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# **Fund Monitoring Survey**

( 1st )

## **Summary of Results**

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**March 2025**



**Financial Services Agency**

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## 1. Introduction

### 1.1 About the Fund Monitoring Survey

The Fund Monitoring Survey is conducted in response to requests from international organizations such as IOSCO (International Organization of Securities Commissions) for national authorities to collect data on funds of a certain scale from the perspective of financial stability, and with the aim of utilizing the data for monitoring activities by the Financial Services Agency (FSA). The survey is scheduled to be conducted annually.

This document compiles the results of the first Fund Monitoring Survey<sup>1</sup>, based on the data as of the end of December 2023<sup>2</sup>.

### 1.2 Survey Coverage

The survey was conducted on investment management business operators (as defined in Article 28, Paragraph 4 of the Financial Instruments and Exchange Act (hereinafter referred to as the "FIEA")) and notified entities conducting specially permitted business for qualified institutional investors, etc. (as defined in Article 63, Paragraph 1, Item 2 of the FIEA) (hereinafter referred to as the "surveyed entities"), that manage fund(s) domiciled in Japan falling under both (i) and (ii) below (hereinafter referred to as the "surveyed funds").

#### (i) Types of Funds<sup>3</sup>

- Investment trusts (as defined in Article 2, Paragraph 3 of the Act on Investment Trusts and Investment Corporations (hereinafter referred to as the "Investment Trust Act"))<sup>4</sup>
- Investment corporations (as defined in Article 2, Paragraph 12 of the Investment Trust Act)
- Collective investment undertakings (assets contributed or invested by holders of rights as set forth in Article 2, Paragraph 2, Item 5 of the FIEA)
- Separate accounts managed under a discretionary investment contract (as defined in Article 2, Paragraph 8, Item 12 (b) of the FIEA) using a "hedge fund strategy"

#### (ii) Fund Size

Funds with net assets of 50 billion yen or more per fund

### 1.3 Survey Items

Responses were requested regarding asset class exposure, items related to liquidity risk (such as the number of days expected to convert assets to cash and the number of days for paying redemptions), the status of derivative transactions, the status of borrowings, and

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<sup>1</sup> IOSCO publishes fund statistics based on reports from various countries, including Japan. <https://www.iosco.org/ifsr.cfm>

<sup>2</sup> For funds for which it was difficult to report the status as of the end of December 2023, they were requested to report based on the most recent date prior to that day on which reporting was possible.

<sup>3</sup> Among funds with multi-layered structures, in particular, fund of funds (hereinafter referred to as "FoFs") were surveyed with respect to both the FoFs themselves and their underlying funds. In the case of the fund family structure, the baby funds were included in the survey coverage.

<sup>4</sup> In accordance with IOSCO's classification, money reserve funds (MRFs) were excluded from the survey.

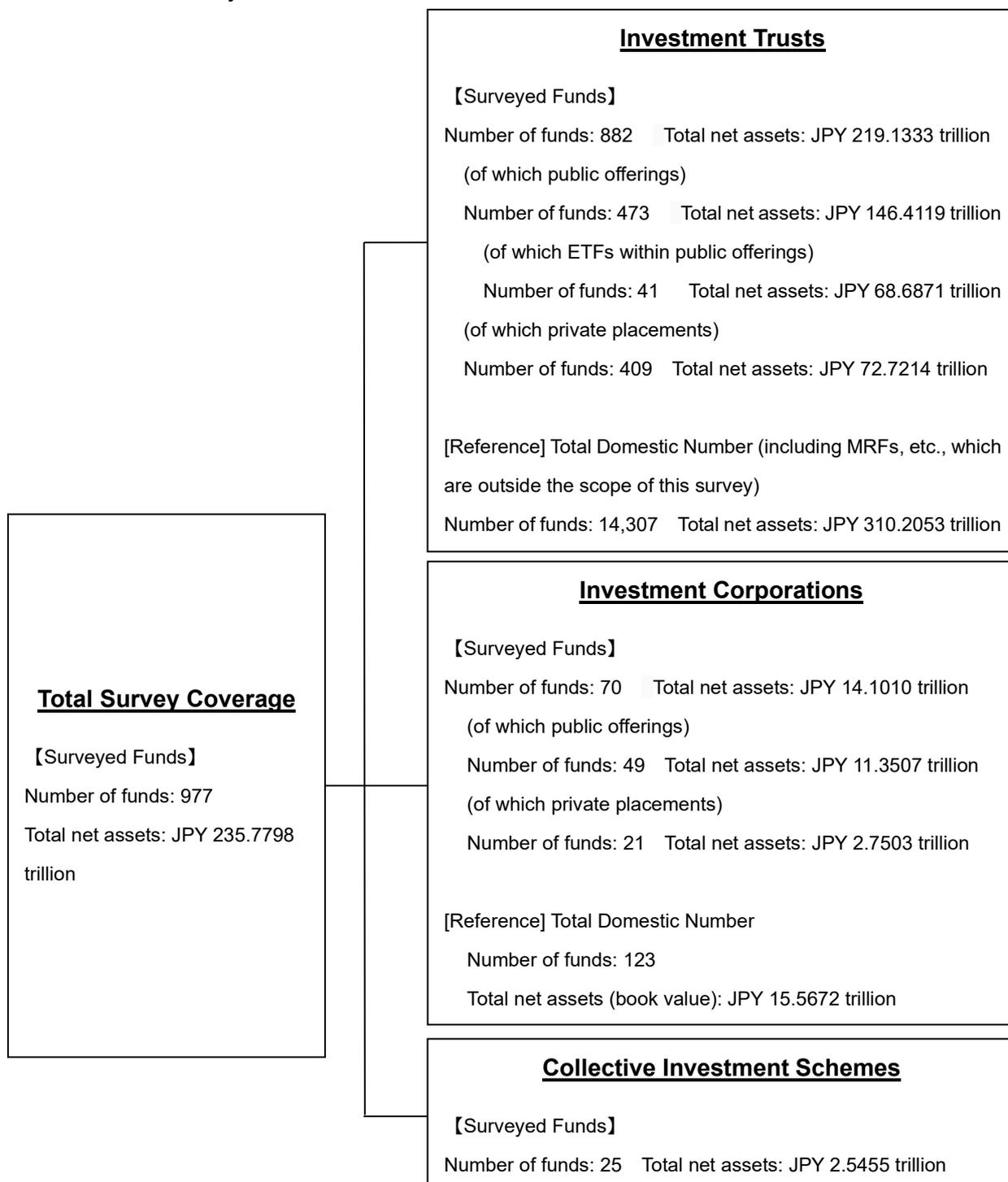
other related matters.

