Financial business trends elucidated with data

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Visualizing new NISAs' impact on Japan's investment trust market

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The new, improved version of NISAs (Nippon Individual Savings Accounts) may have an indelible impact on Japan's investment trust market. The new NISAs have accentuated the distinction between funds that are suitable as stable investment vehicles and funds that are not. In the first three months following the new NISAs' advent, investment trusts eligible to be held in NISAs captured an outsized share of asset inflows while most NISA-ineligible investment trusts experienced asset outflows. Amid ongoing changes in the Japanese public's image of investing, NISA-eligibility may be influencing investment trust investors' fund selection decisions, even when the fund being purchased will not be held in a NISA. If so, investment trust sponsors will have to seriously weigh whether to make compliance with NISA eligibility requirements a feature of their new products.

One third of all investment trusts are eligible to be held in new NISAs

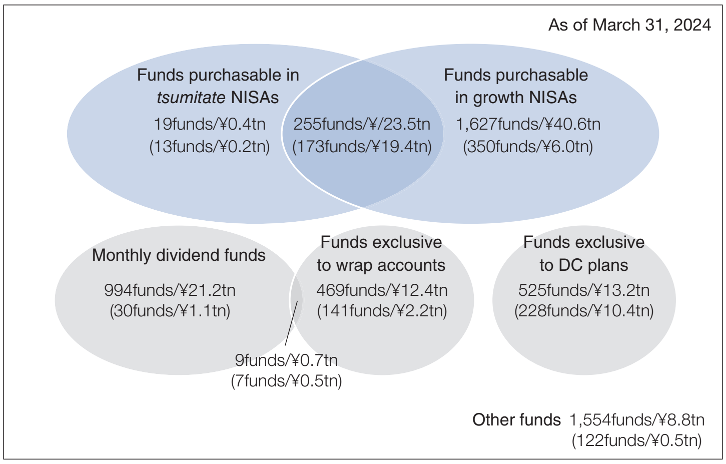
The new NISAs come in two variations: growth NISAs and *tsumitate* NISAs, the latter of which are for investing in investment trusts in monthly installments. To be eligible to be held in either type of NISA, investment trusts must have a trust term of at least 20 years and cannot pay monthly distributions or trade derivatives. *Tsumitate* NISAs impose two additional restrictions: they prohibit sales fees (i.e., only no-load funds are allowed) and impose a cap on fund management fees. Given *tsumitate* NISAs' stricter eligibility requirements, one might assume that all investment trusts purchasable in *tsumitate* NISAs would also be purchasable in growth NISAs, but this is not the case. Investment trusts that meet the NISA eligibility requirements must file paperwork with the FSA and Japan Investment Trusts Association (JITA) before they can be purchased in either type of NISA. Some investment trusts have filed to be purchasable in *tsumitate* NISAs but not growth NISAs.

Figure 1 presents a Venn diagram of Japan's public open-end equity investment trust (ex ETF) universe as of March 31, 2024, based on lists published by the FSA and JITA. In total, 1,901 funds are purchasable in NISAs, including 19[1] purchasable in *tsumitate* NISAs only, 1,627 purchasable in growth NISAs only and 255 purchasable in both *tsumitate* NISAs and growth NISAs, the latter of which have more lenient eligibility requirements as already mentioned. These 1,901 funds

NOTE
1) Most of which are offered in DC retirement accounts also.

account for 35% of public open-end equity investment trusts (ex ETFs) in unit terms but 53% in NAV terms. Of the 1,901 NISA-eligible investment trusts, 536 are passively managed. They account for nearly 80% of all passive investment trusts available in Japan, excluding those available only in DC retirement plans or wrap accounts (there are 152 passive investment trusts not purchasable in NISAs and not available in DC retirement plans or wrap accounts). These 536 NISA-eligible passive funds account for more than 90% of passively managed investment trust NAV excluding funds available only in DC plans or wrap accounts.

