

An Asset Management Firm Operating as a Professional Firm

Overview

The Asset Management Industry Study Group, organized by the Japan Securities Research Institute (a public interest incorporated foundation), conducted interviews with major US asset management firms specializing in active management to gather insights into strengthening investment capabilities.

A key characteristic of this asset management firm is its consistent focus on merit-based talent management. As a professional firm, it operates under a rigorous performance evaluation system that rewards top-performing portfolio managers (PMs) with substantial compensation based on their track record and conducts performance reviews tied to results. Furthermore, to eliminate the element of “luck” attributable to market conditions, the firm employs various strategies in evaluating investment performance, such as extending the evaluation period and providing feedback that takes into account the rationale behind investment decisions in order to judge their merits as accurately as possible. Each PM makes their own decisions and bears sole responsibility for the investments within their portfolios.

As a foundation for PM development, the firm invests significant time in recruiting top talent. Once hired, PMs enhance their investment skills through discussions with fellow PMs and analysts, as well as through hands-on investment experience, all within the firm’s investment process. This approach to talent development does not lend itself to standardized methods or training manuals; rather, it resembles the way masters of traditional arts train their apprentices.

High compensation alone is not sufficient to retain top-tier PMs within the firm. Creating an environment where PMs can hone their investment skills through discussions with outstanding PMs and analysts, as part of the development process described above, is crucial for maintaining their motivation to continue investing within the organization.

To fully uphold fiduciary responsibility as an asset management firm, it is essential that a client-first management philosophy and mission are thoroughly embedded as a foundation not only in the investment department but also in the departments that support investment activities. Fiduciary responsibility is not viewed merely as a matter of adhering to detailed rules and laws.

Table of Contents

- 1. The Importance of Strengthening Investment Capabilities**
- 2. Mechanisms for Unlocking Superior Investment Capabilities**
- 3. Strategies for Retaining Top Talent**
- 4. Remaining Challenges in Strengthening Investment Capabilities**
- 5. Our Approach to Fiduciary Responsibility as an Asset Management Firm**
- 6. The Path to Strengthening Investment Capabilities**

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1. The Importance of Strengthening Investment Capabilities

The Japan Securities Research Institute, a public interest incorporated foundation, launched the Asset Management Industry Study Group (hereinafter referred to as “the Study Group”) in

January 2026, and by June, it had already held six meetings. At the first meeting, participants praised the research and investment capabilities demonstrated by overseas portfolio managers (hereinafter “PMs”) in equity management. Several committee members also pointed to the importance of training investment professionals, the existence of a capability gap between PMs at global asset management firms and those at Japanese firms, and the need to address that gap. The committee members were unanimous in their view that the asset management industry cannot develop without strengthening the ability to construct portfolios based on accurate valuations of investee companies. Consequently, the Study Group decided to begin by conducting interviews with asset management firms possessing outstanding global investment capabilities to learn about their investment mechanisms and other practices. Specifically, at the fourth meeting, the group conducted an interview with a major US asset management firm.

Founded in the 1930s, this asset management firm has a history of nearly a century, operating exclusively in active management. Despite experiencing periods of sluggish returns, it has survived as an active manager to this day, earning high regard in the industry. We invited them to present at our study group because we believe they are the ideal firm from which to learn how to build core competencies in company and portfolio analysis.

This firm specializes in bottom-up fundamental analysis, particularly of listed equities. Needless to say, investment strategies widely vary across the world, and it is unclear whether the insights from this case study will translate to other investment strategies. That said, the organizational structure of a firm that has consistently delivered outstanding performance through active management over the long term is sure to offer valuable insights for other companies. This paper uses equity investment as an example to explain their investment methods and organizational design, and to explore insights for strengthening investment capabilities.

