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Investor News

Industry Updates

Special Reports



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Cross Border Fund Marketing

January

2018

FSA Annual Survey - Special Report

By Stan Howard

Teneo Partners presents the third annual Funds Marketplace Japan Newsletter, a report that each year summarizes the data collected by the Japan Financial Services Agency (“FSA”) with respect to the distribution and management of funds offered during the prior fiscal year. This report provides the data for the 2016 fiscal year (“FY 2016”), which in Japan spanned the period from April 1, 2016 to March 31, 2017. The results of the survey are released late each year and provide a summary of the placements made throughout the fiscal year as well as a year-end snapshot of the funds under management, in this case as at March 31, 2017.

For this year’s report, the FSA received responses from a total of 1,880 reporting entities, down remarkably from the 4,444 last year. The number of responses from Financial Institutions and Financial Instruments Business Operators, “FIBOs” (read broker-dealers), was relatively stable; 1,478 for FY 2015 versus 1,461 for FY 2016. The big difference came from the precipitous drop in the number of AUM reporting partnerships;

a mere 419 versus 2,966 a year earlier. This difference is a result of changes in the financial law requiring each of the partnerships to report at the end of their respective financial years rather than at the end of the general fiscal year. Consequently only the data for those partnerships whose financial year-end coincided with the fiscal year end are reported here (419 entities). We suspect the purpose of the revision was to receive more timely reports from the partnerships but it is curious as to why the FSA would not aggregate the information for the purpose of this report. Perhaps they will going forward once the change has been in effect for an entire annual cycle.

One more point that the reader should note is that the sales figures in respect to the number of funds being marketed tend to be inflated. This is because a particular fund may be distributed through several broker-dealers leading to the fund being counted multiple times. Consequently we feel that the year-end snapshot of the assets under management may provide a better indication of investor holdings.



The FSA Annual Report on Fund Sales and Management

In this special report, we provide a summary and review of the most recent FSA report (March 31, 2017) on fund distribution and fund management in Japan, including a snapshot of domestic funds, offshore funds, and partnerships.

Page 2

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 target Japanese investors and capture investment flows from Japan.

Page 8

Issue #3

General Market Overview

The aforementioned change notwithstanding, this year's FSA report begins as usual with a summary of funds sold and of assets under management. The numbers are broken down by Domestic Funds, Offshore Funds and Partnerships, with a further breakdown of the Hedge Fund component of each. The reader should note that "Domestic Funds" and "Offshore Funds" do not refer to the funds' investments but only to their domicile. For example if a fund investing in emerging market equities is set up and managed out of Japan then it qualifies as a "Domestic Fund". Conversely any fund set up and managed outside of Japan is considered to be an "Offshore Fund" even if it manages Japanese equities. The data with respect to Partnerships on the other hand, is aggregated with no distinction made between domestic and offshore.

Sales of All Funds Offered in FY2016 (April 1, 2016 to March 31, 2017)

	Total number of funds		Total sales (JPY billion)		<Of which Hedge Funds >			
		YoY		YoY	Total number of funds		Total sales (JPY billion)	
						YoY		YoY
Domestic Funds	29,532	+1,128	73,993	-26,442	304	+91	2,318	+475
Offshore Funds	1,103	+130	4,719	+381	69	-12	542	+147
Partnerships	5,569	+1,432	1,713	-634	16	-25	1	-10
Total	36,204	+2,690	80,425	-26,436	389	+54	2,861	+612

Assets Under Management as at March 31, 2017

	Total number of funds		Total AUM (JPY billion)		<Of which Hedge Funds >			
		YoY		YoY	Total number of funds		Total AUM (JPY billion)	
						YoY		YoY
Domestic Funds	13,810	+1,643	267,893	+32,424	252	+42	2,112	+224
Offshore Funds	871	+23	30,647	-3,703	81	-25	1,848	-748
Partnerships	2,895	-1,251	5,137	-6,449	46	-70	37	-45
Total	17,576	+415	303,677	22,273	379	-53	3,997	-568

Over the course of the 2016 fiscal year, 36,204 funds were sold in Japan, an increase of 2,690 over the previous year. Reported sales rose

by 80 trillion yen but that change, though positive, was 26 trillion less than last year, the majority coming from a slow down in the sales of domestic funds. On the other hand both the number of offshore funds in the market and the total sales amount of those funds increased year over year.