## 2. Survey Results

### 2.1 Basic Data

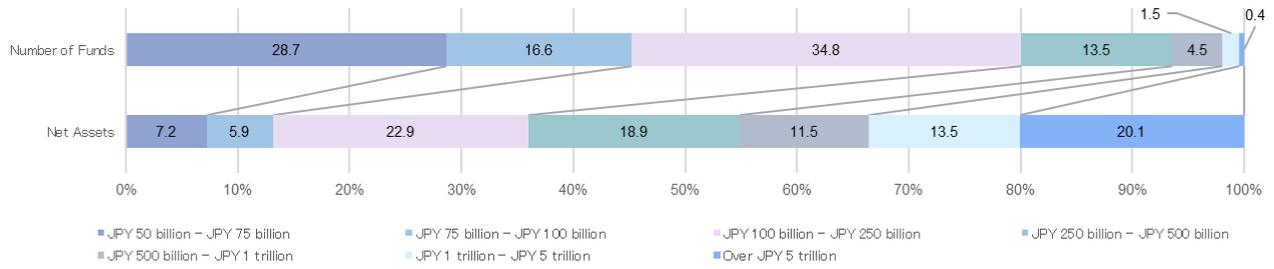
#### 2.1.1 Overview of Surveyed Funds

##### 2.1.1.1 Size of Surveyed Funds



\*A survey was also conducted on separate accounts managed under a discretionary investment contract using a “hedge fund strategy” with net assets of JPY 50 billion or more per account; however, no such accounts were reported as applicable.

Figure 1: Distribution of Surveyed Fund Sizes (Based on Net Assets)



Each bucket includes lesser number but excludes upper number.

Total: Number of Funds – 977, Net Assets – JPY 235.7798 trillion

### 2.1.1.2 Status of Surveyed Entities

Figure 2: Number of Surveyed Entities Reporting Surveyed Funds (by Business Type)

Business Type	Number of Entities
Investment trust management companies	62
Asset management companies for investment corporations	59
Self-managed fund operators	2
Notified entities conducting specially permitted business for qualified institutional investors, etc.	18
<b>Total</b>	<b>141</b>

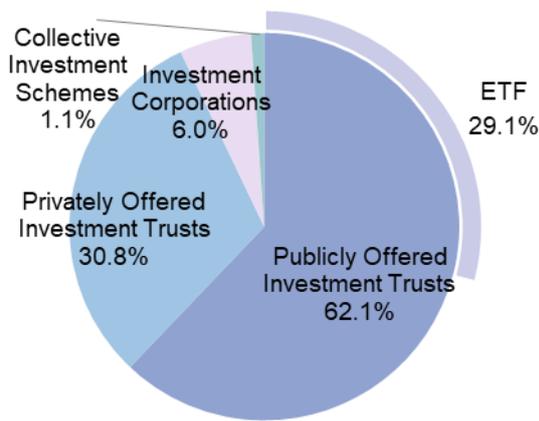
Note: Entities engaged in multiple business types are classified based on their primary investment vehicles.

### 2.1.2 Fund Structure

Based on net assets, publicly offered investment trusts account for approximately 62%, while privately placed investment trusts account for approximately 31% of all surveyed funds. Based on the number of funds, publicly offered investment trusts account for approximately 48%, and privately placed investment trusts account for approximately 42%. As for exchange-traded funds (hereinafter referred to as “ETFs”), they represent approximately 47% of publicly offered investment trusts (approximately 29% of all surveyed funds) based on net assets, while accounting for approximately 9% of publicly offered investment trusts (approximately 4% of all surveyed funds) in terms of the number of funds.

