



Chairman's Column

Trump's tariffs put global economy in turmoil

Here in Tokyo, cherry blossom season has come to an end. This year, the cooler temperatures allowed the cherry blossoms to be enjoyed longer.

The news however is anything but peaceful. The tariffs set by U.S. President Trump has put the global economy in complete turmoil. The Nikkei Average fluctuates daily. With such high volatility in the stock market right now, one may be hard-pressed to call them "investments". It is astounding that one person could have this much impact. I get anxious every day.

Most countries are unable to procure 100% of their energy and food from domestic sources. Since multinational corporations primarily supply the world's energy, food, and industrial products across borders through massive supply chains, when a big country like the U.S. imposes additional tariffs of around 50%, the consumers are ultimately the ones that take the hit. Of course, other countries will suffer, but U.S. citizens will undoubtedly feel the hit as well.

However, the interesting thing is that Trump who was a former real estate tycoon, seems to have partially changed his position on tariffs as interest rates have remained high. He is after all, a real estate and businessperson.

Many have commented about how to overcome this difficult time, but perhaps the important thing is that "Fools learn from experience; wise men learn from



history" (as stated by Otto von Bismarck). In the past, protectionist policies using tariffs have gained momentum, such as during the Great Depression of 1929 and the U.S.-Japan trade war of the 1970s. Some of you may have seen the footage of Japanese electronics being bashed with a hammer in the U.S.

Similarly, placing tariffs on imports this time would theoretically protect domestic markets. However, with many of those industries to be protected long gone, I believe these extreme tariff policies will not benefit anyone.

If countries were to bring up this argument to Trump, it may backfire on them. But it seems that we have entered the phase where "someone has to do it". A tough opponent for sure. I hope he does cool down a bit. Until this tariff situation settles down, companies will have difficulty making projections or plans. Although I am apprehensive, I am curious to see how this plays out next month.

by Kazuhiro Matsuzawa, Chairman



Private Equity

Private Equity Funds are using more AI with their portfolio companies

According to Bain & Company's [survey](#) of private investors representing \$3.2 trillion in assets under management as of September 2024, most of their portfolio companies were in some phase of generative AI testing and development. Many of these firms are proactive in their approach to incorporating AI tools in this experimental phase, while managing employee resistance to new ways.

Private investors are focused on:

- Fund-level assessment of AI strengths and weaknesses and sharing those insights with other portfolio companies
- Investing in AI talent, setting up governance protocols, and staying aware of new tools
- Aligning business priorities with AI
- Leveraging AI to enhance products, boost revenue, and expand margins through operational efficiencies.

The approach of companies like Vista Equity Partners is quite clear since they specialize in software companies. One case study explains LogicMonitor using AI-powered monitoring to summarize complex alerts from multiple sources of data either on-premises or in multi-cloud environments. The resulting annual savings of \$2 million per customer have been significant and has resulted in increased recurring revenue for LogicMonitor.

Apollo Global Management is also cited as an example in setting up a center of excellence to deploy AI across their portfolio companies. The center acts as a resource for companies to access the best partners and sets expectations for all companies to propose potential use cases and prepare technology roadmaps.



Bain also announced its [partnership with OpenAI](#) last October, setting up a center of excellence to expand Bain's capabilities as an IT solutions provider. This partnership builds on Bain's success in using OpenAI technology for clients like Coca Cola and Amgen.

However, AI's disruptive nature is discussed in KPMG's [article](#): "a previously attractive target could rapidly drop in price if now deemed exposed to disruption by competitors leveraging AI. Similarly, an asset with untapped AI potential could attract a bigger bid premium if the buyer is confident both in the diligence and its ability to capture the incremental upside." The need for quality, contextual data on the cloud, and strong IT governance that considers new cybersecurity risks and data security issues are among the challenges in realizing AI's potential to transform companies.

With AI becoming a key focus for many private equity investors, companies equipped with the framework and strategy for incorporating AI models into their operation seem better positioned in an industry landscape dominated even more by tech.

by Yuichi Totani, Corporate Advisory Division



Japan Real Estate

Japan's population is falling – How are Regional Cities are dealing with their properties?

Big cities like Tokyo and Osaka continue to attract domestic and foreign capital, which keeps property prices high. In addition to office, residential, and hotels, large-scale logistics facilities near big cities are attracting the bulk of investments. However, some critique the lower returns and saturation in potential markets. Skepticism is growing with how long the hot market can last as well.

Meanwhile, the population is declining and aging in regional cities. The situation is becoming more dire as empty homes and vacant commercial properties bring down land prices. In areas like this, “risk diversification through regional city diversification”, which what was once thought of as an effective method is in doubt. As population in these areas decline, diversification in these areas seems to pose a risk in and of itself.

However, rather than give up on revitalizing regional cities, many cities are experimenting with locale-specific initiatives. One example is the city of Tatsumi, located in Hyogo prefecture, which is transforming traditional homes in historic areas into eateries and lodging. Through local funding and crowdfunding, there seems to be some momentum behind bridging regional cities and the “related population” on the outside. In Ogura of Kitakyushu City, private sector participants are renovating vacant buildings to serve as a hub for commerce and culture.

While such efforts are relatively small, they are considered success stories in creating buzz amidst a declining population. However, uncertainty remains in terms of sustainability in the long term. Concerns are also voiced about the difficulty in finding successors and users of such properties.



Meanwhile, regions that are being revitalized through tourism are also gaining attention. In tourist destinations and hot springs areas, old homes and traditional inns are being redeveloped as lodging, and the influx of foreign visitors is uplifting regional economies. The situation is most pronounced in Myoko area of Niigata prefecture (“the second Niseko”), being developed as a resort with foreign capital, resulting in higher land prices.

Of course, an overreliance on tourism can result in a perpetual state of overtourism. The challenge for regional cities is to determine the right amount of visitors. In that regard, getting more outsiders to engage with the city is seen as an important way to counteract the declining number of residents. Alongside these regional efforts, government-level policies that prompt a rise in birth rate and invite younger generations to stay must also be considered.

by Shigeru Hirai, Knowledge Management Office