As was the case last year, the total funds under management had a solid increase, with the growth coming from the Domestic Funds. Although Offshore Funds saw a growth in sales volume, they lost assets of 3.7 trillion Yen. Clearly there was a good deal of double or multiple counting of the sales, or the investors were redeeming at an increased rate. Most likely it was a combination of both factors

Sales and AUM Data for Partnership Interests Distributed to Professional Investors (Tokurei Gyomu Scheme) (April 1, 2016 through March 31, 2017)

		Total number of funds		Value (JPY billion)	
			YoY		YoY
Professional Investors	Sales	313	-437	622	-460
	AUM	855	-1,310	2,403	-6,250

Given the changes in the method of data aggregation for AUM reporting Partnerships, we would have thought that the data would be so distorted that any observation would not be particularly meaningful. To our surprise, the general investment pattern as compared to last year's report is not so different. The big change for this year is that the FSA did not provide any separate data concerning the assets managed by offshore fund managers as they did last year. We suspect that last year may have been a one-time exercise coinciding with changes made to the reporting requirements of the Article 63 exemption.

Following the prescribed pattern, the FSA survey breaks out the data for each of the three primary segments: Domestic Funds, Offshore Funds and Limited Partnerships. The results are reported in the following sections.

Domestic Funds

The report provides information on sales and AUM for those Japan domiciled funds managed by locally incorporated asset management firms including the asset management subsidiaries of various financial institutions.

SALES

The current year’s results show that 29,432 funds were marketed in Japan with a total amount of 73.340 trillion JPY raised for those funds over the course of FY 2016. Curiously the number of funds fell YoY despite the increase in the number of funds being marketed. The funds were raised through 581 reporting distributors as follows:

**Funds Raised Through 581 Distributors
(April 1, 2016 through March 31, 2017)**

Distributor Category	Number of Firms	Total Assets Raised
FIBOs*	159	44,904 billion JPY
Registered Financial Entities**	422	28,435 billion JPY

* Teneo Partners Japan is a registered FIBO (Kinyu Shohin Torihiki Gyousha) with the FSA

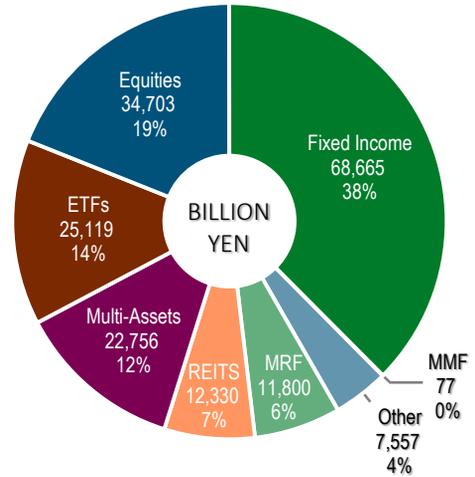
** Registered Financial Entities refers to firms holding sponsored licenses such the Securities Sales Agent License (Shoken Chukai Gyo). Teneo Partners Japan sponsors the licenses of 9 such Sales Agents.

With respect to sales, the survey report does not provide a breakdown by either asset category or investment region. Only aggregated numbers are reported. The year-end AUM snapshot in the following section however, does deliver more detailed information.

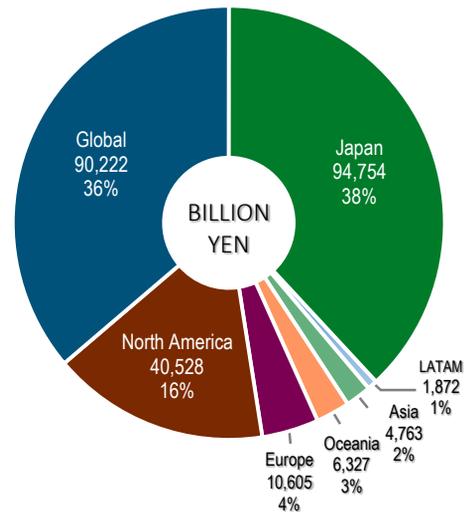
ASSETS UNDER MANAGEMENT

The year-end AUM data provides us with a breakdown by asset class and investment region for those funds domiciled in Japan. The two pie charts that follow show the respective data. Unfortunately there is no further breakdown of the regional allocation by strategy; something that we would indeed be interested to see. Given the negative interest rate environment in Japan, it would seem only logical that the vast majority of the fixed income component was directed to the Global and North America segments, but the data is not available.