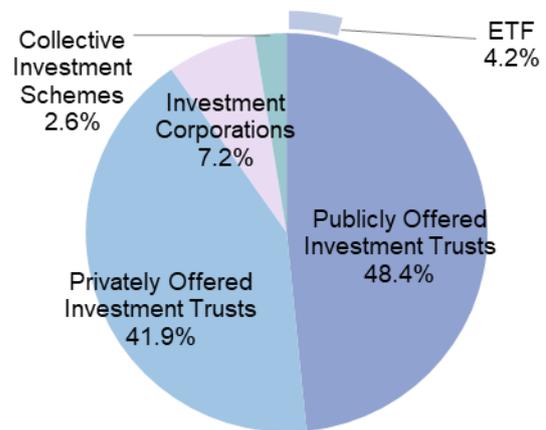
All investment corporations are real estate investment corporations.

Figure 3: Fund Structure (Based on Net Assets)



Total: JPY235.7798 trillion

Figure 4: Fund Structure (Based on Number of Funds)

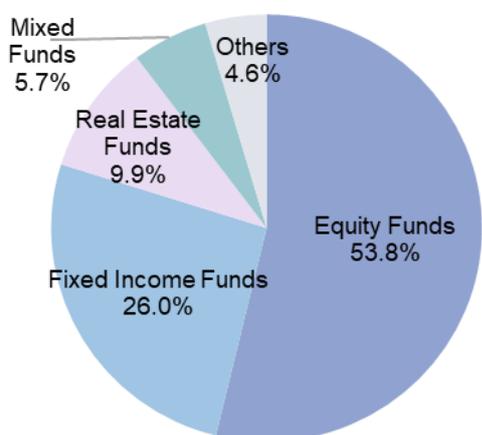


Total: 977 funds

### 2.1.3 Classification by Primary Investments (Fund Type)

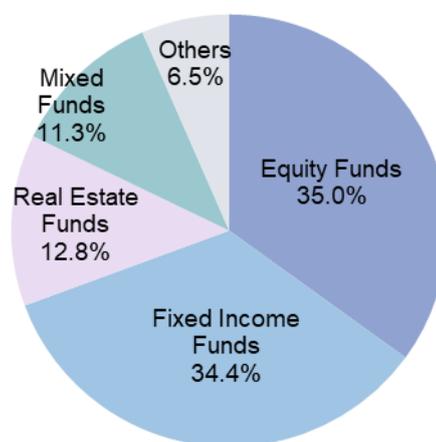
The classification of the surveyed funds based on their primary investments (hereinafter referred to as “fund types”) is as follows. On the net asset basis, approximately 54% of the surveyed funds primarily invest in equities, approximately 26% in bonds, and approximately 10% in real estate. By fund structure, approximately 81% of publicly offered investment trusts primarily invest in equities, while approximately 69% of privately placed investment trusts primarily invest in bonds. On the other hand, all investment corporations primarily invest in real estate, and approximately 77% of collective investment undertakings primarily invest in real estate.

Figure 5: Fund Types<sup>5</sup> (Based on Net Assets)



Total: JPY235.7798 trillion

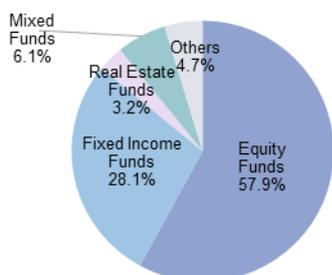
Figure 6: Fund Types (Based on Number of Funds)



Total: 977 funds

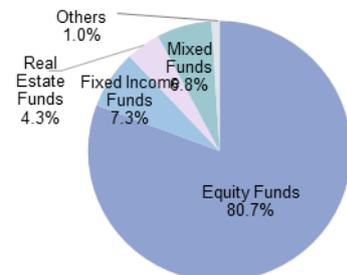
Figure 7: Fund Types by Fund Structure (Based on Net Assets)

#### Investment Trusts



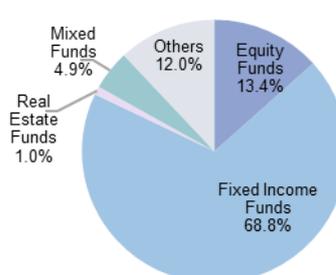
Total: JPY 219.1333 trillion

#### (Publicly Offered Investment Trusts)



Total: JPY 146.4119 trillion

#### (Privately Offered Investment Trusts)



Total: JPY 72.7214 trillion

<sup>5</sup> A Mixed Fund refers to a fund that invests in multiple asset classes, including equities, bonds, real estate, and other assets. The category “Others” includes alternative strategies aimed at achieving an absolute return, private equity funds, and commodity funds.

Investment Corporations



Total: JPY14.1010 trillion

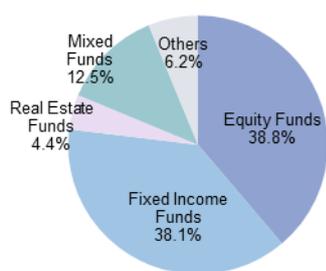
Collective Investment Undertakings



Total: JPY 2.5455 trillion

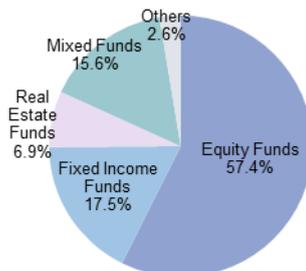
Figure 8: Fund Types by Fund Structure (Based on Number of Funds)

Investment Trusts



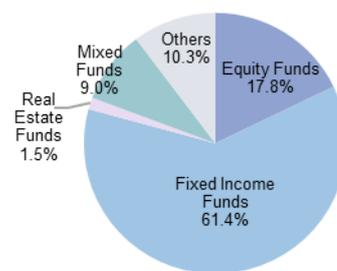
Total : 882 funds

(Publicly Offered Investment Trusts)



