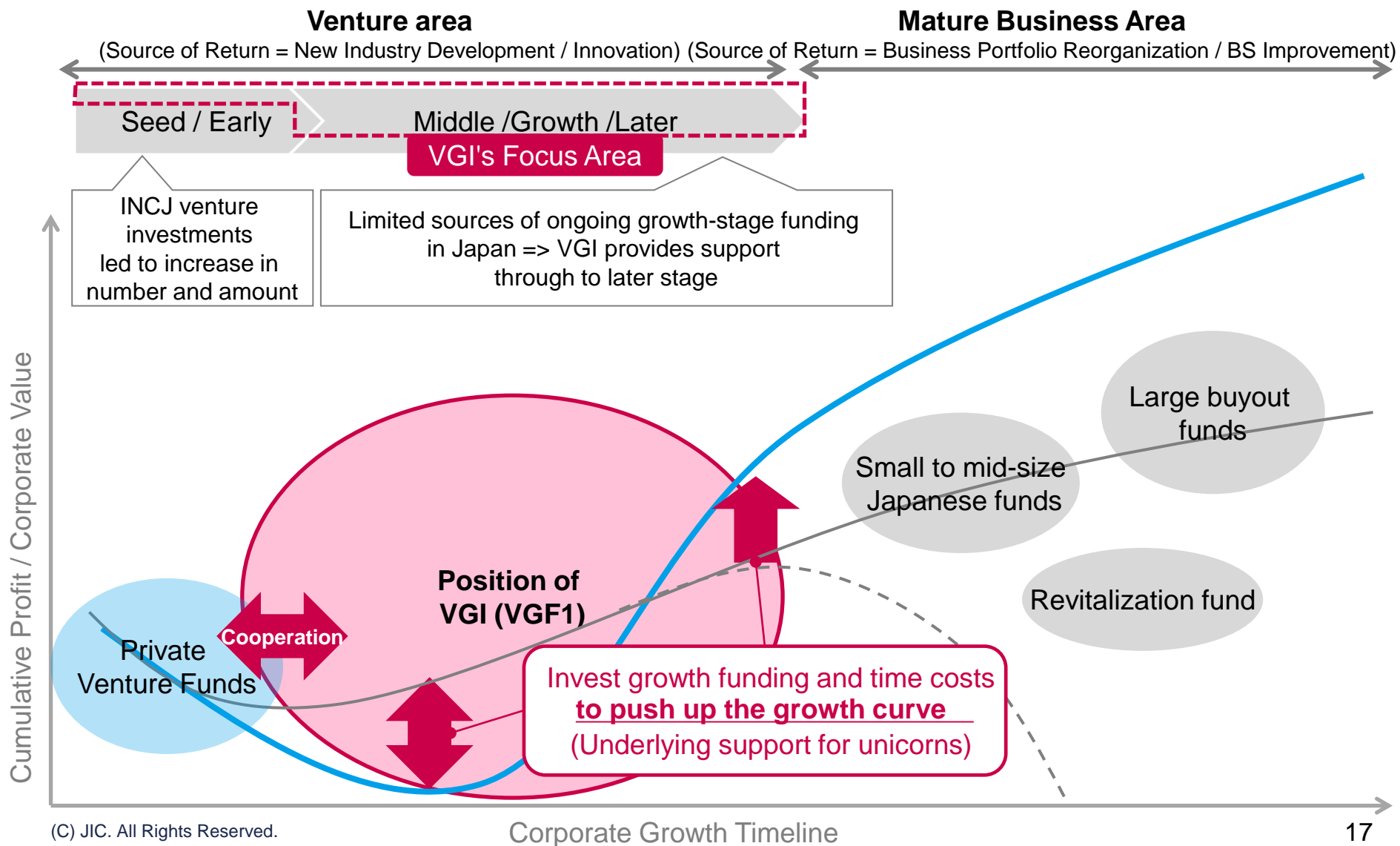
- Period of operation: 12 years
- Investment period: 5 years + 2-year extension (subject to LP consent)
- Extension of Operation Period: 1 year (subject to LP consent, from after establishment up to December 2033)  
\*Considering JIC will continue to operate until March 2034