2. Mechanisms for Unlocking Superior Investment Capabilities

(1) Meritocracy as a Professional Firm

A defining feature of an investment organization is that it operates as a “professional firm.” Ultimately, an investment firm’s competitive advantage lies solely in its investment performance. A “professional firm” is an organization in which a diverse group of experts with specialized investment knowledge forms the core of the business, and a merit-based system is rigorously upheld in pursuit of superior investment results. Major asset management firms typically manage multiple investment strategies, and the performance of each strategy constitutes a source of the firm’s strength. The nature of such a firm can be more easily understood by drawing a parallel with professional sports such as baseball or soccer. PMs are akin to professional athletes, while the asset management firm creates the systems that enable them to deliver excellent investment

performance, thereby building an organization with strong investment capabilities.

As will be discussed later, while multiple PMs or analysts may share management of a single fund, the final investment decisions are made by individual PMs, and performance is measured on an individual basis. Each PM bears full responsibility for the investment performance resulting from their own decisions. This is not a system in which collective responsibility blurs individual accountability.

Just like professional athletes, PMs are evaluated based on their investment performance, and those who deliver outstanding results receive substantial compensation. At the same time, performance-based human resource management is strictly enforced, including the reassessment of roles and responsibilities in line with performance. It is a demanding world where meritocracy is rigorously upheld, with little regard for factors such as seniority.

Although exact figures are unknown because information on PM compensation is not publicly disclosed, interviews conducted by the author with industry insiders¹ suggest that high-performing PMs at overseas asset management firms are often paid compensation in the hundreds of millions of yen, and in some cases, this can exceed JPY 1 billion. This particular firm manages nine active funds with combined assets under management exceeding JPY 20 trillion, suggesting it has a substantial revenue pool capable of supporting such levels of compensation. Incidentally, the starting salary for college graduates at another US asset management firm is reportedly USD 150,000 (approximately JPY 23 million) as of 2025, so offering generous compensation to exceptional PMs is likely an effective means for attracting and retaining talented personnel.

(2) Approaches to Evaluating Investment Performance

In the case of equity investments, when the investment horizon is short, investment performance² tends to reflect a mixture of a PM's own ability and elements of "luck" arising from the investment environment and other factors; therefore, the evaluation period is designed carefully to account for this. Multiple time frames—such as one, three, five, and eight years—are used, and performance for each period is evaluated using different weightings. Notably, performance over the eight-year period—the longest evaluation period—is given the highest weight.

Another important aspect of the evaluation process is the built-in mechanism for thoroughly examining why an investment is being made in a particular company. By clearly defining the rationale for an investment, it becomes possible, if the investee company's performance deteriorates, to identify whether there was a flaw in the initial investment hypothesis. Furthermore,

1. Consulting firms that provide recruitment services for asset management companies, as well as executives of such companies.

2. Typically measured by excess returns relative to the benchmark.

when evaluation periods are short, investment performance is more likely to be influenced by specific factors in the investment environment. In such cases, it is crucial to revisit the original investment rationale to assess the merits of the investment decision.

This asset management firm also tends to retain its investment managers for relatively long periods and cultivates and evaluates talent from a long-term perspective. This combination of long tenure and the aforementioned mechanisms allows the relative merits of each PM's investment hypotheses to become apparent over time. Consequently, the capabilities of individual PMs naturally reveal themselves within the organization, resulting in a system that enables their aptitude and abilities to be assessed accurately.

To accurately evaluate investment performance, quantitative factor decomposition is also performed to analyze the extent to which a PM's ability contributes to the results. For example, analysts and PMs conduct detailed analyses to determine which factors their recommended stocks or constructed portfolios are biased toward. Additionally, there is a system in place to clearly distinguish whether excess returns stem from specific factors or from individual stock selection. Furthermore, a distinctive feature of this asset management firm is that evaluations are conducted comprehensively, considering both individual stock selection decisions and the overall investment process, rather than relying solely on a single factor.

Performance evaluations to measure investment results are also conducted rigorously. For example, for over sixty years, this asset management firm has employed a unique investment approach in which a single fund is managed by multiple PMs and analysts. This system is designed to achieve consistently strong long-term performance by building portfolios based on high conviction—without relying on any particular “star” PM—while ensuring overall diversification.