Total : 473 funds

(Privately Offered Investment Trusts)



Total : 409 funds

Investment Corporations



Total : 70 funds

Collective Investment Undertakings



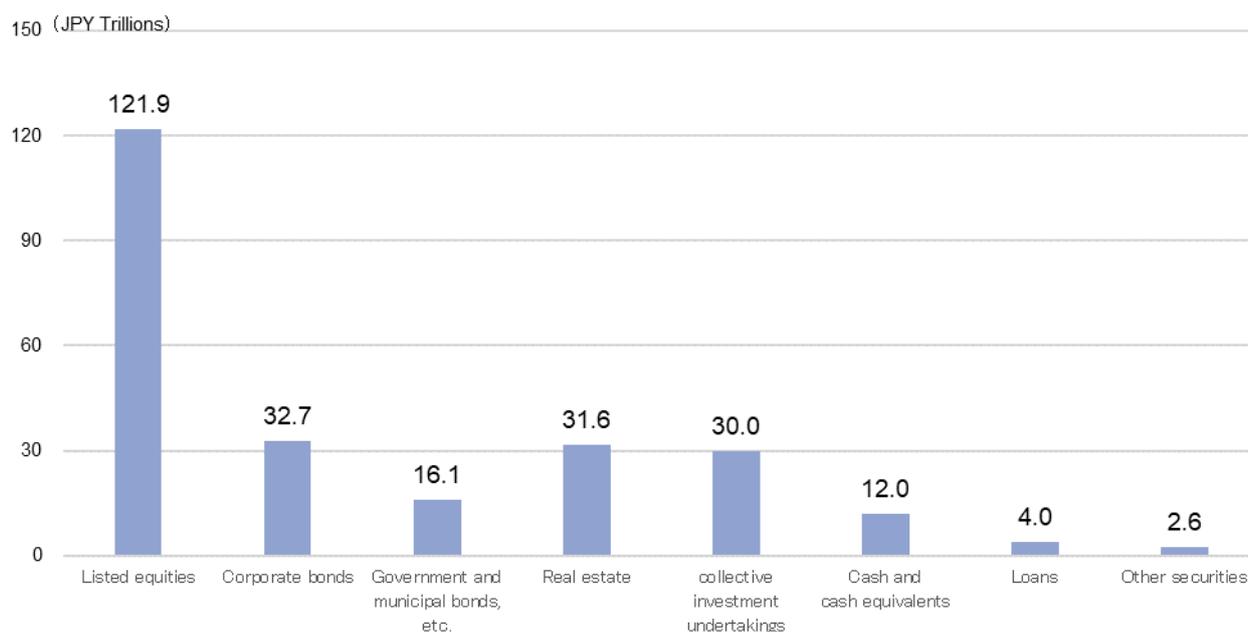
Total: 25 funds

## 2.2 Asset Class Exposure

For the surveyed funds, the asset class exposure (excluding derivatives) is largest in the following order: listed equities, bonds (including corporate bonds, government bonds, and municipal bonds), and real estate (including beneficial interests in real estate trusts).<sup>6,7</sup>

As for derivatives, the largest exposures are in foreign exchange derivatives (including forward contracts) and interest rate derivatives, which are commonly used for hedging foreign exchange and interest rate risks.

Figure 9: Asset Class Exposure (Gross, Excluding Derivatives)



<sup>6</sup> In the case of funds with a multi-layered structure, respondents were asked to report the looked-through exposure, i.e., the actual exposure of the underlying funds (for example, the investee funds in the case of FoFs, or the mother fund in the case of a fund family structure). However, if look-through was difficult, respondents were instructed to report the direct exposure (e.g., "collective investment undertakings" in the above examples). The term "collective investment undertakings" includes investment trusts, ETFs, and investee funds of FoFs for which look-through is not feasible. "Other securities" includes unlisted equities, structured products, and securitized products.

<sup>7</sup> "Gross" refers to the total of the absolute values of both long and short exposures, expressed as a positive amount. As for Asset Class Exposure (Gross, Excluding Derivatives), only gross exposure is presented, as short exposures are minimal.

Figure10: Asset Class Exposure by Fund Structure (Gross, Excluding Derivatives)

Top row: Unit = JPY trillion

Bottom row: Share of each asset class as a percentage of the total amount in the top row

	Listed equities	Corporate bonds	Government and municipal bonds, etc.	Real estate	Collective investment undertakings	Cash and cash equivalents	Loans	Other securities	Total
Investment Trusts	<b><u>121.9</u></b>	32.7	16.1	0.1	29.4	10.1	4.0	2.2	216.5
	<b>(56.3%)</b>	(15.1%)	(7.4%)	(0.0%)	(13.6%)	(4.7%)	(1.8%)	(1.0%)	-
(Publicly Offered Investment Trusts)	<b><u>113.2</u></b>	3.5	6.3	0.1	18.4	5.1	0.1	0.2	146.7
	<b>(77.1%)</b>	(2.4%)	(4.3%)	(0.0%)	(12.5%)	(3.5%)	(0.0%)	(0.1%)	-
(Privately Offered Investment Trusts)	8.8	<b><u>29.2</u></b>	9.8	-	11.0	5.0	3.9	2.0	69.8
	(12.5%)	<b>(41.9%)</b>	(14.1%)	-	(15.8%)	(7.2%)	(5.6%)	(2.9%)	-
Investment Corporations	-	-	-	<b><u>28.7</u></b>	-	1.8	-	0.0	30.5
	-	-	-	<b>(93.9%)</b>	-	(6.0%)	-	(0.1%)	-
Collective Investment Undertakings	0.0	0.0	-	<b><u>2.8</u></b>	0.5	0.0	-	0.3	3.8
	(0.4%)	(0.3%)	-	<b>(75.3%)</b>	(14.6%)	(1.1%)	-	(8.4%)	-

Note: The largest exposure for each fund structure is indicated in **bold and underlined**.