## Governance

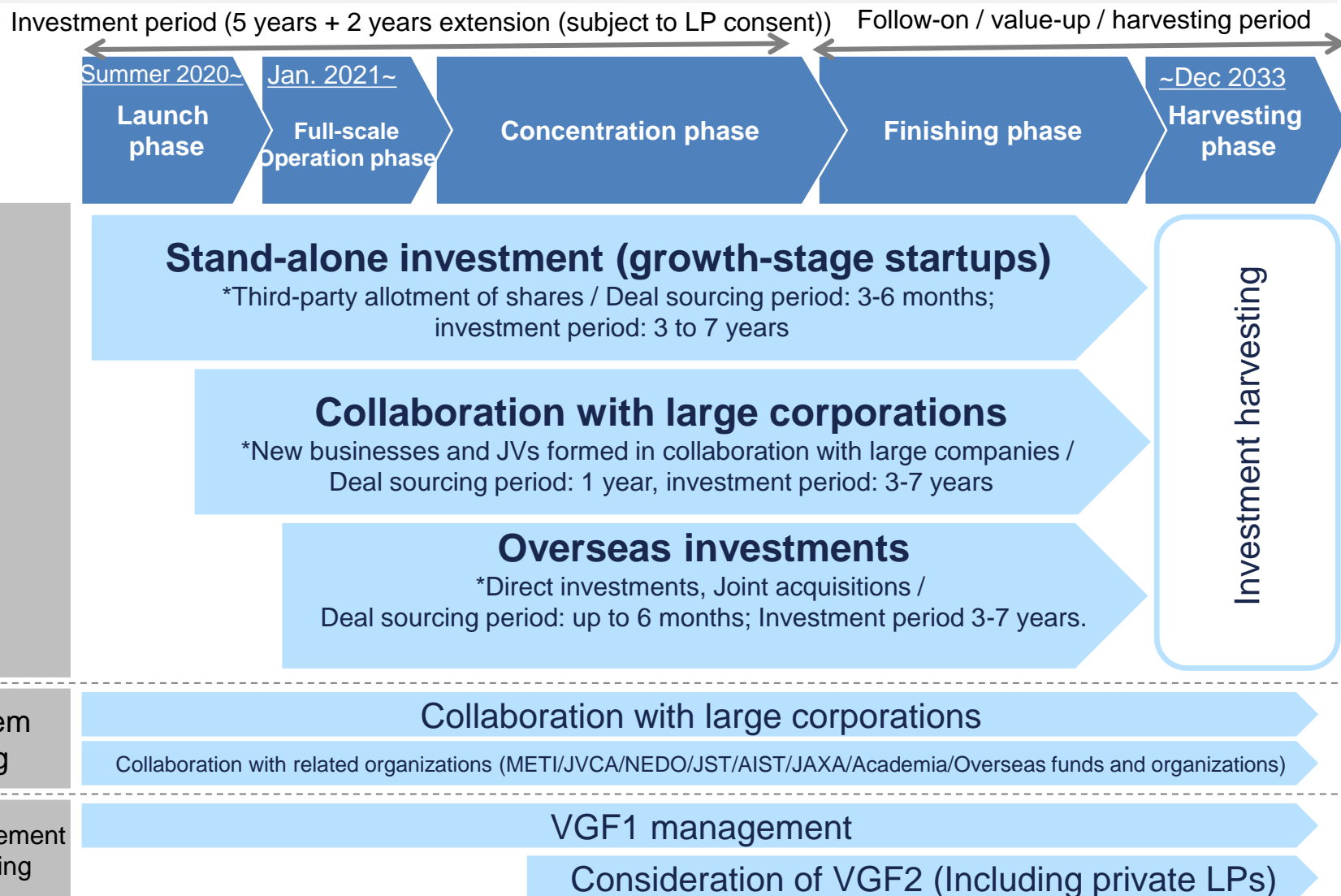
- Investment committee: JIC participates in each meeting as an observer to ensure consistency with the fund's investment criteria.
- Investment guidelines: Investments that are over 10% of total LP commitment require LP approval.
- Reporting: Quarterly reports to JIC, including financial statements and general status of investee companies.



- With the development of the VC market, the need for risk capital that can support companies at every stage, including the growth stage has been growing.
- VGF1 will provide risk capital to help companies reach a new level of business growth.



- After the launch of the fund, we aim to build an innovation ecosystem among growth-stage startups in order to contribute to enhancing the entire industry as well as maximizing investment returns, in addition to the investment activities.



- VGF1 takes a bird's-eye view of the industry roadmap and identifies areas where risk capital to growth-stage startups is lacking. (Accordingly, there is no limitation on industry area)

Below are examples of industrial sector classification. **Address areas where risk capital is needed** as a public private industry fund.