Each PM makes buy-and-sell decisions based on their own investment judgment. Within the same fund, it is not uncommon for one PM to buy a particular stock while another sells it, making completely opposite investment decisions. Such a complex management approach would not be feasible without a system capable of rigorously measuring the performance of each PM individually. To fully implement a merit-based system, the evaluation methods and performance measurement systems must be carefully designed.

Incidentally, having multiple PMs manage a single fund is not a method unique to this firm. Several asset management firms operating in London employ a similar approach in which multiple PMs manage a single fund. Like this firm, they also maintain rigorous performance evaluation systems.

(3) Development of Portfolio Managers

A key characteristic of this asset management firm is its commitment to recruiting top talent before even beginning PM development. The hiring process involves multiple stakeholders conducting interviews from a variety of perspectives. The goal is to rigorously assess candidates'

compatibility with the corporate culture and their aptitude for collaboration by gathering input from numerous people.

Developing outstanding PMs is critical to consistently generating excess returns, and the firm employs a range of innovative approaches to achieve this. The firm has a particularly thorough training methodology, with its basic model being to hire recent university or graduate-school graduates and develop them over the long term. The majority of PMs are individuals who have gained experience internally as analysts before assuming portfolio management responsibilities.

Another distinctive feature of this asset management firm is that analysts responsible for company research also manage actual fund assets. As part of their responsibilities, analysts select securities themselves and manage real capital. The firm believes there is a significant difference between actually managing investments and merely recommending specific securities, so analysts are expected to build their own portfolios based on their own investment decisions.

The way this asset management firm trains PMs is reminiscent of how masters of traditional performing arts train their apprentices. There is no standardized training method; instead, skills are honed through daily discussions with other PMs and analysts, making actual investment decisions, and using those results to provide feedback and improve skills.

While this asset management firm's approach to hiring and training new graduates may be somewhat unusual, it is consistent with many overseas asset management firms which rarely hire mid-career candidates directly as PMs. Instead, in most cases, individuals gain experience as analysts or in similar roles, become familiar with the firm's investment processes, and are then promoted to PM only after demonstrating outstanding investment performance. A likely reason for this is that many analysts aspire to eventually become PMs themselves, and hiring PMs directly from outside the organization could undermine their motivation.

(4) Investment Support Mechanisms

In addition to the rigorous performance measurement mechanisms mentioned above, another distinguishing feature is the range of support mechanisms in place to enable PMs to perform at their best. Portfolio risk analysis is one such example.

For instance, even if a PM wishes to minimize sector risk relative to the benchmark, the bottom-up approach to portfolio construction—in which buy-and-sell decisions are made on a stock-by-stock basis—will inevitably introduce some degree of bias into the portfolio. To address this, regular portfolio risk reports are provided for each fund for portfolios whose composition changes based on bottom-up investment decisions. The firm provides a suite of tools to analyze how various factors and sector risks are being managed, as well as to assess the potential impact on funds during macroeconomic shocks, such as the Lehman crisis or a surge in oil prices. Since the data is updated regularly, PMs can review these results to guide investment decisions—such as correcting factor imbalances—during the fund construction process.

Additionally, the firm provides organizational support to allow PMs to stay focused on investing. While the specific titles may vary slightly across asset management firms, it is standard practice to designate a representative, either within the investment or sales department, to explain the portfolio contents to clients. These representatives provide explanations of the portfolio to interested parties, including prospective clients. This allows PMs to concentrate on investing, as day-to-day client interactions are delegated to these representatives.

3. Strategies for Retaining Top Talent

The previous chapter examined several mechanisms designed to achieve excellent investment capabilities. However, these alone are insufficient to sustain those capabilities over the long term. This is because outstanding PMs are highly valued human resources at any asset management firm, which means they are constantly at risk of being poached by competitors. As such, strategies to retain top talent within the company are also crucial for maintaining a high-performing investment organization. These strategies can be understood through the PM development process described in the previous chapter.