Figure11: Derivatives Exposure (Long/Short)

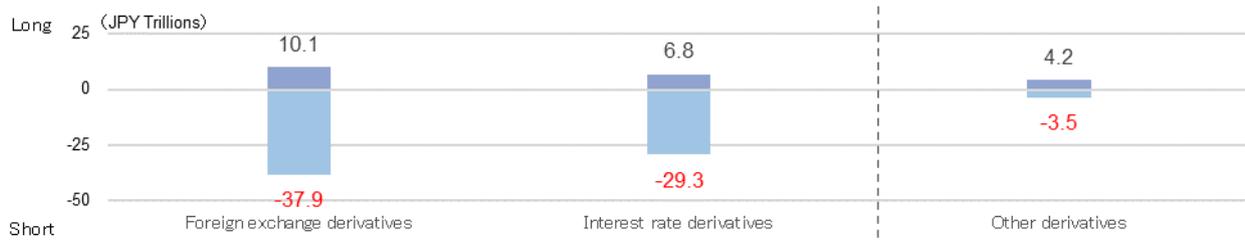


Figure 12: Derivatives Exposure (Long/Short) by Fund Structure<sup>8</sup>

Top row: Unit = JPY trillion

Bottom row: Share of each asset class as a percentage of the total amount in the top row

	Foreign exchange derivatives		Interest rate derivatives		Other derivatives		Total (Gross)	(Reference) Exposure (excluding derivatives, gross)
	Long	Short	Long	Short	Long	Short		
Investment Trusts	10.1 (11.2%)	<b><u>-37.9</u></b> <b><u>(42.1%)</u></b>	6.5 (7.2%)	-27.9 (31.0%)	4.2 (4.6%)	-3.5 (3.8%)	90.2	216.5 -
(Publicly Offered Investment Trusts)	0.6 (7.6%)	<b><u>-3.7</u></b> <b><u>(48.3%)</u></b>	0.3 (3.6%)	-0.4 (5.5%)	2.1 (27.4%)	-0.6 (7.5%)	7.7	146.7 -
(Privately Offered Investment Trusts)	9.6 (11.6%)	<b><u>-34.2</u></b> <b><u>(41.5%)</u></b>	6.2 (7.6%)	-27.5 (33.3%)	2.1 (2.5%)	-2.9 (3.5%)	82.5	69.8 -
Investment Corporations	-	-	0.3 (19.3%)	<b><u>-1.3</u></b> <b><u>(80.7%)</u></b>	-	-	1.6	30.5 -
Collective Investment Undertakings	-	-	-	-	-	-	-	3.8 -

Note: The largest exposure for each fund structure is indicated in **bold and underlined**.

<sup>8</sup> "Other derivatives" include equity derivatives, credit derivatives, and total return swaps.

## 2.3 Liquidity Risk<sup>9</sup>

Generally, when the number of days expected to convert a portfolio to cash (hereinafter referred to as the “portfolio liquidation period”) is shorter than the predetermined number of days to pay for redemptions to investors (hereinafter referred to as the “investor redemption period”), it is considered that the fund is capable of meeting investor redemption requests. Conversely, if the portfolio liquidation period exceeds the investor redemption period, there is a risk that the fund may face difficulty in meeting large-scale redemptions occurring simultaneously. In such cases, the fund may be forced to sell a significant portion of its relatively more liquid assets to raise redemption proceeds, which could exert downward pressure on the market prices of those assets. This may not only affect the management of individual funds but also negatively impact broader market stability.

Figure 13 presents the cumulative relationship between the portfolio liquidation period and the investor redemption period across all surveyed funds. For example, in the case of investment trusts in aggregate, it could be interpreted as meaning that approximately 90% of net assets may be liquidated within 7 days, and nearly 100% within 30 days. Regarding the investor redemption period, about 75% of net assets in investment trusts are structured to allow investors to receive redemption proceeds within 7 days of submitting a redemption request, and nearly 100% within 30 days. In any fund structure, the portfolio liquidation period of the surveyed funds is generally equal to or shorter than the investor redemption period. This suggests that, overall, the liquidity of the surveyed funds in aggregate is sufficient to meet investor redemption requests.

Although in some cases, such as investment corporations, the portfolio liquidation period exceeds the investor redemption period, individual funds typically implement liquidity management measures, such as setting limits on the amount that can be redeemed in a single request, to prevent excessive redemption concentration.