Domestic Funds - AUM as at March 31, 2017
by Asset Category



Domestic Funds - AUM as at March 31, 2017
by Investment Region



Although there were changes on the margin, the breakdown of domestic fund allocations were similar to the findings of the last two years. Fixed income continues to be the principal choice of investment, and as we surmised, the money market funds (“MMFs”) have all but gone away in the negative interest rate environment. Real estate too fell somewhat from the previous year. As was the case last year, allocations to Japan strategies, Global strategies, and North America strategies dominated.

In terms of the fund structures marketed in Japan, each year we highlight the near exclusive preference for Trust type structures that issue Units. Of the 17,576 funds managed in Japan only 87, or less than one-half of one percent, were of the Corporate type that issues Shares.

Offshore Funds

As in the case of Domestic Funds, the FSA report provides sales information and assets under management data for those funds whose assets are outsourced to delegated fund managers located outside of Japan.

SALES

The FSA report shows that 1,103 of these Offshore Funds were marketed in Japan with a total amount of 4.719 trillion JPY raised over the course of FY 2016. The funds were raised through 84 distributors, categorized as follows:

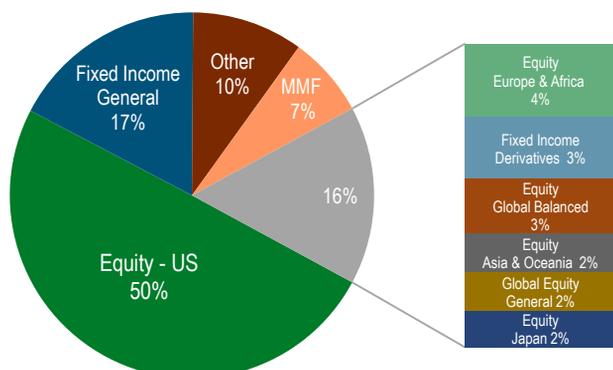
Funds Raised Through 84 Distributors (April 1, 2016 through March 31, 2017)

Distributor Category	Number of Firms	Total Assets Raised
FIBO's	70	4,554 billion JPY
Registered Financial Entities	14	166 billion JPY

ASSETS UNDER MANAGEMENT

As at March 31, 2017 there were 871 Offshore Funds placed in Japan, representing a total asset base of 30.6 trillion yen, roughly equivalent to \$275 billion at the time. The following chart provides the breakdown of those funds by asset class.

Offshore Funds - Assets placed as at March 31, 2017 By Asset Category



The importance of the Trust structure in Japan extends to the Offshore Funds as well. The FSA reported that of the 871 offshore funds placed in Japan, only 41 or 4.7% were Corporate/Share type funds. All of the other 830 or 95.3% were Trust/Unit type funds.

Allocations to US equities made a fairly dramatic comeback this year with placements representing half of the total and up from 39% the previous period. Interestingly the largest number of funds in any one category came from the “Other (including alternatives)” category. As outlined in the table below, there were a total of 272 funds that fell into this category, exceeding even the number of “Fixed Income-General” funds. The total assets of this latter category fell to 17% of the total, down from 28% last year. We believe that this number understates the interest in this asset class since non-Japan fixed income instruments are more often than not managed in house via their own Domestic Funds.

The following table provides a breakdown of the funds in each asset category by their number and their total assets under management.

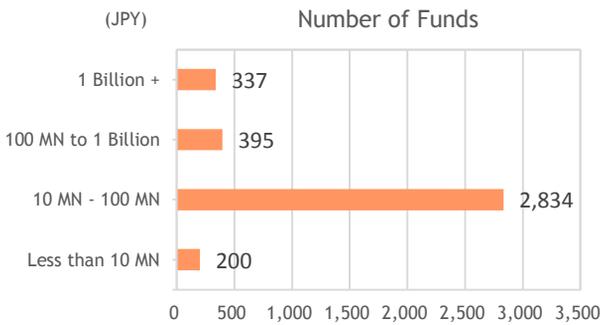
Offshore Funds Placed by Asset Category (As at March 31, 2017)