As previously explained, this investment firm has established an investment process in which discussions with other analysts and PMs are a critical element of decision-making. The firm encourages lively debate and collaborative dialogue among investment professionals based on diverse perspectives, using multifaceted discussions to strengthen confidence in investment decisions. Investment ideas are scrutinized from multiple angles, making the investment process difficult for even the most talented PM to navigate on their own.

Discussions among PMs take place from multiple points of view. As a result, opinions may differ completely, leading to situations where one PM buys a specific stock while another sells it. An environment where different investment decisions emerge from the same discussion is rooted in a corporate culture that values collaboration, mutual understanding, and diversity. This indicates that the investment process has been designed to nurture PMs over a period of ten to twenty years.

There will inevitably come a time when a PM's performance falters. In these moments, what matters most is recognizing what went wrong and making the necessary adjustments. This asset management firm has many PMs with over thirty years of experience. They share with other analysts and PMs what they were thinking during past stock market crashes—such as when sudden capital outflows began—as well as their reflections on the Lehman Shock and the AI bubble. Analysts and PMs with less market experience can listen to these accounts and use them to form their own investment judgments. The opportunity to hear insights gained from long-term investment experience is likely unavailable outside such an organization. Being part of such an environment is a tremendous asset for these PMs, and it is presumed to be one of the major reasons they choose to remain with their current firm.

4. Remaining Challenges in Strengthening Investment Capabilities

Thus far, we have examined the characteristics of this firm's investment approach. It is evident that there are many aspects of its practices—such as its merit-based system, performance evaluations that emphasize a long-term perspective, approaches to PM development, and investment support mechanisms—that could serve as useful insights for other firms. That said, this asset management firm differs from others in many respects, and these differences are themselves evidence that there is no single methodology for strengthening investment capabilities.

One area that sets this firm apart from others is its approach to portfolio construction. As noted above, it employs a portfolio construction method in which multiple PMs and analysts jointly manage a single fund. Even though they employ a team-based management structure, a key feature is that each individual manager makes their own investment decisions. At the same time, ensuring that all team members understand and share each other's investment decisions has helped the system guarantee continuity and reproducibility over a period of more than fifty years without relying on any single "star" PM.

Since each PM makes investment decisions based on the capital for which they are responsible (typically a portion of the fund), it is difficult to control the fund's overall risk management. While this approach incorporates different investment perspectives into a single fund to ensure diversity and prioritize the stability of excess returns, it comes with the drawback of more complex risk management. How the firm balances these two factors is likely central to its investment know-how and a source of its competitive advantage.

The firm's approach to evaluating PMs is also distinctive. While an individual's investment performance remains the primary focus of their evaluation, their contributions to the success of other PMs and analysts are also assessed. For example, the firm evaluates the extent to which equity analysts and PMs were involved in selecting investment targets. In other words, the evaluation doesn't just focus on individual investment performance but also on how a PM shares their investment ideas with other PMs and how effective those ideas actually are. Thus, while the system is merit-based and centered on investment performance, it also places importance on contributions to the team, resulting in a balanced evaluation approach.

Another point—though not directly related to strengthening investment capabilities—is that this asset management firm has an internal system designed to replicate the process used by distribution companies for marketing its own funds effectively. The firm believes that by enhancing the reproducibility of its investment products in the sales environment, it ultimately contributes to the long-term wealth accumulation of investors. Specifically, it provides training programs for financial advisors (FAs) responsible for sales at its US distribution company. This asset management firm collects and analyzes data on FAs and conducts benchmarking. In other

words, it benchmarks the behaviors and characteristics that distinguish top-performing FAs from others, analyzes what activities are necessary for salespeople to become high-performing FAs, and provides training to make those practices reproducible. This initiative was started in Japan four years ago and currently employs three training specialists.

