

# Funds Marketplace Japan

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MARKET YOUR OFFSHORE FUNDS IN JAPAN

## Teneo Partners

Your Bridge to Success

Cross Border Fund Marketing

DECEMBER

2015

## FSA Annual Survey - Special Report

By Stan Howard

Teneo Partners Japan initiates its Funds Marketplace Japan newsletter with a special report presenting a summary and review of the data collected by the Japan Financial Services Agency (“FSA”) with respect to the distribution and management of both domestic and offshore funds offered in Japan during the 2014 fiscal year (April 1, 2014 through March 31, 2015). The results of the annual survey were released just this quarter and provide an interesting review of the placements made throughout the fiscal year as well as a snapshot of the funds industry as at March 31, 2015.

In order to collect and compile the data, the FSA sent their questionnaire to 4,627 industry participants so we can assume that the survey provides a fairly accurate picture of the industry flows and assets managed on behalf of Japanese investors. What are not accounted for in this data are those flows into offshore funds, whether traditional or alternative, that resulted from direct or reverse inquiries from an investor with no intermediation or registered

distribution in Japan. Although the absolute numbers of those flows are undoubtedly substantial, they are however, likely to be quite small as a percentage of the total.

The FSA survey breaks down the aggregated numbers into two basic groupings. The first identifies the sales amount of funds distributed in Japan throughout the fiscal year. These are gross sales figures, not net numbers so they do not take into account any redemptions made by Japanese investors over the course of the year. The second provides a year-end snapshot of the funds and invested assets as at March 31, 2015. Consequently they reflect cumulative figures from both fiscal year (“FY”) 2014 and prior years.

The FSA report notes that the figures for the number of funds distributed within Japan are inflated due to the fact that in many cases, a fund may have utilized multiple distributors. The reader should be aware that this is the case throughout the report. The other figures however should be deemed to be accurate.



## The FSA Annual Report on Fund Sales and Management

In this special first issue, we provide a summary and review of the most recent FSA report on fund distribution and fund management in Japan, including a snapshot of domestic funds, offshore funds, and partnerships.

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## About Teneo

A look at Teneo Partners Japan Limited, which provides market access and capital raising strategies to asset managers looking for a way to capture investment flows from Japan.

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## General Market Overview

The FSA report begins with two tables that list the aggregate sales and invested assets broken down by Domestic Funds, Offshore Funds and Investment Partnerships. The numbers are further broken down within each category by separating out the Hedge Fund component of each.

### Sales of Funds Offered in FY2014

(April 1, 2014 to March 31, 2015)

	Total number of funds	Total sales (JPY billion)	< Of Which Hedge Funds >	
			Total number of funds	Total sales (JPY billion)
Domestic Funds	25,901	102,663	244	1,628
Offshore Funds	896	4,845	71	356
Partnerships	3,036	2,404	58	11
<b>Total</b>	<b>29,833</b>	<b>109,912</b>	<b>373</b>	<b>1,995</b>

Through the course of the fiscal year, 29,833 funds were marketed in Japan, raising a total of approximately JPY 110 trillion. Of those totals, hedge funds accounted for 373 funds and JPY 1.99 trillion respectively.

### Asset Under Management as at March 31, 2015

	Total number of funds	Total AUM (JPY billion)	< Of Which Hedge Funds >	
			Total number of funds	Total AUM (JPY billion)
Domestic Funds	11,210	224,940	142	1,615
Offshore Funds	798	37,311	110	3,343
Partnerships	3,897	11,492	151	63
<b>Total</b>	<b>15,905</b>	<b>273,743</b>	<b>403</b>	<b>5,021</b>

In contrast to the number of funds marketed, the figure for the number of funds under management at the end of the year is considerably smaller at 15,905. Again this relates to the multiple counting by distributors offering identical funds. However the AUM at the end of the year was much higher at JPY 274 trillion, with hedge funds accounting for JPY 5 trillion of that amount.

