

Asset Management Business

# 1. Overview of the Japanese Investment Chain

The first issue of this report on the asset management business takes a look at the entire Japanese investment chain, and then gives an overview of the individual players. Details on the trends of (a.) Individual Investors will be discussed in the 2nd and 3rd vol., and (b.) Investment Targets will be explained in detail in the 4th vol.

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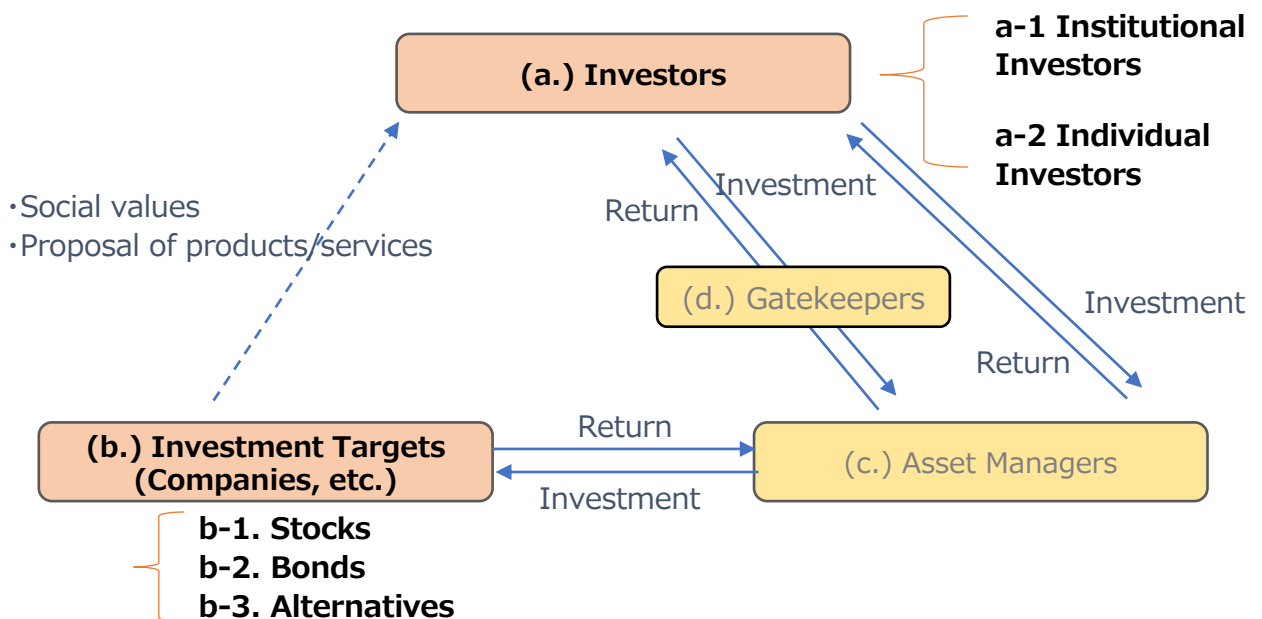
## 1. Overview of the Japanese Investment Chain

The investment chain in Japan can be broadly divided into three parts: (a.) Investors, (b.) Investment Targets (companies, etc.), and (c.) Asset Managers. (see Figure below)

- (a.) Investors comprising institutional investors and individual investors will be discussed later in this paper.
- (b.) Investment Targets can be largely divided into three categories: stocks, bonds and alternative assets.

When (a.) Investors making investments into (c.) Asset Managers, they may invest directly with the Asset Manager or may give a discretionary mandate to (d.) Gatekeeper to select and invest with an Asset Manager. The latter scenario is a characteristic unique to investment in Japan.

Overview of the Japanese Investment Chain



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2. Overview of the Japanese Asset Management Market

a. Investors

a-1 Institutional Investors

The following is an overview of pension funds and financial institutions, which are the major institutional investors in Japan.

a-1-1 Pension Funds

Pension funds in Japan are held by the Government Pension Investment Fund (GPIF), which has over 300 trillion yen (\$3 trillion) in total Assets Under Management, making it the world's largest

Assets Under Management of Pension Funds in Japan<sup>1</sup>

Domestic Rank	World Rank	Fund Name	AUM (billion USD)
1	1	GPIF	1,374
2	15	Pension Fund Association For Local Government Officials	200
3	28	Pension Fund Association	105
4	34	National Federation of Mutual Aid Associations	99
5	57	Federation of National Public Personnel Mutual Aid Association	69
∴	∴	∴	∴
<b>Total</b>			<b>3,432</b>

Pension funds, including the GPIF, are increasing the proportion of foreign investments, which will provide new business opportunities for foreign asset managers.