Figure 1: Universe of public open-end equity investment trusts (ex ETFs)
5,452 funds/¥120.8tn (1,064 funds/¥40.4tn)



Note: Numbers in parentheses are subtotals for passive funds.
Source: NRI, based on FSA, JITA and Fundmark data

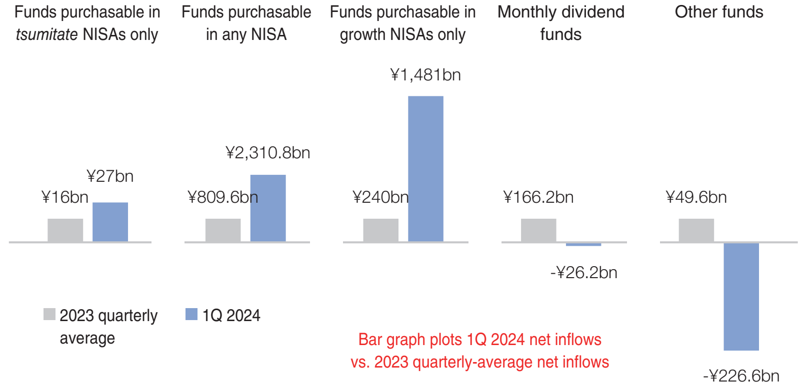
NISA-eligible investment trusts are capturing lion's share of asset inflows

Figure 2 plots net inflows to public equity investment trusts (excluding ETFs and funds available only in DC plans or wrap accounts). It is important to note that much of NISA-eligible funds' inflows are purchases in non-NISA accounts[2]. Figure 2's blue bars are net inflows in 1Q 2024; the gray bars are 2023 quarterly-average net inflows. Net inflows increased in 1Q 2024 relative to their 2023 quarterly averages across all NISA-eligible fund categories (the three leftmost pairs of bars). Funds purchasable in both *tsumitate* and growth NISAs, which include the eMAXIS Slim All Country World Equity Fund, notably attracted over ¥2.3tn of net inflows in 1Q. Net inflows to funds purchasable in growth NISAs but not *tsumitate* NISAs were more than six times greater than their 2023 quarterly average in 1Q. Net inflows to funds purchasable in *tsumitate* NISAs but not growth NISAs were modest, reflecting the small number of such funds, but they were still 70% above their 2023 quarterly average in 1Q.

2) Purchases of investment trusts within NISAs accounted for only about 30% of the ¥7,851.2bn of total NISA-eligible investment trust sales in 1Q 2024. The other 70% were presumably purchased in taxable or other non-NISA accounts. These percentages are estimates based on NISA data released by JITA on March 21, 2024. The data reported that investment trusts accounted for 41% (¥725.7bn) of ¥1,770.0bn of investment products purchased in NISAs held at Japan's 10 largest brokerages in the first two months of 2024. Assuming that March purchases were in line with January-February purchases' monthly average, we estimated that ¥1,088.6bn of investment trusts were purchased in NISAs held at the 10 largest brokerages in 1Q. With the 10 largest brokerages accounting for an estimated 50% share of Japanese investment trust sales, we estimated 1Q investment trust purchases in NISAs throughout Japan at ¥2,177.1bn, 28% of the aforementioned ¥7,851.2bn of total NISA-eligible investment trust purchases in 1Q.

Meanwhile, NISA-ineligible funds experienced net outflows in 1Q to the tune of ¥26.2bn for monthly dividend funds and ¥226.6bn for others. On the whole, money flows diverged sharply in 1Q between NISA-eligible and NISA-ineligible investment trusts.