This year the FSA requested more extensive information from respondents about the number of partnerships offered under the Qualified Institutional Investor (“QII”) Tokurei Gyomu registration (the “Article 63 Exemption”) whereby both domestic and offshore partnerships can be offered to non-QII investors provided that a minimum of one QII is an investor to the partnership. Since its creation, the Article 63 Exemption has come under heightened regulatory scrutiny as there have been an increasing number of cases where a single QII makes a nominal investment to multiple partnerships, violating the spirit, if not the letter of the law. We believe that this is one of the principal reasons behind the review of the Article 63 Exemption and the new proposed amendments scheduled to take effect by June 2016.

### Sales and AUM Data for Partnership Interests Distributed Under the QII Tokurei Gyomu Scheme

(April 1, 2014 through March 31, 2015)

		Total number of funds	Value (JPY billion)
		QII Tokurei Gyomu	Sales
	AUM	2,161	8,598

For the first time, the FSA also collected data on those partnerships managed by offshore managers. We assume that in this case too, they were interested in gathering information about offshore partnerships in light of the coming Article 63 revisions. Those figures are shown in the following table.

### Sales and AUM data for Partnership Interests Managed by Offshore Entities

(April 1, 2014 through March 31, 2015)

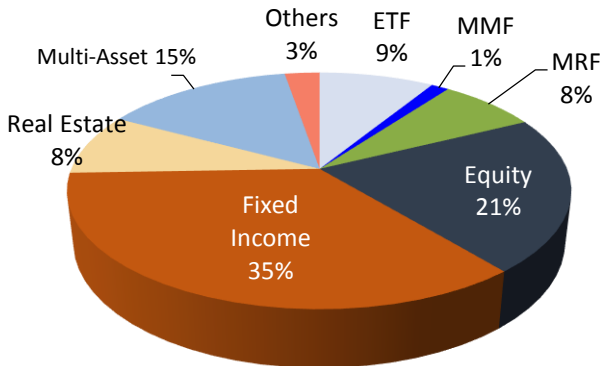
		Total number of funds	Value (JPY billion)
		Partnerships Managed by Offshore Entities	Sales
	AUM	494	5,345

Although this sub-set accounts for only a small percentage of the total, they are important in that they represent the segment in which our offshore asset managers participate on a regular basis.

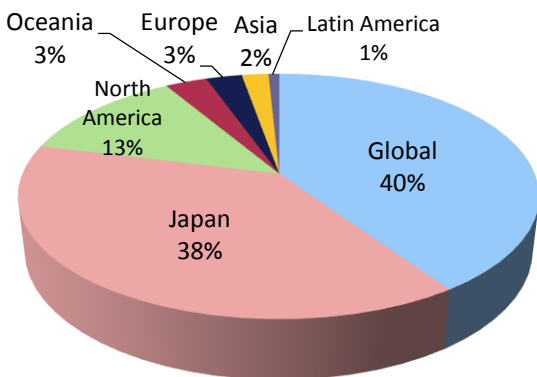
## Domestic Funds

Moving through the report, the FSA provided a breakdown of domestic fund allocations by both asset class and investment region. The following two charts show the respective data.

**Domestic Funds - AUM as at March 31, 2015**  
**By Asset Category**



**Domestic Funds - AUM as at March 31, 2015**  
**By Region**



Not surprisingly, fixed income was the largest segment by asset class while by investment regions, Japan, Global and North America were the largest target segments.

We often note the preference of “Unit Trust” type funds over corporate or “Share” type funds by Japanese investors. The data in this report substantiates this fact. Of the total 11,210 funds placed in FY 2014, 11,138 were structured as funds issuing units whereas only 72 were structured as funds issuing shares.