Changes to GPIF Investment Policy

● Changes to GPIF Portfolio's Asset Mix

	GPIF Asset Mix			
	Foreign Bonds	Foreign Stocks	Domestic Bonds	Domestic Stocks
2013	11%	12%	60%	12%
2014	15%	25%	35%	25%
2020	25%	25%	25%	25%

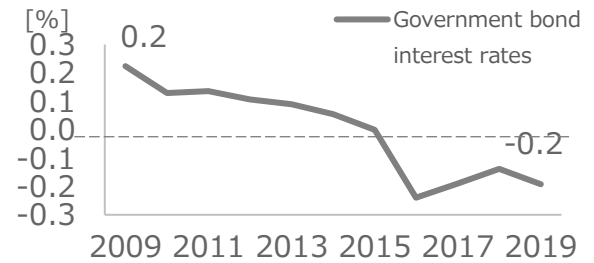
Source:

1. Willis Towers Watson, *Thinking Ahead Institute/Pensions & Investments World 300*  
 2. Website of GPIF, *Concept of the Basic Portfolio*  
 3. SPEEDA, *Policy Interest Rate Data*, Apr. 2020  
 4. The Small and Medium Enterprise Agency, *2016 White Paper on Small and Medium Enterprises in Japan*  
 5. Daiwa Institute of Research, *Survey on Digital Banking, SDGs and Alternative Investments of Financial Institutions and Pension Funds 2011 to 2019*

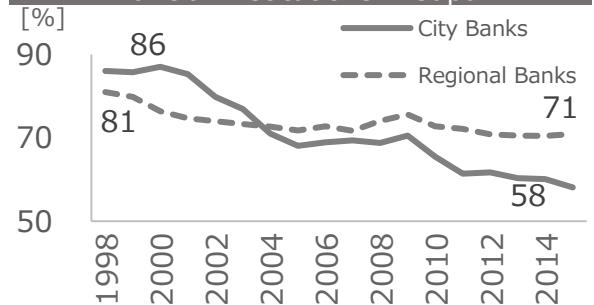
a-1-2 Financial Institutions

The low interest rate environment has made it difficult for Japanese financial institutions to make sufficient profits from investments such as government bonds, and the decline in loan-to-deposit ratios has also exacerbated the decline in earnings.

Trends in Japan's Interest Rate Policy<sup>3</sup>

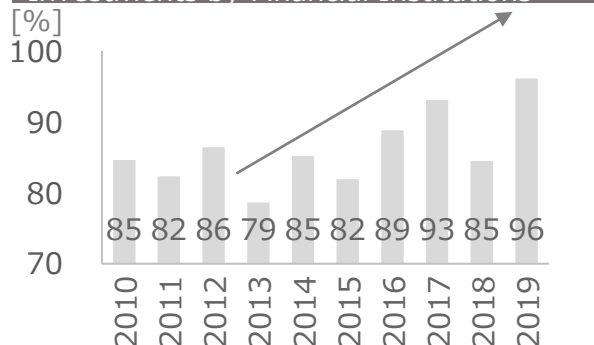


Trends in the Loan-to-Deposit Ratio of Financial Institutions in Japan<sup>4</sup>



Under these circumstances, Japanese financial institutions are accelerating the shift to alternative investments.

Proportion of Investment in Alternative Investments by Financial Institutions<sup>5</sup>



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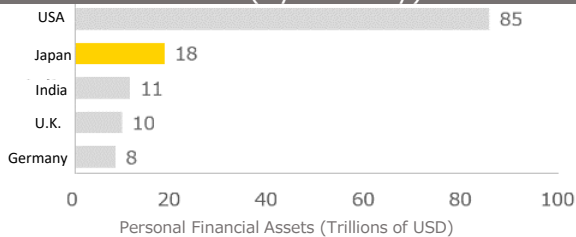
2. Overview of the Japanese Asset Management Market

