

Asset Management Business

1. Trends in Japanese Institutional Investors (Overview)

This second issue of the report on asset management business focuses on the trends in Japanese investors, particularly institutional investors, and presents an overview and individual case studies concerning investment methods and changes in investment targets (assets).

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a. Size of Institutional Investors

Japan's institutional investors include the world's largest pension fund, the Government Pension Investment Fund (GPIF), and total AUM of those Japanese pension funds exceeds 300 trillion yen (\$3 trillion).

Assets Under Management of Pension Funds in Japan¹

Domestic Rank	World Rank	Fund	AUM (USD bn)
1	1	GPIF	1,374
2	15	Local Government Officials	200
3	28	Pension Fund Association	105
4	34	National Federation of Mutual Aid	99
5	57	National Public Service	69
⋮	⋮	⋮	⋮
Total			3,432

Source:

1. Willis Towers Watson, *Thinking Ahead Institute/Pensions & Investments World 300*
2. The Investment Trusts Association, Bank of Japan, *Flow of Funds Statistics* (as of the end of March 2016)
3. Daiwa Institute of Research, *Survey on Digital Banking, SDGs and Alternative Investments of Financial Institutions and Pension Funds 2011 to 2019*

In addition to public pensions, the major institutional investors include private pensions and financial institutions (such as banks and insurance companies). Each of them also have assets exceeding 100 trillion yen (1 trillion dollars).

Assets Under Management of Major Institutional Investors Other than Public Pensions²

Domestic banks ^{*A}	Assets under management (Surplus funds) ^{*B} 20.6 billion yen
Insurance	Assets under management 39.2 billion yen
Private pensions ^{*C}	Assets under management 10.2 billion yen

Note :

*A Excluding foreign banks and Japan Post Bank

*B "Surplus funds" is the sum of deposit liabilities minus loan assets.

*C Private pensions consist of individual pensions, corporate pensions and other pensions.

b. Changes in the Investment Targets of Institutional Investors

b-1 Overseas Investments

In response to the long-term low interest rates in the Japanese domestic market, pension funds have been increasing their share of overseas investments. For example, the GPIF has raised the percentage of overseas investments to 40% from around 20% until 2013.

Changes in GPIF's Investment Policy (Overseas Investments)³

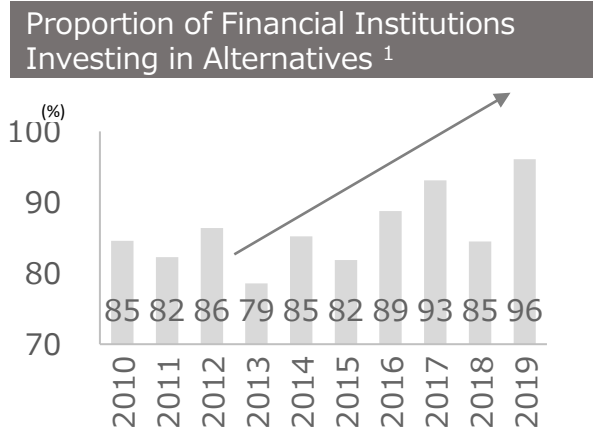
	GPIF's Asset Holdings			
	International Fixed Income	International Equity	Domestic Fixed Income	Domestic Equity
2013	11%	12%	60%	12%
2014	15%	25%	35%	25%
2020	25%	25%	25%	25%

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b-2 Alternative Investments

The long-term low interest rates in the Japanese domestic market, especially for Japanese government bonds, have been accelerating the shift to alternative investments as well as overseas investments. As shown in the table on the right, the proportion of term investors (financial institutions) making alternative investments has been continuously increasing.



The GPIF, as an example of a pension fund, had not made any alternative investments until 2014, but has been continuously expanding the scale of its investments since it started in 2014. The ratio of alternative investment to total assets is still small at 0.3%, but the GPIF's investment policy limits alternative investment to 5% of total assets (about up to 8 trillion yen), indicating room for expansion in the future.

Amount and breakdown of alternative investments by the GPIF ²



In response to this, a trend of decreasing domestic bond investment and increasing alternative investment is occurring among Japanese institutional investors. A survey conducted by J.P. Morgan for institutional investors found that the proportion of alternative investments is higher than that of domestic bond investments.

Breakdown of Assets Invested in by Institutional Investors ³



Source:

1. Daiwa Institute of Research, *Survey on Digital Banking, SDGs and Alternative Investments of Financial Institutions and Pension Funds 2011 to 2019*
2. GPIF, *Current Initiatives and Issues of the GPIF*, Nov. 11, 2019
3. JPMorgan Asset Management, *Results of the 12th Survey on Corporate Pension Fund Management Trends*, Jun. 28, 2019

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2. Individual Trends in Institutional Investors

c. Status of Outsourcing at Major Pension Funds

The following table shows the investment amount of Japan's major pension funds (public pension funds) and the number of outsourced funds (number of funds invested in). In particular, the table shows the breakdown of the amounts of active investment of foreign equities and the number of funds invested in, which may offer a business opportunities for foreign asset managers.

The rightmost columns shows the amount of active investment of these foreign equities, especially managed by overseas managers (asset managers). It is clear that a large portion of the foreign equity investment is managed by overseas managers. As mentioned above, while Japanese institutional investors are increasing the ratio of overseas investments, the business opportunities for overseas asset managers could be expected in the future.

Name of Pension Fund	Total		Active investment of foreign equity		Active investment of foreign equity by overseas managers	
	Investment Amount (in bn USD)	Number of Funds Invested In	Investment Amount (in bn USD)	Number of Funds Invested In	Investment Amount (in bn USD)	Number of Funds Invested In
GPIF	1,317	93	43.0	13	42.6	11
Pension Fund Association For Local Government Officials	133.2	211	7.4	32	7.0	30
National Federation of Mutual Aid Associations	73.8	92	3.8	16	3.4	14
Federation of National Public Personnel Mutual Aid Association	31.7	63	2.0	14	2.0	14

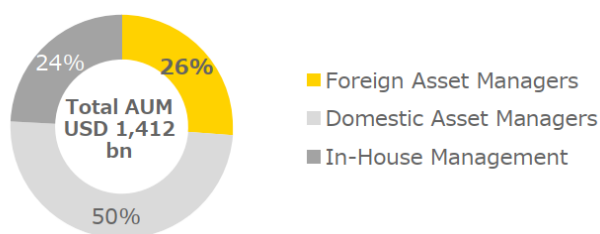
Source: Website of each pension fund as of Mar. 2017, Converted at 1USD = 110 JPY

d. GPIF's Investment (Consignment) Destinations

The amount of the GPIF's active investment of foreign equities by overseas managers has already been stated in the table above. If we look into the total (all) AUMs, the ratio managed by overseas asset managers to the total AUM exceeds 1/4. (see right chart)

Since 2018, the GPIF has reviewed its former fixed or partial performance-based compensation (fee) structure, and removed the maximum cap of the performance-linked compensation. This could continue to make it an attractive candidate for foreign asset managers to acquire funds.

Investment ratio of the GPIF (in-house management/outsourced (foreign asset managers)/outsourced (domestic asset managers))



Source: Website of the GPIF (Management Status) as of April 1, 2019