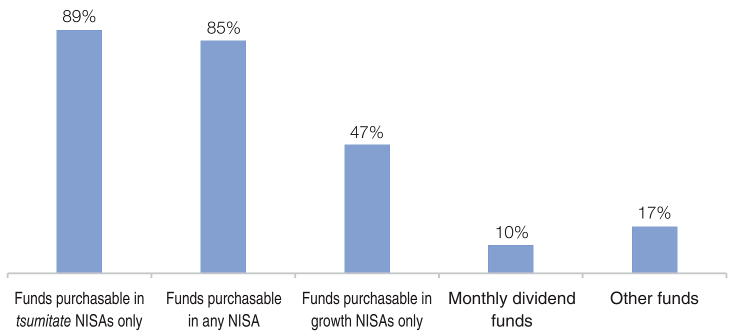
Figure 2: Net inflows to public open-end equity investment trusts
(ex ETFs and funds available only in DC plans or wrap accounts)



Note: NISA-eligible funds' net inflows include purchases in non-NISA accounts.
Source: NRI, based on Fundmark data

The preceding two paragraphs may convey the impression that most NISA-eligible funds saw net inflows in 1Q, but drawing such a conclusion would not be entirely correct. Figure 3 plots the percentage of funds in each category that saw net inflows in 1Q. The percentage of NISA-eligible funds that experienced net inflows in 1Q was nearly 90% for those purchasable in *tsumitate* NISAs only and those purchasable in both growth and *tsumitate* NISAs but less than 50% for those funds purchasable in growth NISAs only. Many of the funds purchasable only in growth NISAs had 1Q net inflows that exceeded their respective 2023 quarterly average net inflows, but a majority of all funds purchasable only in growth NISAs had net outflows in 1Q. Among NISA-ineligible funds, large majorities of both monthly dividend funds and other funds saw net outflows in 1Q, with less than 20% experiencing net inflows.

Figure 3: Percentage of funds with net inflows in 1Q 2024

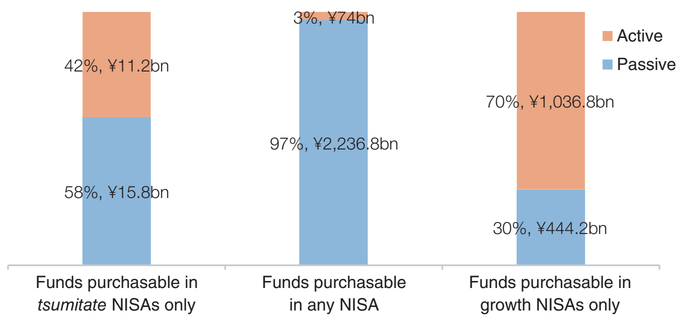


Source: NRI, based on Fundmark data

Even actively managed NISA-eligible funds enjoying sizable inflows

Of NISA-eligible funds' 1Q net inflows in aggregate, 71% went into passive funds, but net inflows' breakdown between passive and active funds differed substantially among the three categories of NISA-eligible funds (Figure 4). The passive share of net inflows to funds purchasable in both growth and *tsumitate* NISAs was 97%. Passive funds in this category include the eMAXIS Slim All Country World Equity Fund and eMAXIS Slim US S&P 500 Fund. In contrast, net inflows to funds purchasable only in growth NISAs were split 70:30 between active and passive funds, respectively, in 1Q. Among active funds in this category, the SMTAM Semiconductor Global Equity Strategy Fund, Nomura Global Semiconductor Equity Fund and AllianceBernstein US Growth Equity Fund B Course (Unhedged) attracted more than ¥80bn of net inflows apiece. Active funds' share of net inflows to funds purchasable only in *tsumitate* NISAs was 40% in 1Q. In sum, many active funds are enjoying substantial inflows even within the NISA-eligible fund universe.

Figure 4: Passive vs. active breakdown of NISA-eligible funds' net inflows (1Q 2024)



Note: Net inflows include purchases outside of NISAs.
Source: NRI, based on Fundmark data

In sum, investment trust asset flows diverged sharply in 1Q 2024 between NISA-eligible and NISA-ineligible funds, regardless of whether active or passive. Amid the ongoing changes in the Japanese public's image of investing, investment products' suitability as a vehicle for steady wealth accretion may have become a key selection criteria, even when the products are being purchased outside of a NISA. If so, investment trust sponsors will have to seriously weigh whether to make compliance with NISA eligibility requirements a feature of their new products.

about NRI

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