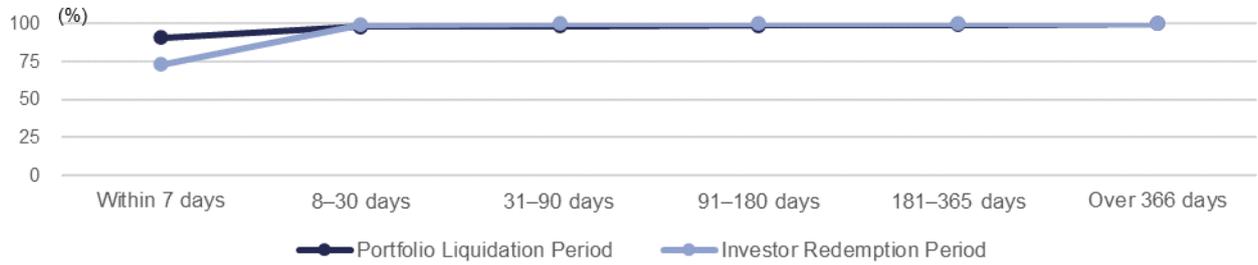
It should be noted, however, that the above data reflect the aggregate data of a large number of surveyed funds and do not represent the liquidity of individual funds. Additionally, the data are based on normal market conditions, not stress scenarios. Furthermore, since the day ranges (e.g., “8–30 days”) are broad, there may be discrepancies in actual days even when the portfolio liquidation period and investor redemption period fall within the same category. The Financial Services Agency will continue to monitor potential liquidity risks at the individual fund level as well.

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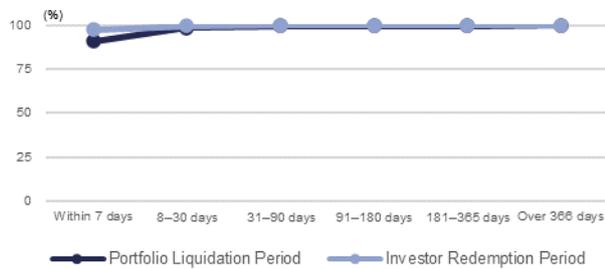
<sup>9</sup> This section covers open-end funds, which allow investors to redeem their shares based on the net assets during the life of the fund. Closed-end funds, which do not permit such redemptions, are out of scope of this section. It is also noted that all open-end investment corporations and collective investment undertakings covered in this section were privately placed.

Figure13 Portfolio Liquidation Period and Investor Redemption Period (Based on Aggregated Net Assets, Cumulative)

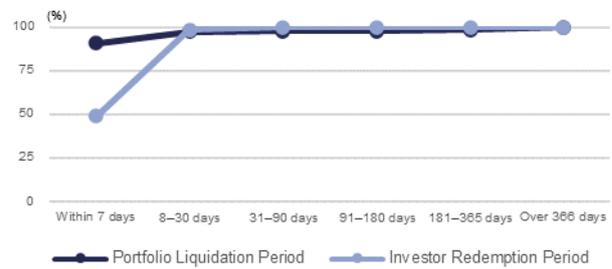
Investment Trusts



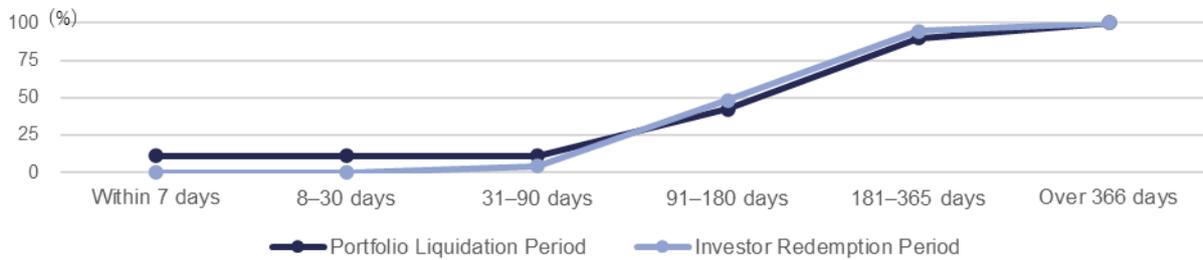
(Publicly Offered Investment Trusts)



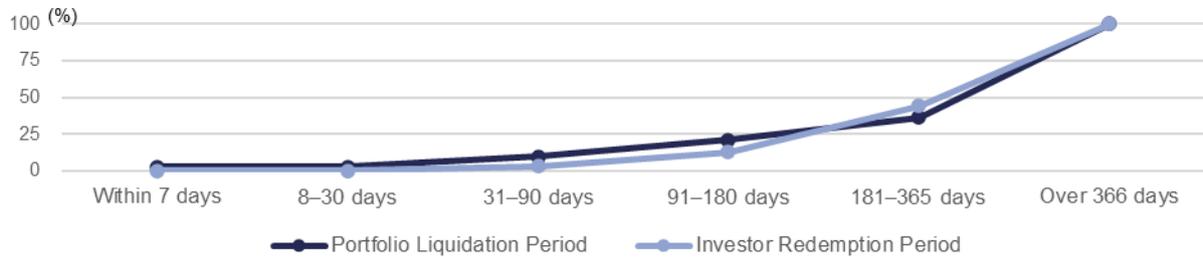
(Privately Offered Investment Trusts)



Investment Corporations<sup>10</sup>



Collective Investment Undertakings<sup>11</sup>



<sup>10</sup> Open-end funds are limited to privately placed funds.

<sup>11</sup> Open-end funds are limited to privately placed real estate funds.