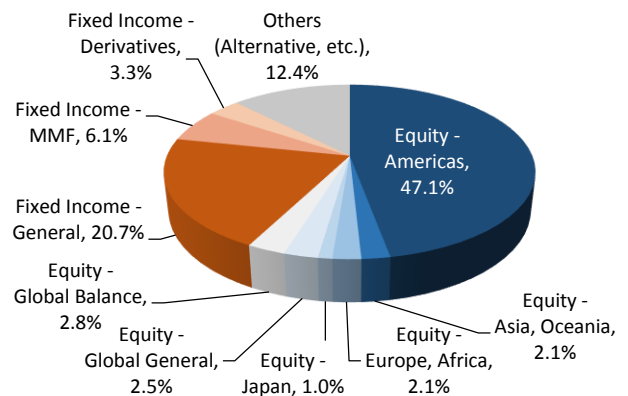
## Offshore Funds

Even offshore funds distributed in Japan reflected the preference for Unit Trust type schemes. Of the 896 offshore funds offered in Japan, 839 were Unit Trust type and only 57 were Share type.

As at March 31, 2015 there were 789 offshore funds placed in Japan representing a total AUM of JPY 37.3 trillion.

In contrast to the domestic domiciled funds, equity focused funds outweighed fixed income funds among offshore funds. There were even a significant number of “other” category funds which include alternative investments as well as other strategies that are not easily categorized as either equity or fixed income funds.

**Offshore Funds - AUM as at March 31, 2015**  
**By Asset Category**



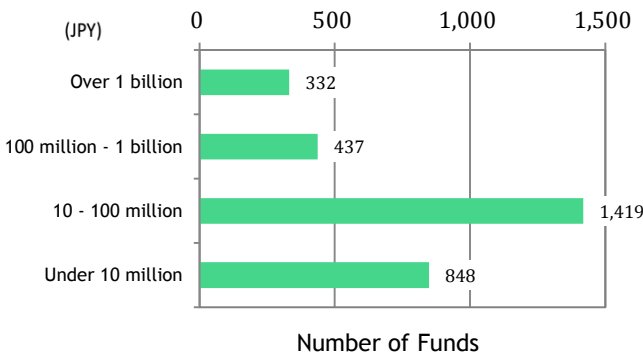
The fact that the allocations to equities were as high as they were came as a bit of a surprise to us, given the retail investor preference for large, regular dividend payments. The fact that many of the equity funds have been offered with single or even double decker high interest currency overlays may explain part of these numbers. That speculation notwithstanding, clearly the strong performance of the US equity market drove allocations to the Americas.

# Partnerships

This year’s report from the FSA provides greater detail concerning partnerships than ever before.

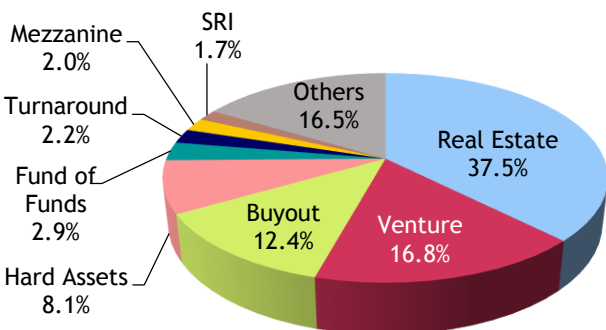
Of the 3,036 Partnerships marketed in Japan in FY 2014, most raised only a very small amount of money. As shown in the chart below, only 25% raised more than JPY 100 million. The vast majority were predominantly Japanese domestic partnerships that, like investment clubs, raised only a small amount of money from a handful of individual investors. However, given that over JPY 2.4 trillion was raised in total, the large funds clearly had significant inflows.

### Partnerships: Distribution of Funds by Assets Raised



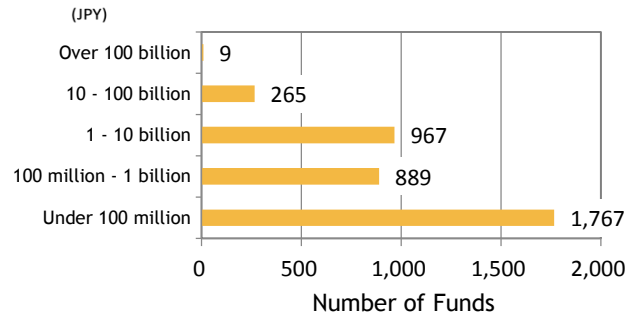
In terms of where those funds were invested, real estate, venture capital and private equity buyouts were the clear winners in FY 2014.