Asset Category		Funds	Amount (JPY Billion)
Equities - Global	Balanced	63	861
	General	32	613
Equities - Regional	Japan	42	578
	US	41	15,258
	Asia & Oceania	21	622
	Europe & Africa	20	1,170
Fixed Income	General	267	5,345
	Derivatives	93	986
	MMF	20	2,191
Other	Other Alternative Funds	272	3,023

Partnerships

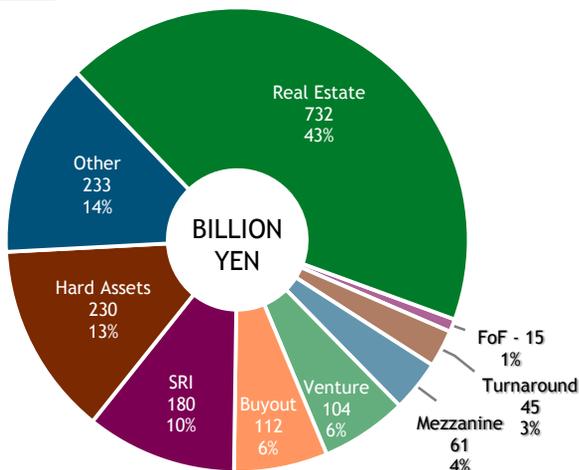
The number of partnerships marketed in Japan as reported by distributors increased year over year from 4,137 in FY2015 to 5,569 in FY2016 although the volume of sales fell from 2.347 trillion to 1.728 trillion in the respective periods. Accordingly, the number of funds that raised over 1 billion JPY was not surprisingly a bit lower than last year. The vast majority, as was the case last year, raised only 100 million JPY or less.

Partnerships - Distribution of Funds by Assets Raised in FY 2017



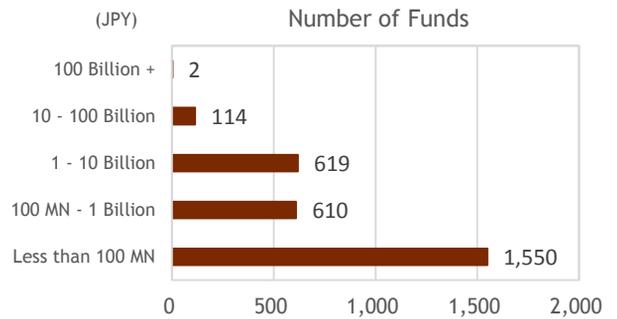
In spite of the drop in the number of reporting partnerships, the asset distribution of those partnerships also mirrored very closely the pattern we saw last year with real estate continuing to be the dominant beneficiary of the asset allocation. Socially Responsible Investing, which grew dramatically last year, was little changed pulling back from 11.6% of the overall allocations in 2016 to 10% in 2017. The biggest changes on the margin came in the areas of Hard Asset funds (+4.3%) and Venture funds (+2.7%).

Partnerships - Sales in FY 2016 - Breakdown by Asset Category

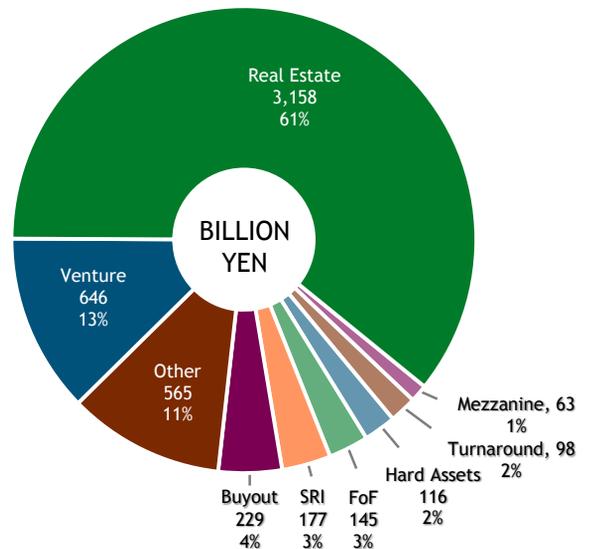


As mentioned earlier, the new survey approach by the FSA has greatly impacted the aggregation of data for Partnership funds under management for the 2017 year-end. As a result the total AUM for this year represents less than half of the assets reported last year: 5.1 trillion JPY for 2017 versus 11.6 trillion JPY for 2016. In addition, it has resulted in a disconnect between the number of funds marketed (5,569) and the number of funds reporting for AUM purposes (2,895). In spite of this, however, the underlying data do not show any substantive differences in respect to the breakdown of the funds by either size or allocations.

