



SHUHEI
ABE
JAPAN



Investor profile at InvestingByTheBooks: The book *The World's 99 Greatest Investors: The Secret of Success* provides a unique opportunity to learn from the most prominent investors globally. In the book they generously share their experiences, advice and insights and we are proud to present these excerpts. Magnus Angenfelt, previously a top ranked sell side analyst and hedge fund manager, will be presenting one investor per month. For those who cannot wait for the monthly columns, we strongly recommend you to buy the book. The investor himself writes the first section below and then Angenfelt describes the background of the investor and comments on his investment philosophy. Enjoy.

I believe that the most important thing is to understand what you're good at. There are many legendary investors who have experienced remarkable success. In my opinion, each of these investors has had their own unique way of understanding and simplifying the complexity of their environment. Except for the first few years, I have been investing in a declining market for more than two decades. I survived because I stuck to the areas that I feel I understand. Despite extreme pessimism, there have always been opportunities where I could arbitrage the value gap. When price is excessively below a firm's value, you can still make money even in the worst of market environments.

My first principle is that no one can correctly predict the future. Therefore, when you evaluate potential investments, your thinking model should be simple. The variables that you consider in your model should not be too many. In the end, trying to predict something you cannot know is like throwing a dart in the dark. The foundation for your investment decision should therefore be based on what you can see and what you can hear.

When evaluating a potential investment, I look at three variables. First, I consider the sustainability of the firm's business model. Any business can be described by a simple equation, or sales less expenses. As an example, when analysing a firm's future sales, growth is defined by whether the unit price can be increased and more units can be sold. Secondly, it is important to evaluate the general industry outlook and its potential size to determine the company's edge and ability to maintain its profit margin. Naturally, a strong company in a growing market would make an attractive investment candidate, but in Japan, I have observed cases where a company is still able to grow in a shrinking market. And finally, who is the person that decides the future course of the firm. Is he or she trustworthy? Is he or she creative and innovative? Does he or she have a track record or the potential to build a scalable business? Focusing on these three variables alone, I believe you are able to identify whether the company has a real edge or not. In my view, this approach makes it easier to make an investment decision rather than trying to consider all potential variables.

BORN Sapporo, Japan, 1954.

EDUCATION Abe graduated in economics from Sophia University in Tokyo, followed by an MBA from Babson College in the US in 1982. He completed Harvard Business School's Advanced Management Program in 2005.

CAREER Abe began his career as an analyst for the Nomura Research Institute (Japan). He continued with three years in Japanese equity sales for Nomura Securities International in New York. Aged 31 he formed Abe Capital Research in 1985, where he managed Japanese equity investments for American and European investors. Four years later he founded the Tokyo-based SPARX Group. Abe continues to lead the SPARX Group as chairman and CEO.

INVESTMENT PHILOSOPHY Abe is a value investor, but likes to focus on evaluating the industry and business models. In addition he spends a great deal of time assessing company management. He is said to have an aggressive investment style, taking large stakes in companies and then working with management to enhance the value of their firms. This approach – relationship investing – includes teaming up with strategic operating partners to help companies realize their full potential. He is regarded as an activist.

OTHER He is said to be a disciple of George Soros, whom he has worked for. Abe was one of the first hedge-fund managers in Japan. SPARX Group is also the first independent, publicly traded investment firm in Japan, with approximately \$7 billion in assets under management and offices in Hong Kong and Seoul. From being a Japanese equities small-cap boutique he has transformed the company into one of Asia's largest alternative investment firms. He is a guitar player and painter in his spare time.

Sources: Shubei Abe; SPARX Asset Management; Wikipedia.