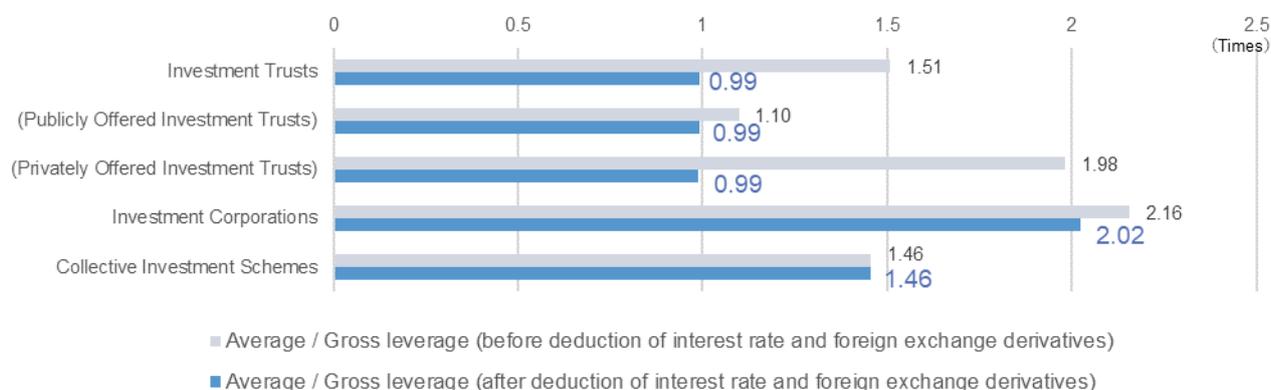
## 2.4 Fund Leverage

### 2.4.1 Leverage Ratio

The following Figure illustrate the gross leverage ratios of the surveyed funds. Gross leverage is calculated as the ratio of the fund's gross market exposure (excluding cash and cash equivalents from the exposure described in Section 2.2) to its net assets<sup>12</sup>.

When measured by excluding foreign exchange derivatives (including forward contracts) and interest rate derivatives—both commonly used for hedging currency and interest rate risks—the simple average gross leverage of the surveyed investment trusts is approximately 1.0 times. This indicates that, overall, the use of leverage for purposes other than hedging is limited. On the other hand, the simple average for investment corporations is approximately 2.0 times. As noted in Section 2.1.3, all surveyed investment corporations are real estate funds. As described in Section 2.4.2.2, these funds invest in real estate assets by using not only capital contributions from investors but also financing such as cash borrowings. As for collective investment undertakings, the simple average gross leverage is approximately 1.5 times. Among them, those invested in real estate have an average leverage of about 1.7 times, while those invested in assets other than real estate average around 1.0 times, indicating that leverage ratios vary depending on the fund's primary investments.

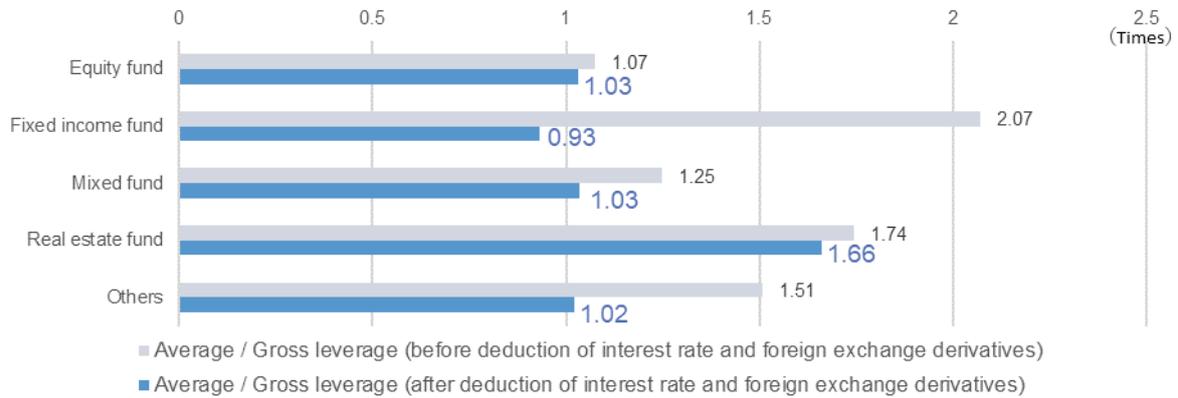
Figure 14: Simple Average of Leverage Ratios by Fund Structure



<sup>12</sup> Gross leverage (before deducting interest rate and foreign exchange derivatives) is calculated for each fund as: Gross Market Exposure (excluding cash and cash equivalents) ÷ Net Assets

Gross leverage (after deducting interest rate and foreign exchange derivatives) is calculated for each fund as: {Gross Market Exposure (excluding cash and cash equivalents) – Gross-based Market Exposure to Interest Rate and Foreign Exchange Derivatives} ÷ Net Assets

Figure 15: Simple Average of Leverage Ratios by Fund Type



## 2.4.2 Leverage Analysis

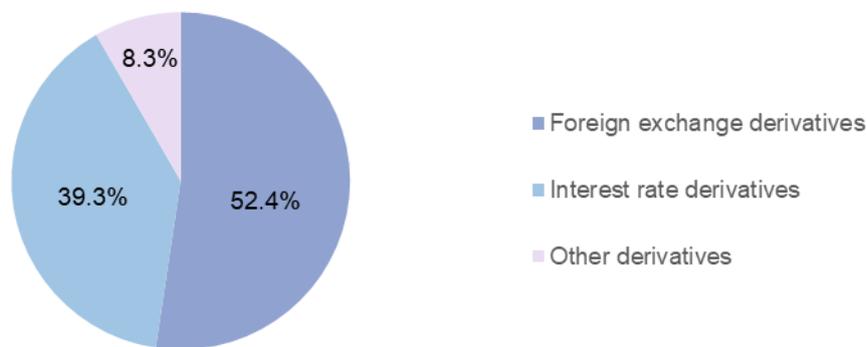
Leverage ratios in funds may vary primarily by the extent to which derivatives and/or cash borrowings are used. The status of each is described below.

