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March

2017

FSA Annual Survey - Special Report

By Andrew Hesse

Teneo Partners Japan is proud to present their second annual Funds Marketplace Japan newsletter, 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 2015 fiscal year (April 1, 2015 through March 31, 2016). The results of the annual survey are released at the end of each year and provide an interesting review of the placements made throughout the fiscal year as well as a summary snapshot of the funds industry as at March 31, 2016.

This year, the FSA sent their questionnaire to 4,444 industry participants which should give the report a fairly accurate picture of the industry flows and assets managed on behalf of Japanese investors. Flows into offshore funds that resulted from direct or reverse inquiries from an investor with no intermediation or registered distribution in Japan, whether traditional or alternative, are not represented in this data.

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, as they did in last year’s report. 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, 2016. Consequently they will reflect cumulative figures from both fiscal year (“FY”) 2015 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, the same 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 report, we provide a summary and review of the most recent FSA report (2016) 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 FY2015
(April 1, 2015 to March 31, 2016)

	Total number of funds	Total sales (JPY billion)	< Of Which Hedge Funds >	
			Total number of funds	Total sales (JPY billion)
Domestic Funds	28,404	100,175	213	1,844
Offshore Funds	973	4,338	81	394
Partnerships	4,137	2,347	41	12
Total	33,514	106,860	335	2,250

Through the course of the fiscal year, 33,514 funds were marketed in Japan raising a total of approximately JPY 107 trillion. Of those totals, hedge funds accounted for 335 funds and JPY 2.25 trillion respectively. Interestingly, while total sales dipped slightly from last year, sales of hedge funds increased by 12.78%.

Asset Under Management as at March 31, 2016

	Total number of funds	Total AUM (JPY billion)	< Of Which Hedge Funds >	
			Total number of funds	Total AUM (JPY billion)
Domestic Funds	12,167	235,496	210	1,888
Offshore Funds	848	34,350	106	2,596
Partnerships	4,146	11,586	116	82
Total	17,161	281,404	432	4,566

The FSA data showed a significant jump from 2015 in the number of funds under management at the end of the year to 17,161. The number of hedge funds also increased to 432, yet the corresponding AUM dropped by 9.01%. Note that multiple counting by distributors offering identical funds explains the discrepancy between the number of funds under management and the total number of funds sold.

Starting in 2014, the FSA has been collecting 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.

On February 3, 2016, the Article 63 Exemption was overhauled. The most notable changes included an expanded list of information disclosures and the requirement to appointment a Japan Representative, a resident in Japan who might be a financial instruments business operator, a lawyer, or an affiliated company with a presence in Japan. With less than 2 months to impact the current data, we saw a negligible impact to the final result.

Sales and AUM Data for Partnership Interests Distributed Under the QII Tokurei Gyomu Scheme
(April 1, 2015 through March 31, 2016)

		Total number of funds	Value (JPY billion)
		QII Tokurei Gyomu	Sales
	AUM	2,165	8,653

The FSA also began collected data on those partnerships managed by offshore managers in 2014. We assume that in this case too, they were interested in gathering information about offshore partnerships in preparation for 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, 2015 through March 31, 2016)

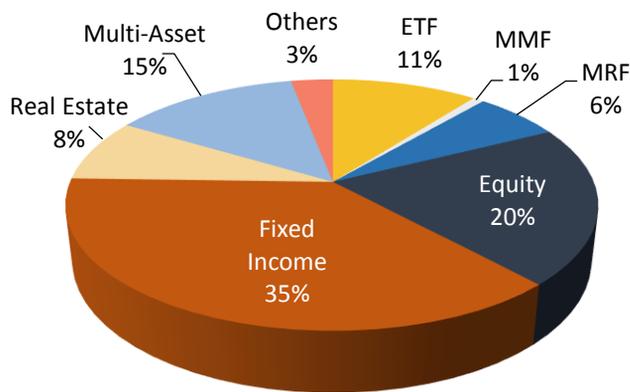
		Total number of funds	Value (JPY billion)
		Partnerships Managed by Offshore Entities	Sales
	AUM	524	5,430

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.

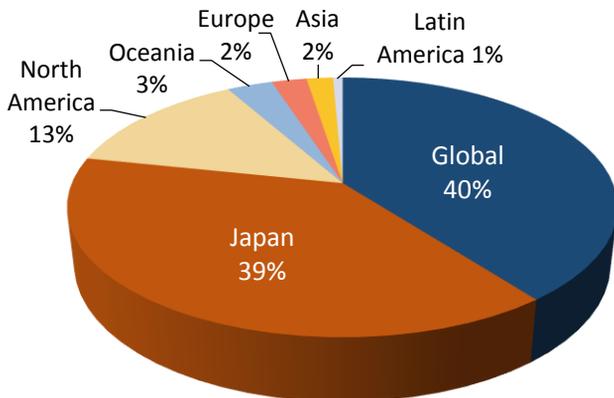
Domestic Funds

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, essentially unchanged from last year's findings.

