

2007 lakkyara

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**Leading Japanese and foreign asset
managers developing niches**

Over the past four years, Japanese and foreign asset management firms have developed their own niches as the Japanese market has more than doubled in terms of both outstanding assets and revenues. While Japanese firms have specialized in managing domestic assets and providing customer support for individual investors and sales firms, foreign firms have tended to focus on foreign currency assets.

Different “winners” in investment trust and investment advisory fields

Outstanding assets and revenues at investment trust firms and investment advisors (excluding trust banks and life insurers) roughly doubled in the four years from FY02 to FY06. In aggregate these sectors have turned in record performances, but which companies in particular have been successful?

Exhibit 1 lists the ten investment trust and investment advisory companies posting the highest growth in assets under management over the last four years. Those highlighted in blue are foreign asset managers. The

two groups clearly had very different characteristics. Specifically, the investment trust firms that succeeded in boosting assets under management tended to be well-known domestic managers with strong sales affiliates. Such companies occupied the top seven places. In the investment advisory category, on the other hand, the most successful firms were foreign companies skilled in the management of foreign currency assets, which accounted for seven of the top ten in this group. The sharp disparity between dominant firms in the two categories reflects the fact that in the investment trust business the focus is on service, while in the investment advisory field the primary focus is on asset management.

Exhibit 1. Top ten asset managers over last four years

Investment trusts

Manager	Increase in assets (¥bn) (Mar '03–Mar '07)
Nomura Asset Management	8,138.1
Mitsubishi UFJ Asset Management	5,554.7
Kokusai Asset Management	4,397.4
Nikko Asset Management	3,470.5
Daiwa Asset Management	3,184.3
DLIBJ Asset Management	2,984.7
Sumitomo Mitsui Asset Management	2,891.2
Pictet Asset Management (Japan)	2,858.7
Fidelity Investments Japan	2,611.1
State Street Global Advisors (Japan)	1,795.9

Investment advisors

Manager	Increase in assets (¥bn) (Mar '03–Mar '07)
Barclays Global Investors	10,998.3
State Street Global Advisors (Japan)	4,973.3
Nomura Asset Management	3,531.3
PIMCO	3,423.9
Morgan Stanley Asset & Investment Trust Management	2,888.9
Alliance Bernstein	2,873.8
Tokio Marine Asset Management	2,764.6
JPMorgan Asset Management (Japan)	2,631.9
Fidelity Investments Japan	2,588.2
DLIBJ Asset Management	2,234.1

Source: Compiled by NRI based on data from Investment Trusts Association and Japan Securities Investment Advisers Association

Investment trust business centers on customer support

Managers in the investment trust business increasingly need a large organization to provide support for sales firms. As such, large Japanese companies that are skilled at providing customer support have garnered nearly 80% of all outstanding investment trust assets.

Banks now account for more than half of all investment trust sales in Japan, with sales stretching beyond the megabanks to include regional banks, Japan Post Bank, and post offices. As the range of sales channels broadens, management firms need to provide finely tuned sales support that ranges from delivering information about the products being offered to offering advice on sales techniques. As one example, it is said that a manager needs at least ten sales support staff and must be willing to provide a full range of sales support in order to sell a new product through post offices. In terms of

increasing investment trust assets under management, large management firms with the ability to assign a large number of staff to sales firm support duties are clearly at an advantage.

The asset management process and the performance-oriented investment advisory business

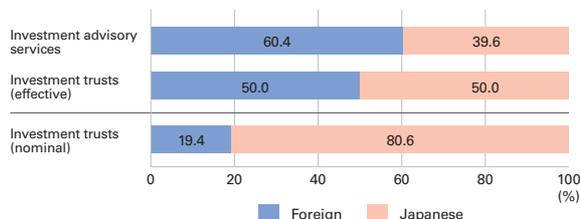
In contrast to the situation in the investment trust business, the main clients of investment advisors are pension funds, where so-called pension consultants play a central role in the selection of fund managers. Nearly 80% of corporate pension funds managing assets of ¥100 billion or more employ such consultants. In addition, public pension funds are increasingly turning to such consultants for advice on the selection of asset managers.

Consultants are deeply involved in the entire investment management process for pension funds, providing assistance for everything from the selection of basic portfolios to the hiring of investment managers. When consultants are part of the asset manager selection process, there is a tendency to emphasize the investment process and past performance. In addition, the GPIF¹⁾ has responded to an increase in assets under management over the last four years by placing a large amount of funds in passive investments, and there were frequent changes of poorly performing managers of foreign currency assets. As a result, foreign managers with experience in global passive investments and the ability to invest in foreign assets enjoyed significant growth in assets under management.²⁾

Two niches: investment process and customer service

As could be expected from the growth in assets under management, foreign firms now manage more than 60% of the assets under management in the investment advisory business. In the investment trust business, on the other hand, they account for only about 20% of the

Exhibit 2. Effective share of assets under management for Japanese and foreign firms



Source: NRI, from various data

market, which is dominated by Japanese firms that excel in customer support.

The actual situation, however, is somewhat different. The most popular investment trusts today are funds containing a high proportion of foreign assets, including foreign bond funds and global balanced or equity funds. This is an area in which foreign firms clearly have an advantage. Consequently, a growing number of Japanese fund managers are hiring foreign companies to serve as sub-advisors for funds marketed and managed under the name of the Japanese firm. Exhibit 2 takes this phenomenon into account and shows our estimate of the real share of assets under management. It suggests that even in the investment trust sector foreign asset managers have lifted their market share to around 50%.

Based on the information presented above, we offer the following simplified view of asset managers in the investment trust business: the leading Japanese management firms specialize in domestic assets and customer support, which includes marketing assistance for sales firms, while foreign companies leave customer support up to Japanese firms and focus almost exclusively on foreign asset investments. In the advisory business as well, Japanese companies tend to limit themselves to domestic assets, with foreign firms dominating the foreign asset category.

If we assume that there will be no major changes in the structure of the investment trust and investment advisory businesses going forward, Japanese and foreign companies are likely to pursue strategies designed to take advantage of their respective strengths. As a practical

business model, Japanese managers will probably seek to become asset management service companies, adopting an organizational structure consisting of an investment division specializing in domestic assets and a global or alternative investments division that outsources most of its work.³⁾

If they are to focus on customer service, it will become increasingly important for Japan's leading asset managers to learn how to select capable outside managers and combine them flexibly to satisfy customer needs and provide their clients with a broad range of investment services.

Note

- 1) Government Pension Investment Fund.
- 2) Of the managers that had been selected by the GPIF at the end of March 2007, for example, Japanese firms accounted for more than 60% of domestic bond and equity investments, while foreign firms had been entrusted with the management of more than 90% of all foreign currency assets.
- 3) A number of managers affiliated with securities companies have already adopted similar organizational structures.

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