a-2. Individual Investors

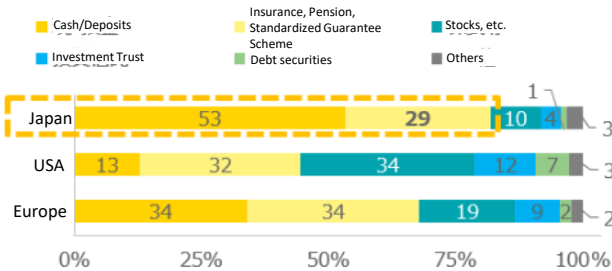
a-2-1 Retail

Japan is the world's second largest holder of household financial assets with over 1,900 trillion yen. Meanwhile, in terms of asset mix, cash and deposits account for more than 50%. If insurance products are included, the percentage rises to about 80%.

World's Top 5: Household Financial Assets (by Country)<sup>2</sup>

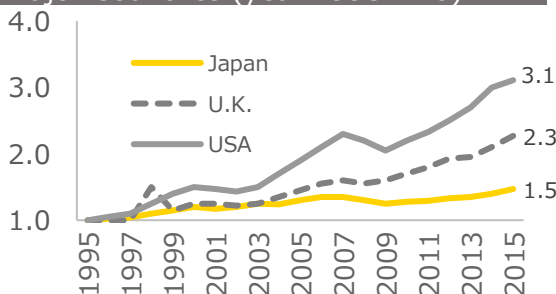


Comparison of Financial Asset Portfolios in Major Countries and Regions<sup>3</sup>

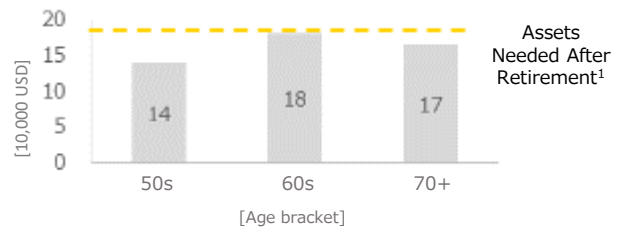


As a result of the conservative approach to asset management, the amount of personal financial assets in Japan has risen slowly compared to other countries. However, a recent government report stating that most people will need at least 20 million yen in assets after retirement has catalyzed interest in investing.

Trends in Personal Financial Assets in Major Countries (year 1995=1.0)<sup>4</sup>



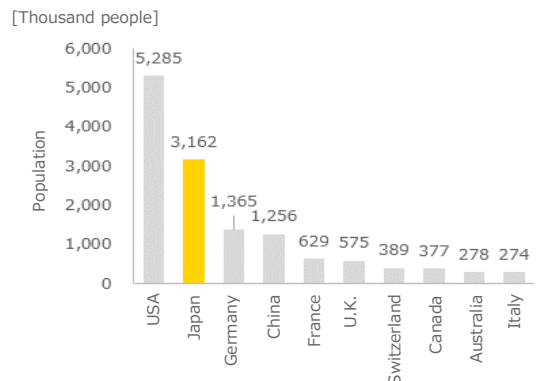
Asset Holdings by Japan's Older Generation<sup>5</sup>



a-2-2 High-net-worth Individual (HNWIs)

Japan's has the second largest population of wealthy people in the world, and this number is on the rise.

Wealthy Population (HNWI & U-HNWI) TOP10 (2017)<sup>6</sup>



Japan's Wealthy: Trends in Amount of Assets Held and Number of Wealthy Households<sup>7</sup>

		2009	2011	2013	2015	2017
U-HNWI	Financial Assets (Trillion USD)	0.4	0.4	0.7	0.7	0.8
	No. of Household (10,000 Households)	5.0	5.0	5.4	7.3	8.4
HNWI	Financial Assets (Trillion USD)	1.4	1.3	1.5	1.8	2.0
	No. of Household (10,000 Households)	79.5	76.0	95.3	114.4	118.3
Mass Affluent	Financial Assets (Trillion USD)	1.6	1.8	2.2	2.2	2.2
	No. of Household (10,000 Households)	269.8	268.7	315.2	314.9	322.2

\* Wealthy refers to the population holding investable assets of USD 1million or more and is classified into two tiers.  
 U-HNWI(Ultra-HNWIs): USD 5mil or more  
 HNWI(General HNWI's): USD 1mil to 5mil  
 Mass affluent (quasi-HNWIs) refers to the population holding investable assets of USD 0.5mil to 1mil.