Domestic Funds - AUM as at March 31, 2016
By Asset Category



Domestic Funds - AUM as at March 31, 2016
By Region



As seen last year, fixed income continued to be the largest segment by asset class while by investment regions, Japan, Global and North America were the largest contributors. The impact of the BoJ's negative interest rate policy on MMFs and MRFs will show a more dramatic drop next year, having only been in force for the last 6 weeks of the current data period.

Finally, the preference of "Unit Trust" type funds over corporate or "Share" type funds by Japanese investors is still prevalent. Of the total 12,167 funds placed in FY 2015, 12,096 were structured as funds issuing units whereas only 71 were structured as funds issuing shares.

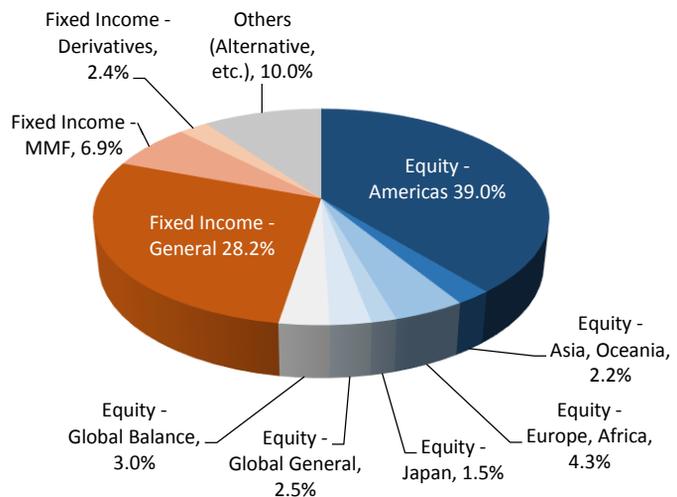
Offshore Funds

Japanese preference for Unit Trust type schemes also extends to offshore funds distributed in Japan. Of the 973 offshore funds offered in Japan, 907 were Unit Trust type and only 66 were Share type.

As at March 31, 2016 there were 848 offshore funds placed in Japan representing a total AUM of JPY 27.7 trillion, compared to the previous year of 798 and 37.3 trillion JPY respectively.

One of the most dramatic changes we saw this year was in the asset category breakdown by AUM of offshore funds. American equity's share dropped by 8.1% while assets in Fixed Income jumped 7.5%, a shift to which more closely resembles the domestic distribution.

Offshore Funds - AUM as at March 31, 2016
By Asset Category



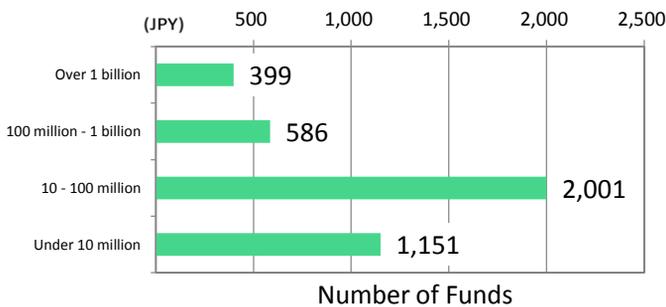
Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund, announced in October 2015 that they would raise their expose to offshore fixed income. Their influence on other Japanese allocators, coupled with the Japanese retail investor preference for large, regular dividend payments may have driven the increase to the Fixed Income asset class. That supposition aside, US equity market continues to be the dominate allocation into offshore funds.

Partnerships

The FSA report has recently expanded their survey to give a clearer picture concerning Partnerships.

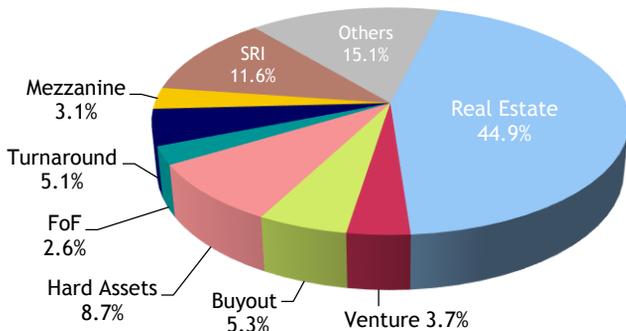
There was significantly more Partnerships fundraising in FY2015 compared to the previous year. The number of Partnerships that raised over 1 billion JPY increased 20.2% to 399. Even more impressive growth was found in the 100 million to 1 billion JPY range with a 34.1% increase to 586. However, about 80% only raised less than 100 million JPY. With just over 2.3 trillion JPY raised in total, the large funds clearly had significant inflows.

