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CEO Insight: US investor propels Japan's hidden champions into the global spotlight

Following the entry of US investor Warren Buffet, the uniqueness and strengths of Japanese trading houses are also internationally receiving the attention they deserve.

Investors should always be on the cutting edge, if possible. So, like over a million other curious people, I recently tried out the new artificial intelligence Chat GPT and [assigned](#) it the task of writing a poem in haiku form about the trading houses (Sogo Shosha) in Japan. After a second, the software sent these lines:

In the bustling city, Sogo shosha at work, Connecting worlds.
Moving goods across seas, Trading companies thrive, Bringing wealth and growth.
Far-reaching tentacles, Spanning the globe with ease, Mighty sogo shosha.

So, this chatbot "knows" exactly what makes these companies stand out, and elaborates on their key characteristics in the poem: World-connecting and powerful traders that generate wealth and growth. Outside of Japan, the trading houses are hardly known because their names - Itochu Corp, Mitsui & Co, Mitsubishi Corp, Sumitomo Corp, and Marubeni Corp - are not on consumer goods or stores. As wholesalers and super suppliers, they remain in the background. Yet these companies are at the top of the Japanese economic pyramid, generating about 15% of the gross domestic product, according to one [estimate](#). Every Japan investor should keep an eye on these hidden champions.

The letters 'Sogo Shosha' mean 'diversified trading conglomerate'. The five industry giants each have an average of 65,000 employees, 350 integrated subsidiaries, hundreds of affiliated companies, and representative offices all over the world. Each of these conglomerates [trades](#) an average of 30,000 products ranging from 'noodles to airplanes' and 'chopsticks to satellites'. Multiply the whole by five. Together, they have almost the stock market value of Toyota, Japan's most expensive company.

Their importance and success are based on a unique business model that has grown through local relationships and excellent project management over 160 years. In the process, these groups also developed unique expertise in assets including real estate. Mitsubishi Corp, for example, operates the private REIT DREAM through its subsidiary Diamond Realty Management. Japan Post, one of the world's largest investors, leverages Mitsui & Co's expertise and recently formed a joint venture with the trading house for real estate investments. Mitsui handles asset management. Sumitomo Corp operates real estate investments both for its own account as well as for other investors whose funds in listed J-REITs are managed by the trading house.

The enormous potential of these companies was also recognized by the well-known U.S. investor Warren Buffett: more than two years ago, he acquired about 5% each of Itochu, Mitsui, Mitsubishi, Sumitomo, and Marubeni and recently increased his holdings. His target is 9.9% each, which he intends to hold for the long term. "I'm delighted to be involved in the future of Japan," Buffett [said](#) at the time, referring to the trading houses' numerous joint ventures around the world. His commitment has already paid off: In some cases, Buffet has more than doubled his estimated acquisition prices, plus receiving lavish dividends.

His entry is a clear vote of confidence in Japan and its growth story in Asia, in which the trading companies play an important role. Also, Sogo Shosha are an integral part of global commodity markets and provide a good hedge against inflation because their profits rise with energy prices. They play an important role in venture capital in Japan, where they gain deep insight into many important transactions. According to Japan expert Jesper Koll, they will play a key role as Western companies diversify their Asian business away from China and into Japan.

In business areas and organizational structures, these trading giants are largely similar. Globally leading, they are involved in infrastructure, real estate, and energy projects in a variety of forms. They arrange equity and debt capital, participate directly or indirectly in projects, invest in companies, joint ventures, and start-ups, and provide venture capital. Japan's trading companies are true powerhouses when it comes to project and risk management. For Japan investors, they hold many impressive lessons on how to grow assets of many asset classes over the long term.

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