5. Our Approach to Fiduciary Responsibility as an Asset Management Firm

At the first study group meeting, several members suggested that the group discuss how to approach the fiduciary responsibilities of asset management companies. Accordingly, this issue was also raised with the firm. The firm's stance is clear. To put it simply, fulfilling fiduciary responsibility begins with a client-first management philosophy and mission that guide not only the investment department but also the departments that support investment activities. In other words, the firm does not view fiduciary responsibility as something dictated solely by detailed rules or laws.

The PMs at this asset management firm typically interact with institutional investor hiring managers and representatives from distribution firms, and must appeal to them as part of their job. However, the core of their fiduciary duty lies in making investment decisions with the pension beneficiaries and individual investors behind these intermediaries in mind. The firm has adopted a meaningful mission statement: to continually assess whether its investment decisions and client services enrich people's lives. This is no mere slogan. Management takes the time to carefully convey this mission to the staff as part of the organization's culture. The key to fulfilling fiduciary responsibility lies in instilling the awareness that the purpose of the staff, PMs included, is to enrich people's lives through successful investments and ensuring that this belief is reflected in investment decisions and client services.

The firm states that its guiding principle is to always return to the fundamental question of whether any given action will truly lead to long-term benefits for investors, regardless of market conditions. This consistent approach forms the foundation of its investment strategy, corporate culture, and organizational structure, and serves as the cornerstone of fulfilling its fiduciary duty.

6. The Path to Strengthening Investment Capabilities

Thus far, we have examined the characteristics of an asset management firm that has achieved outstanding investment performance, and it is clear that its success has not relied on gimmicks or unconventional methods. Rather, it has built its excellent performance over a long period using tried-and-true approaches. What insights can we draw from these examples?

It bears repeating that professional management is indispensable to maintaining superior investment capabilities. Charles D. Ellis, who has spent many years providing consulting services to leading professional firms, including asset management companies, lists seven criteria of

outstanding professional firms in his book: (1) mission, (2) culture, (3) recruiting, (4) developing people, (5) client focus, (6) innovation, and (7) leadership. While all of these are easier said than done, as discussed throughout this paper, this asset management firm shares common traits, including a mission that prioritizes client interests above all else, a strong corporate culture, the recruitment of top talent, employee development, and a client-centric approach. It appears that the organization is operating with a steadfast commitment to upholding these principles. As long as firms continue to adhere to traditional Japanese management approaches—such as prioritizing seniority or worrying about treatment within the group—it seems impossible to envision them becoming true professional firms.

While an increasing number of Japanese asset management firms are already offering PMs different treatment from other departments, it is clear that simply raising compensation levels is not enough. Investment skills improve through actual investment experience. Moreover, the probability of investment success is not particularly high; the nature of the work involves learning from failures and engaging in discussions with other PMs to enhance skills. It is not enough to cultivate just one PM with exceptional investment ability; rather, creating a group of outstanding professionals with diverse investment perspectives fosters lively debate among them, enabling the firm to maintain excellent investment capabilities over the long term. It is crucial to build an investment organization resembling the Japanese Alps—with numerous high peaks standing side by side—rather than a single Mount Fuji, where many outstanding PMs can engage in healthy competition. This is also key to retaining top talent within the organization.

What became clear through the interviews with this asset management firm is that meeting the basic requirements of a professional firm is the minimum condition for strengthening investment capabilities. To achieve this, establishing the mechanisms described above is essential. However, to sustain these capabilities over the long term, it is indispensable to foster a corporate culture that prioritizes client investment results above all else and to build investment processes and support systems that put this into practice. This may seem obvious, but the case of this asset management firm suggests that there is no alternative to following this tried-and-true path if one is to offer investment products—including global equities—that appeal to overseas clients.

In writing this paper, the author has referenced and quoted remarks and opinions from presenters and committee members of the Asset Management Industry Study Group. Please note that the opinions and observations expressed in this paper are solely those of the author and do not represent the official stance of the Japan Securities Research Institute. Furthermore, any errors or omissions that may remain are entirely attributable to the author.

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