Source : 1 Financial System Council, Market WG Report "Asset Building in an Aging Society"  
 2 Global Note, Rankings and Trends in Global Personal Financial Assets by Country  
 3 Bank of Japan, Comparison of the Funds Circulation in Japan, the U.S. and Europe  
 4 Financial Service Agency, Financial Report

5 Mizuho Research Institute, Aging and Personal Financial Assets by Prefecture  
 6 Cappgemini, World Wealth Report  
 7 Nomura Research Institute, Nomura Research Institute estimates that there are 1.27 million wealthy households in Japan with net financial assets of 299 trillion yen.

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2. Overview of the Japanese Asset Management Market

b. Investment Targets in Japan

b-1. Stock Market

Japan's stock market is home to the Tokyo Stock Exchange (TSE), which has one of the world's largest market capitalizations. TSE is an attractive place for investment because of its high liquidity, abundance of listed stocks and high market stability.

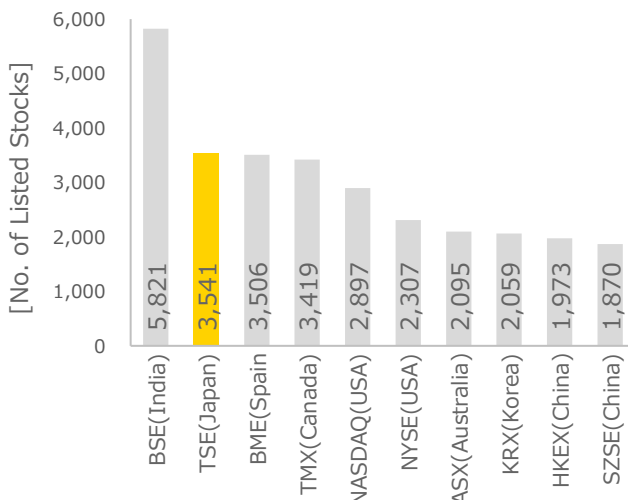
Market Capitalization of Major Exchanges<sup>1</sup>

Exchange	Market Capitalization (trillion yen)
TSE	597
NYSE	2,251
SSE	525
HKEx	472
LSE	413

Liquidity of Major Exchanges (2019)<sup>2</sup>

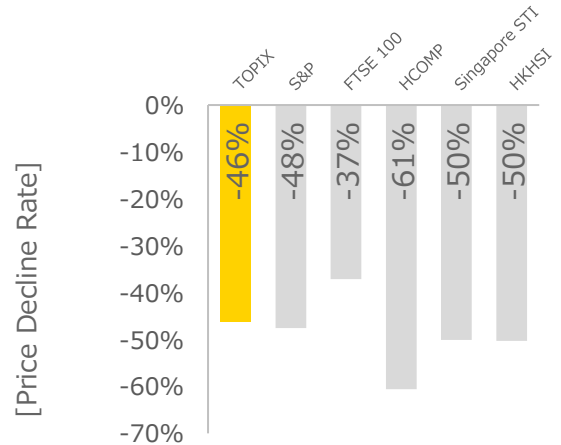
Exchange	Market Capitalization (trillion USD) [a]	Trading Value (trillion USD) [b]	Trading Value Turnover(%) [b/a]
TSE	5.9	5.1	0.86
NYSE	23.1	16.3	0.71
LSE	4.9	1.4	0.28

Number of Listed Stocks on Major Exchanges<sup>3</sup>

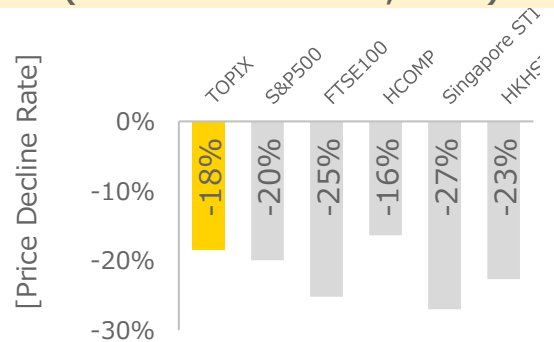


Stability of Major Stock Indices in the International Financial Crisis<sup>4</sup>

Lehman's Collapse (Jan. 2008 to Dec. 2009)



COVID-19 Crisis (Jan. 2019 to Jun.15, 2020)