Partnerships: Distribution of Funds by Assets Raised



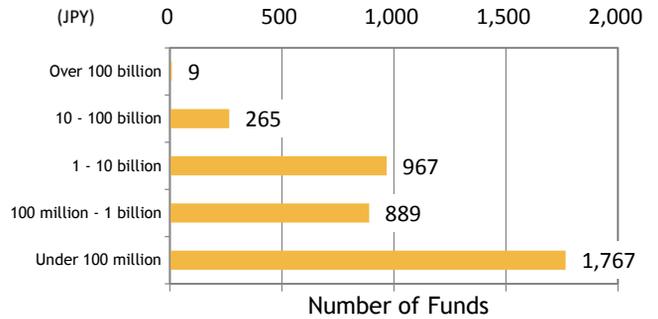
In terms of where those funds were invested, real estate continues to have the dominate share while SRI emerged as the biggest growth category, moving from 1.7% in FY 2014 to 11.6% in FY 2015.

Partnerships: Sales in FY 2015 - Breakdown by Asset Category



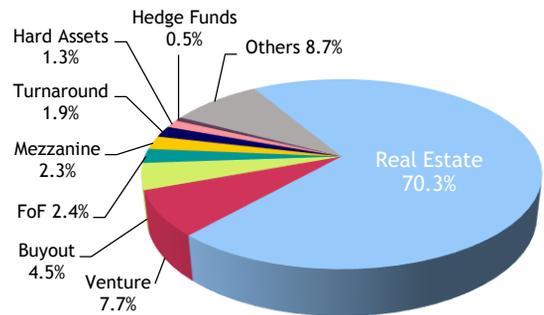
The assets under management as at 31 March 2016 was reported to be virtually the same as the previous year, with JPY 11.6 trillion allocated to partnerships and the bulk of that in 275 funds each managing over JPY 10 billion.

Partnerships: Distribution of Funds by AUM as at March 31, 2016



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

Partnerships: AUM as at March 31, 2016 by Asset Category



QII's were dominant in the partnership space as shown from the results in the following table. As at 31 March 2016, 75% (JPY 8,653 Billion) of the total assets were managed on their behalf.

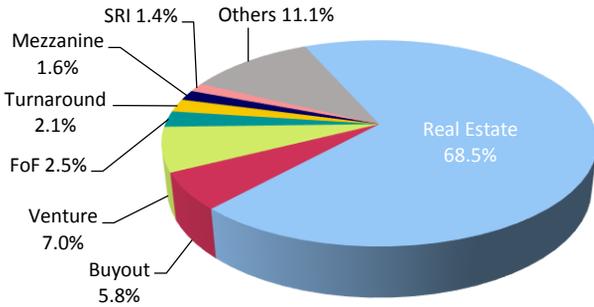
Partnerships: Sales and AUM Data

	Total	<Of which for QII's>
Number of Funds Sold	4,137	750
Total Sales (JPY billion)	2,347	1,819

	Total	<Of which for QII's>
Number of Funds Under Management	4,146	2,165
Asset Under Management (JPY billion)	11,586	8,653

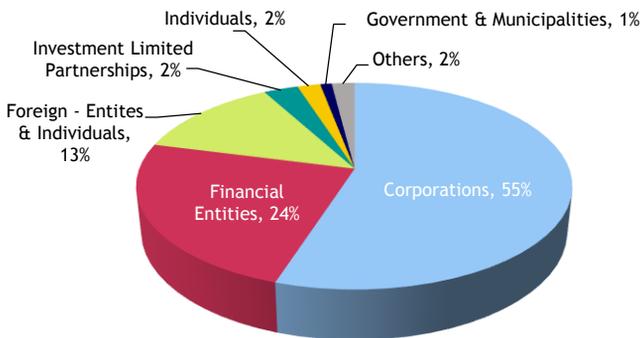
Consequently the breakdown of the QII allocation by asset category is very similar to the whole, as well as similar to last years findings.

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 (55%).

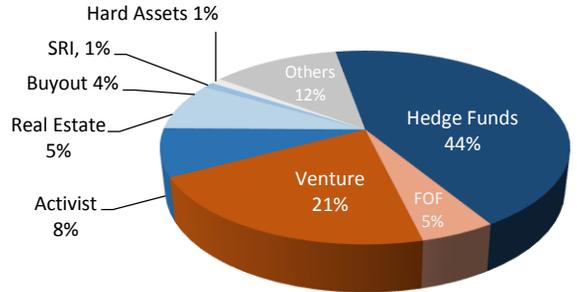
Breakdown by Investor Category for AUM Managed on Behalf of QII's



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 47 that do. Those on the list are primary targets for brokers looking to market their funds.