Partnerships: Distribution of Funds by Assets Under Management as at March 31, 2017



Partnerships: AUM as at March 31, 2017 - Breakdown by Asset Category



The investments by Professional Investors are broken out in the table on the following page.

Partnerships Continued

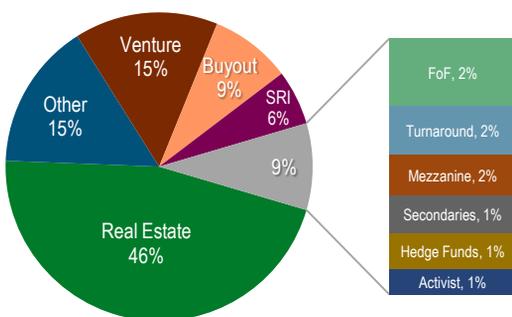
Partnerships: Sales and AUM Data FY2016

	Total	<Of which for PI's>
Number of Funds Sold	5,569	313
Total Sales (JPY billion)	1,713	622

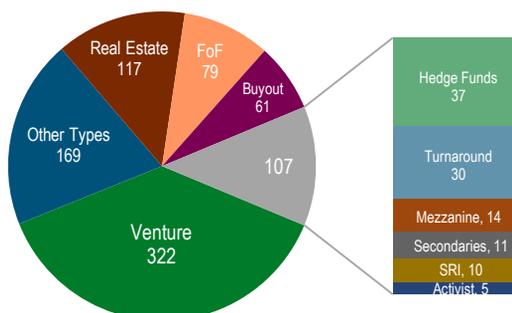
	Total	<Of which for PI's>
Number of Funds Under Management	2,895	855
Assets Under Management (JPY billion)	5,137	2,403

The survey also looked at the investment patterns of Professional Investors (“PI’s”). In Japan the PI category includes both Qualified Institutional Investors (read financial institutions) as well as entities and individuals who apply to be treated as investment professionals. This year the PI investor segment represents just under 50% of the AUM for all partnerships. Interestingly the asset allocation profile (shown in the chart below) for this reporting group was substantially different from the overall picture shown in the previous pie chart. The allocation to real estate was much smaller, while those for venture, buyout and SRI were noticeably larger.

Partnerships Managed on behalf of PI’s - Asset Category (by AUM)

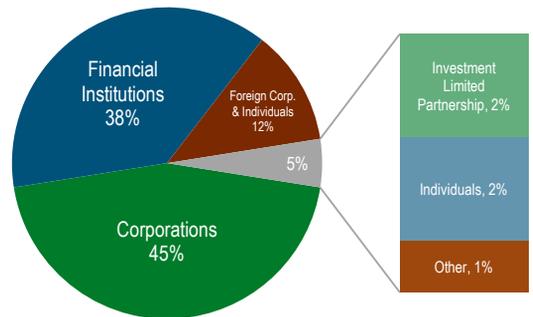


Partnerships Managed on behalf of PI’s - Asset Category (by Number of Funds)



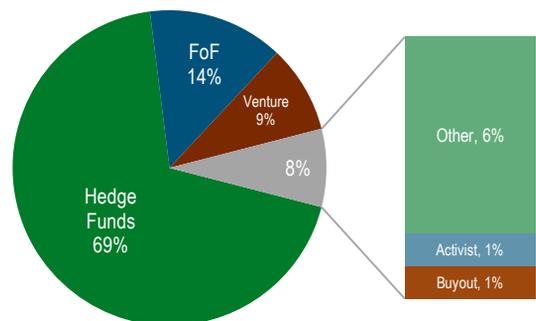
It is interesting to note that although the allocation to venture was only 15% of the total, the number of funds in that asset category were largest of all. The next chart looks at PI’s by type. That the majority of PI’s are domestic corporations partly explains why the allocation to real estate dominates allocations to other asset categories.