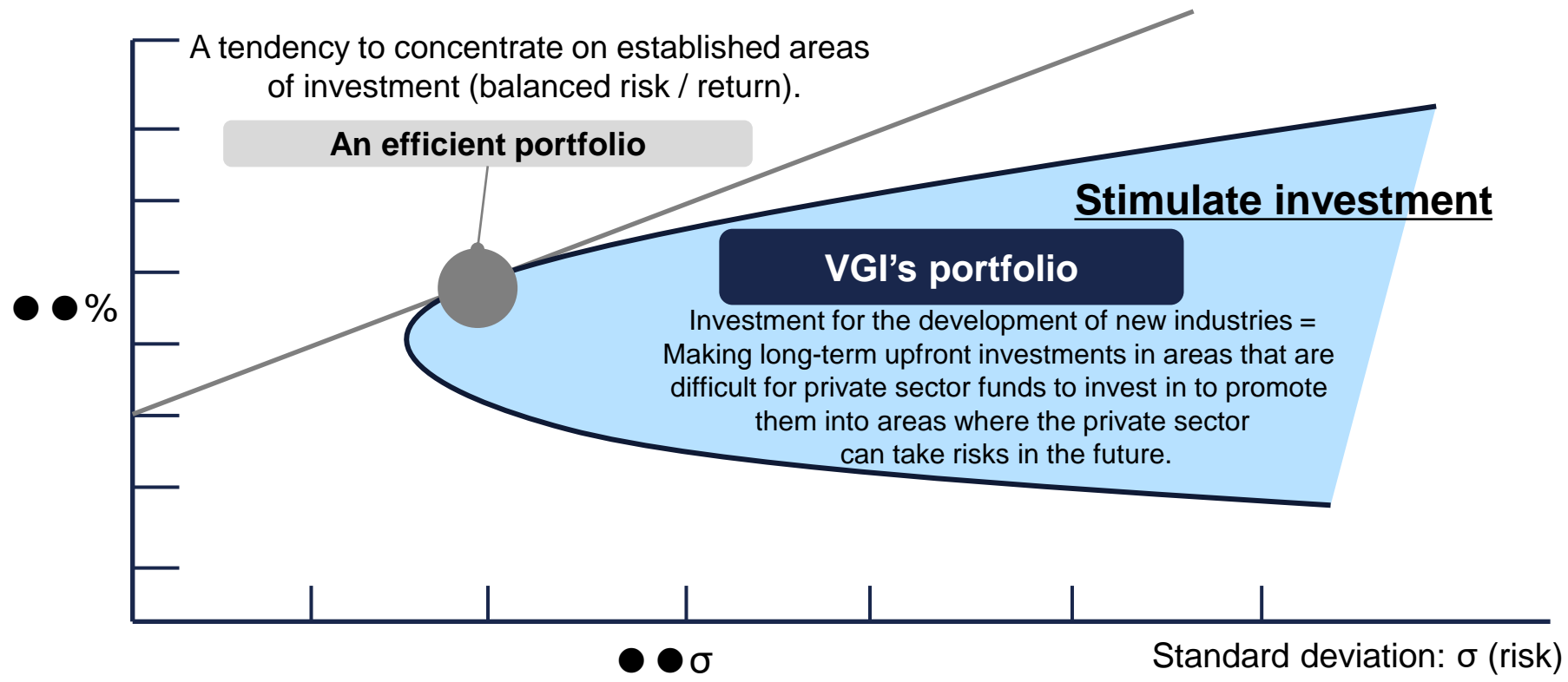
Industry	Investment area	Outline
Telecommunications	DX / SaaS, etc., ERP	• SaaS / packaged software etc. for digital transformation in existing industries
	AI / BigData / Informatics	• Algorithm development, data collection, integration and utilization (Society 5.0), etc.
	Internet services	• Consumer ICT services (including efficiency / productivity improvements)
Finance	FinTech	• Cashless, Settlement, Security technology, etc.
Transportation / Retail	Transportation	• Smart Mobility (MaaS) / Smart Logistics
Manufacturing	Industrial machinery / Devices	• Industrial equipment, innovative devices and networking (including digital transformation, i.e. IoT in factories)
	Robotics / human augmentation	• Enhancement / supplementation of the functions of the five senses / Next-generation consumer devices
Service	HRTech	• Tacit knowledge, application of ICT to levels of experience, Individual AI optimization / crowdsourcing (including technology)
	EdTech / childcare	• Application of advanced technologies in the fields of education and childcare (including AI / IoT)
	Nursing care	• Utilization of advanced technologies in nursing care and other fields (including AI / IoT)
	RegTech	• Utilization of advanced technologies in regulatory and legal areas (including AI / IoT)
Healthcare	Healthcare	• ICT healthcare, medical testing equipment, platforms (Healthcare smart city), etc.
	Medical	• Medical devices and drug discovery
Construction / Utilities	Environmental energy	• Technologies necessary for a sustainable society (sustainable technologies, models, etc.)
Material science	Material science	• Development of new materials
Primary Industry / Food	Agri & FoodTech	• Making primary industries smarter, New foods, etc.
New industry	Space	• Creating new businesses opportunities in space
	Quantum	• Quantum computers / implementation of quantum effects (information, manufacturing, materials, etc.)
	Deep tech	• New value-added services using innovative technology

\*ESG investment in line with policy objectives and the Sustainable Development Goals (SDGs) will be taken into consideration for investment decisions.

- To promote new industries and innovation, VGI invests in areas and stages of development that are difficult for private sector funds to invest in, based on an appropriate risk / return assessment, which will enable VGI to stimulate private sector investment.

VGI's policy strategy under the efficient portfolio approach

Expected return ( $E(r)$ )





**JAPAN INVESTMENT CORPORATION**