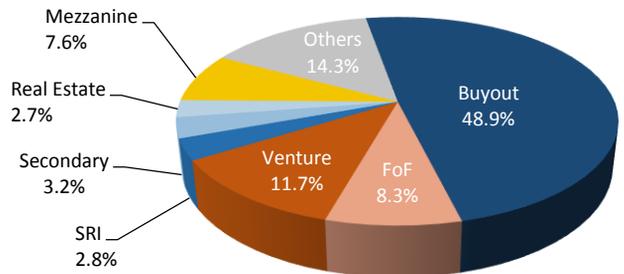
The FSA has provided a breakdown of the assets held by the individuals who make up 2% of the professional investor universe. Compared to last year's results, the first time included in the FSA report, there was a clear shift away from fund of funds with venture and hedge funds picking up the AUM.

Breakdown of AUM Managed on Behalf of Individuals by Asset Category



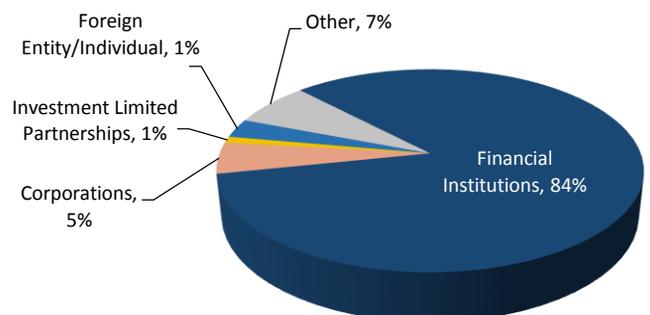
The FSA also surveyed respondents with respect to allocations made to partnerships managed by offshore entities. While private equity buyout funds remain the dominate share, there was a decrease from last year's 54.3%. Again, fund of funds decreased with venture funds picking up AUM. The report also showed the emergence of secondaries this year.

Funds Managed by Offshore Entities by Asset Category as at March 31, 2016



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, 2016



Hedge Funds

The FSA concludes 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 FY2015 (April 1, 2015 through March 31, 2016)

	Total number of funds	Number of distributors	Total sales (JPY billion)
Domestic Funds	213	14	1,844
Offshore Funds	81	20	394
Partnerships	41	27	12

Total Hedge Fund AUM as at March 31, 2016

	Total number of funds	Number of managers	Total AUM (JPY billion)	Average leverage	Profit / Loss (JPY billion)
Domestic Funds	210	19	1,888	1.9	-36
Offshore Funds	106	21	2,596	1	-40
Partnerships	116	61	82	1.5	7

Total Sales of Hedge Funds Structured as Partnerships

	Total number of funds	Sales (JPY billion)
Equity Long-Short	8	0.7
Equity Market Neutral	2	1.9
Multi Strategy	15	7.1
Managed Futures	2	0.7
Global Macro	8	0.4
Others	5	0.2

AUM of Hedge Funds Structured as Partnerships

	Total number of funds	AUM (JPY billion)
Equity Market Neutral	17	48.8
Equity Long-Short	35	9.6
Multi Strategy	22	17.2
Others	18	2.7
Global Macro	15	1.0
Managed Futures	7	1.5
Fund of Hedge Funds	2	1.0

The total sales of domestic and offshore hedge funds in JPY terms increased to 1,844 and 394 billion JPY respectively, while in total assets managed offshore funds fell by 22.3%. This may be due to the swing from a profit of 340 billion JPY reported in the previous year to losses of 40 billion reported as at 31 March 2016.

Those who were surveyed reported that a total of JPY 2.60 trillion was managed on their behalf by offshore funds as at 31 March 2016, 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, only JPY 82 billion of that money was managed in partnership structures.

Year on Year Comparisons

Just as we did in our first issue, we conclude our special report with 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, 2015 vs. March 31 2016.

Though the total dropped by 8% year on year, it is important to note that this result comes after a 40% increase from the previous report. A breakdown of that overall number by asset category is as follows:

Offshore Funds YOY Change

Asset Category	3/31/2015 AUM in JPY billion	3/31/2016 AUM in JPY billion	Change year over year
Equity - Americas	17,568	13,395	-24%
Equity - Asia & Oceania	779	747	-4%
Equity - Europe & Africa	773	1,484	92%
Equity - Japan	385	527	37%
Equity - General	929	850	-8%
Equity - Balance	1,061	1,041	-2%
Fixed Income - General	7,713	9,683	26%
Fixed Income - MMF	2,263	2,364	4%
Fixed Income - Derivatives	1,217	840	-31%
Others	4,623	3,418	-26%
Total	37,311	34,350	-8%

We can assume that virtually all of the growth in the Europe & Africa category is attributable to Europe, given that Africa is not yet a popular investment destination for Japan. Interest in Europe prior to the Brexit referendum was high. Increased allocations to fixed income were also quite dramatic. 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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