### Partnerships: Sales in FY 2014 - Breakdown by Asset Category



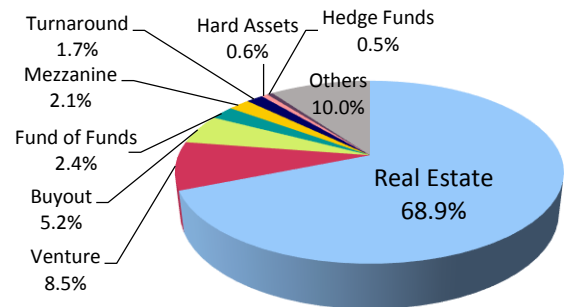
Looking at the assets under management as at 31 March 2015, the FSA reported that JPY 11.5 trillion were allocated to partnerships. Whilst the vast majority were managing very little money, there were 274 funds that were each managing over JPY 10 billion at the end of FY 2014.

### Partnerships: Distribution of Funds by AUM as at March 31, 2015



Interestingly, nearly 70% of all partnership assets were allocated to real estate, overwhelming all other categories. The reader should note that these AUM figures are cumulative.

### Partnerships: AUM as at March 31, 2015 by Asset Category



That the QII’s were dominant in the partnership space is clear from the numbers in the following table. As at 31 March 2015, 75% (JPY 8,598 Billion) of the total assets were managed on their behalf.

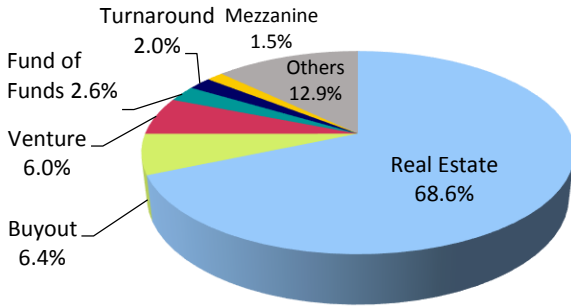
### Partnerships: Sales and AUM Data

	Total	<Of which for QII's>
Number of Funds Sold	3,036	736
Total Sales (JPY billion)	2,404	1,450

	Total	<Of which for QII's>
Number of Funds Under Management	3,897	2,161
Asset Under Management (JPY billion)	11,492	8,598

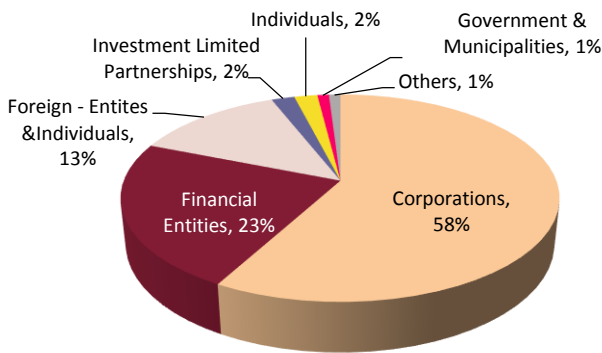
Consequently the breakdown of the QII allocation by asset category is very similar to the whole.

**Breakdown by Asset Category for AUM Managed on Behalf of QII's**



The following chart looks at the professional or QII investors by entity type. The overwhelming allocation to real estate assets makes sense given that the vast majority of the QII investors are Japanese corporations (58%).

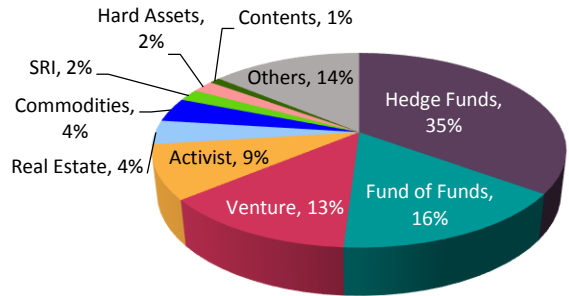
**Breakdown by Investor Category for AUM Managed on Behalf of QII's**



One interesting point is that in Japan individuals can elect to be classified as professional investors. There are certain criteria that individuals must meet in order to be able to make the election but at our last count, we have identified 37 that do. Those on the list are primary targets for brokers looking to market their funds.