Source:  
 1.2. Nomura Research Institute, Stock Market May 2020  
 3. World Federation of Exchanges, Market Statistics  
 4. Investing.com, World's Stock Indices

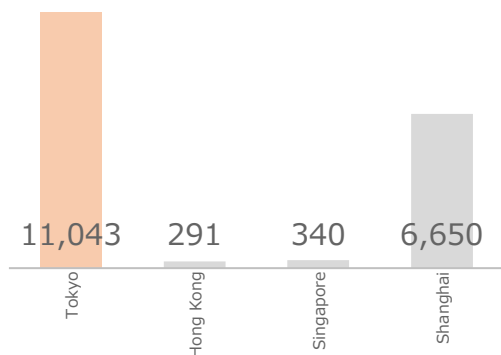
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## 2. Overview of the Japanese Asset Management Market

### b-2 Bond Market

Comparing the financial cities of major Asian markets, Tokyo's bond market size (total value of government and corporate bonds issued) is much larger than that of Hong Kong, Singapore and Shanghai, indicating the huge size of the bond market in Tokyo.

Comparison of the Bond Market Size in Major Cities (as of the end of December, 2019, in USD billion)<sup>1</sup>



### b-3 Alternative Asset Market

For alternative investments, focusing first on hedge funds, the AUM of hedge funds by country (at the end of 2019) in Japan, Hong Kong, Singapore and China are as follows.<sup>2</sup>

- Japan: USD 409 billion
- Hong Kong: USD 33,826 billion
- Singapore: USD 114 billion
- China: USD 1,361 billion

Source :

1. Asian Development Bank, *Asian Bonds Online*, as of Sep. 29, 2020 (Data at the end of December 2019 was used: Total amount of bonds and government bonds issued)

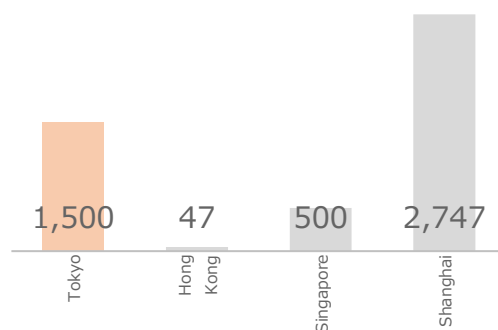
※With regard to the size of the bond market, the figures exclusive to Tokyo and Shanghai are not available. Thus, the figures of Japan as a whole was used for Tokyo because corporate bonds are issued mainly by large corporations and large corporations are concentrated in Tokyo. For Shanghai, if the index for the country is used as it is, there is a concern that the value for Shanghai will be too large. Therefore, 55% of the total amount of bonds issued in China was used as the index for Shanghai (using the 55% share of the Shanghai market in the stock market for listed stocks, which is also a means of raising funds for companies).

2. EurekaHedge, as of Sep. 16, 2020 (Referred to AUM at the end of Dec. 2019.)

Next, we examine alternative assets by taking private equity (PE) investment of non-listed companies and real estate as representatives of alternative assets.

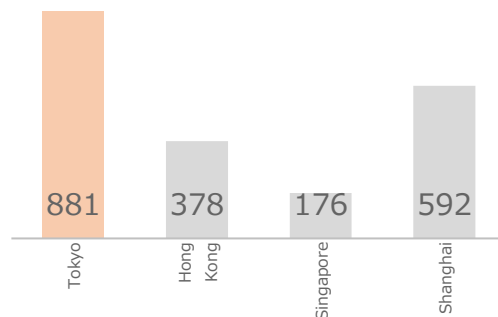
Looking at the number of companies for potential investment targets (unlisted companies) for PE, Tokyo has a very large number of companies, 1.5 million (\*Although the number of companies in Shanghai is larger, it should be noted that foreign investors cannot hold more than 10% of the shares of local companies in China).

Number of Unlisted Companies in Major Cities (as of the end of Dec. 2019, in thousands of companies)<sup>3</sup>



Tokyo also enjoys the largest real estate market size among these four cities.

Comparison of the Real Estate Market Size in Major Cities (as of the end of Dec. 2019, in USD billion)<sup>4</sup>



Source :

3. Speeda, as of Sep. 26, 2020 (Data at the end of December 2019 was used.)

4. MSCI, *Real Estate Market Size 2019*, Jun. 2020

(※The real estate market size covers land and buildings in general, including office rental, commercial real estate, and residential real estate.)