Assets Managed on Behalf of PI’s - Breakdown by Investor Type



One interesting point is that in Japan individuals can elect to be classified as a professional investor. There are certain criteria that individuals must meet in order to be able to make the election but there are always some who do. We estimate that there are about 50 or so such individuals. The FSA collected data on those individuals with respect to their investments and has provided a breakdown of their investment allocations as shown in the following chart. The individuals in aggregate had invested 41.5 billion JPY as at March 31, 2017.

Assets Managed on Behalf of Individuals - Breakdown by Asset Class



Unfortunately the FSA did not collect data this past year with respect to allocations made to Partnerships managed by foreign entities. It would have been interesting to see what changes, if any, there were. Hopefully they will resume data collection on this segment in the coming years.

Hedge Funds

As with last year's report, the FSA survey concludes with an appendix on hedge funds. The FSA noted that what constitutes a hedge fund was left up to the respondents themselves, which left us again unsure as to what is covered by this category.

Sales of Hedge Funds in FY2016 (April 1, 2016 - March 31, 2017)

	Total number of funds	Number of distributors	Total sales (JPY billion)
Domestic Funds	304	24	2,318.2
Offshore Funds	69	16	541.6
Partnerships	16	5	1.2

Total Hedge Fund AUM - as at March 31, 2017

	Total number of funds	Number of managers	Total AUM (JPY billion)	Average leverage	Profit / Loss (JPY billion)
Domestic Funds	252	21	2,112	1.6	-37.0
Offshore Funds	81	21	1,848	1.0	41.6
Partnerships	46	12	37	1.4	-2.7

Sales of Hedge Funds Structured as Partnerships in FY2016 (April 1, 2016 - March 31, 2017)

	Total number of funds	Sales (JPY billion)
Multi Strategy	14	0.7
Equity Long / Short	1	0.3
Equity Market Neutral	1	0.1

Total AUM of Hedge Funds Structured as Partnerships - as at March 31, 2017

	Total number of funds	AUM (JPY billion)
Equity Market Neutral	11	26.3
Multi Strategy	18	6.3
Equity Long / Short	5	3.2
Global Macro	4	0.1
Others	8	0.9

Both domestic and offshore hedge funds experienced an increase in sales to 2.318 trillion JPY and 542 billion JPY, accounting for an increase over the prior year of 26 % and 37 % respectively. While the domestic hedge funds had a corresponding increase in AUM, offshore funds reported a drop in assets under management of 29%. On a positive note though, the profits reported for offshore hedge funds in

FY 2016 was 42 billion JPY vs. a loss of 40 billion JPY in the previous year. Domestic hedge funds continued to suffer losses: a JPY 36 billion loss in FY 2015 and a JPY 37 billion in FY 2016.

Year on Year Comparisons

Each year we wrap up our report by comparing the numbers for total assets under management of offshore funds as at the end of the respective fiscal year; in this case March 31, 2016 versus March 31, 2017. The total dropped to 30.647 trillion JPY as at March 31, 2017 from 34.349 trillion JPY the year earlier; a decline of 11%. This follows a decline of 8% in FY 2016 and an increase of 40% in FY2015. A breakdown of that overall number by asset category is as follows:

Offshore Funds YOY Change

Asset Category	3/31/2016 AUM in JPY billion	3/31/2017 AUM in JPY billion	Change year over year
Equity - Americas	13,395	15,258	14%
Equity - Asia & Oceania	747	622	-17%
Equity - Europe & Africa	1,484	1,170	-21%
Equity - Japan	527	578	10%
Global Equity - General	850	613	-28%
Global Equity - Balance	1,041	861	-17%
Fixed Income - General	9,683	5,345	-45%
Fixed Income - MMF	2,364	2,191	-7%
Fixed Income - Derivatives	840	986	17%
Others	3,418	3,023	-12%
Total	34,350	30,647	-11%

In terms of the asset categories, we note that the major changes came from Equity - Americas which saw an increase of nearly 2 trillion JPY and from Fixed Income - General which saw a drop of just over 4 trillion JPY. We are at a loss to understand the source of this drawdown given that the environment for global rates has not undergone a drastic change. We continue to believe, however, that on a secular basis the trend towards increased offshore allocations by Japanese investors 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:

- Documentation Distribution Service
- Chaperone Service
- Translation Service
- Market Assessment Surveys
- Seminar and Conference Service
- Investor 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.

Funds Marketplace Japan

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