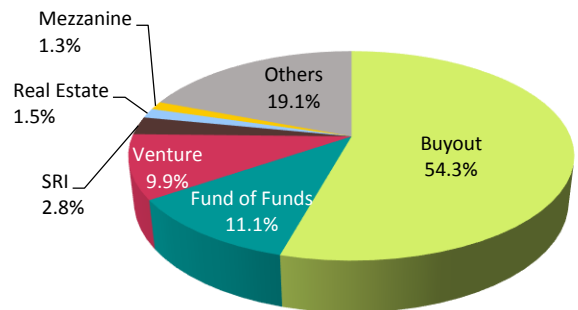
For the first time, the FSA has provided a breakdown of the assets held by the individuals who make up 2% of the professional investor universe. Hedge funds, fund of funds and venture capital represent the majority of their investments. Clearly theirs is a much more diversified and interesting portfolio of assets.

**Breakdown of AUM Managed on Behalf of Individuals by Asset Category**



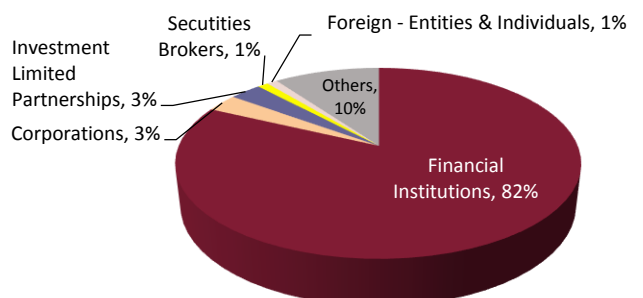
Also for the first time, the FSA surveyed respondents with respect to allocations made to partnerships managed by offshore entities. As the following pie chart clearly shows, the preference by Japanese professional investors for offerings from offshore entities has been in the area of private equity buyout funds.

**Funds Managed by Offshore Entities by Asset Category as at March 31, 2015**



Finally, but by no means a revelation, the vast majority of the investors into the partnership interests offered by offshore entities were the Japanese financial institutions.

**Funds Managed by Offshore Entities by Investor Category as at March 31, 2015**



## Hedge Funds

The FSA finished its report with an appendix on hedge funds. The FSA noted that what constitutes a hedge fund was left up to the respondents themselves. With that caveat, the data that they collected is presented within the following tables.

### Sales of Hedge Funds in FY2014 (April 1, 2014 through March 31, 2015)

	Total number of funds	Number of distributors	Total sales (JPY billion)
Domestic Funds	244	21	1,628
Offshore Funds	71	19	356
Partnerships	58	42	11

### Total Hedge Fund AUM as at March 31, 2015

	Total number of funds	Number of managers	Total AUM (JPY billion)	Average leverage	Profit / Loss (JPY billion)
Domestic Funds	142	19	1,615	1.9	37
Offshore Funds	110	26	3,343	1	340
Partnerships	151	77	63	1.2	6

### Total Sales of Hedge Funds Structured as Partnerships

	Total number of funds	Sales (JPY billion)
Equity Long-Short	11	4.1
Equity Market Neutral	5	3.9
Multi Strategy	24	1.3
Managed Futures	6	0.8
Global Macro	5	0.2
Others	7	0.4

### AUM of Hedge Funds Structured as Partnerships

	Total number of funds	AUM (JPY billion)
Equity Market Neutral	16	24.8
Equity Long-Short	43	20.0
Multi Strategy	39	10.2
Others	23	3.5
Global Macro	18	3.6
Managed Futures	9	1.1
Fund of Hedge Funds	3	0.2

Looking at the figures for the domestic hedge funds, it is not clear to us as to how there can be sales of JPY 1.628 trillion over the course of the year but then to have only JPY 1.615 trillion of assets under management at the end of the year. More interesting for us is that those who were surveyed reported that a total of JPY 3.34 trillion was managed on their behalf by offshore funds as at 31 March 2015, the end of the fiscal year.

The overwhelming majority of those assets were managed within trust or corporate structures. As we can see from the tables above, less than JPY 60 billion of that money was managed in partnership structures. This underscores the preference of Japanese investors for trust and corporate structures over partnerships when listed and publically traded securities form the underlying assets of a fund.

### Year on Year Comparisons

Finally, we decided to take a look at the FSA reports for both this year and last in order to compare the assets under management for offshore funds at the end of each respective fiscal year, i.e. March 31, 2014 vs. March 31 2015.

It was encouraging to note that there was a 40% increase year on year. A breakdown of that overall number by asset category is as follows:

### Offshore Funds YOY Change

Asset Category	3/31/2014 AUM in JPY billion	3/31/2015 AUM in JPY billion	Change year over year
Equity - Americas	13,340	17,568	32%
Equity - Asia & Oceania	885	779	-12%
Equity - Europe & Africa	332	773	133%
Equity - Japan	293	385	31%
Equity - General	1,038	929	-11%
Equity - Balance	912	1,061	16%
Fixed Income - General	3,687	7,713	109%
Fixed Income - MMF	2,677	2,263	-15%
Fixed Income - Derivatives	843	1,217	44%
Others	2,659	4,623	74%
<b>Total</b>	<b>26,666</b>	<b>37,311</b>	<b>40%</b>

The resurgent interest in European equity was notable. Given that Africa is not yet a popular investment destination for Japan, we can assume that virtually all of the growth is attributable to Europe. Increased allocations to fixed income were also quite dramatic. As ever, Japanese investments into US equities remained strong, particularly in terms of the absolute numbers. Teneo believes that this general trend among Japanese investors to increasingly shift assets to offshore funds will continue.

### IMPORTANT NOTICE:

Our newsletter provides the reader with only a general review of the original Japanese language report, entitled "Fund Monitoring Research", published by the FSA. It is not intended to be, nor should it be construed by the reader to be, a complete and exact translation of the original.

## Our Marketing Services

### Placement Agent Program

We work with asset managers on a success-based fee sharing arrangement expressed as a percentage of the revenue derived from the assets that we help raise in Japan. This program is based on the typical third party marketing model wherein asset managers delegate the capital raising process to us.

### Unbundled Services

For those asset managers who wish to stay involved in the marketing process, we also offer an array of marketing support services, each on a fixed fee basis. Working together with Teneo Partners allows the asset manager various levels of oversight while relying on our regulated infrastructure. Our services include, but are not limited to the following:

- Chaperone Services
- Translation Services
- Mail-out Services to Investors
- Market Assessment Surveys
- Seminar and Conference Services
- Liaison Service
- Housing Service

Please let us know if you would like further information including price quotations on any of the programs and services listed above.

### Our Reports and Newsletters

As a part our overall service, we offer our insights into the fund management, marketing and distribution industry in Japan. We do so by preparing from time to time reports and newsletters that focus on specific trends, developments, information, details and topics as they relate to the Japanese funds market and its participants. We hope to bring you information that will increase your understanding of the investment environment here in Japan.

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## About Teneo Partners

Teneo Partners Japan Limited provides market access and capital raising strategies to asset managers looking for a way to capture investment flows and to penetrate the market in Japan. We do so by providing both full placement agent services as well as a full complement of unbundled services that allows asset managers to select the level of service and support that they require for their sales efforts in Japan. Teneo Partners Japan Limited is a fully licensed broker dealer regulated by the Japan Financial Services Agency. We are both a Type-1 and Type-2 securities dealer, which authorizes us to market all types of securities including fund shares, fund units and partnership interests. Our core business however is the marketing of funds to the various investor segments in Japan. Teneo Partners is one of the few independently owned and foreign held broker-dealer firms in Japan. Our success however comes from having an effective mix of both foreigners and Japanese professionals who together bridge the gap between our asset manager clients and our Japanese investors.

We encourage you to contact us for a general discussion and consultation, be it for an initial market entry program, for enhancing your penetration into specific market segments, for a review of our services or simply for a better understanding of the investment and regulatory environment.

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