### 2.4.2.1 Leverage Analysis (Derivatives)

Foreign exchange derivatives (including forward contracts) and interest rate derivatives together account for approximately 92% of all derivatives used by the surveyed funds. As noted in Section 2.2, the surveyed funds in aggregate have significant exposure to listed equities and bonds. It is therefore considered that the large outstanding balances of foreign exchange derivatives are primarily used to hedge currency risk in funds investing in foreign bonds and foreign equities.

Most interest rate derivatives are used by fixed income funds, followed by real estate funds. These derivatives are considered to be used mainly for hedging interest rate risk (in case of real estate funds, for hedging fluctuations in interest payments on borrowings).

Figure 16: Breakdown of Derivatives<sup>13</sup> (Based on Outstanding Balances)

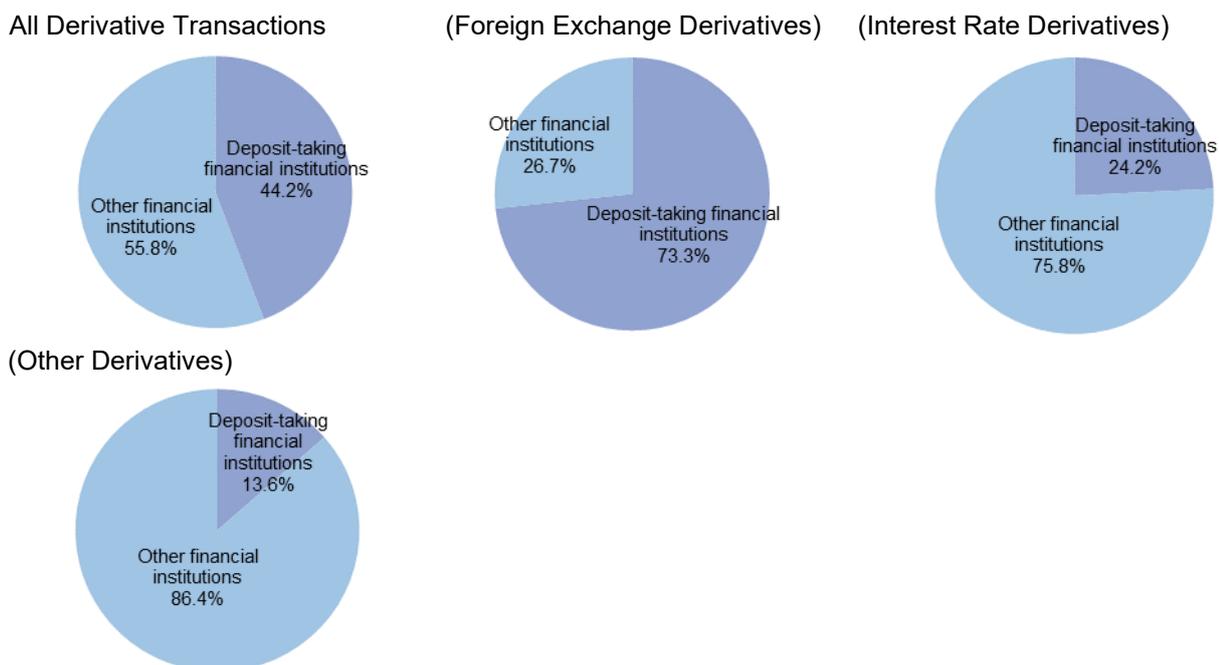


Total: JPY91.8281 trillion

<sup>13</sup> “Other derivatives” include equity derivatives, credit derivatives, and total return swaps, among others.

Looking at the counterparties to derivative transactions, deposit-taking financial institutions are the primary counterparties for foreign exchange derivatives (including forward contracts). In contrast, for interest rate and other derivatives, the main counterparties are other financial institutions, such as broker-dealers.

Figure 17: Counterparties to Derivative Transactions (Breakdown by Type of Institution) (Based on Outstanding Balances)

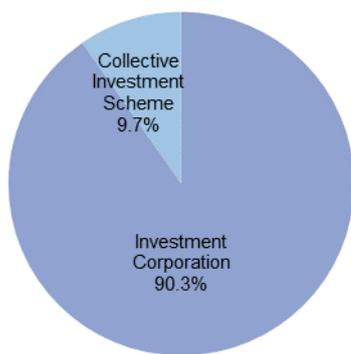


### 2.4.2.2 Leverage Analysis (Cash Borrowings, etc.)

In terms of fund structure, investment corporations account for approximately 90% of the funds that utilize cash borrowings or similar financing, followed by collective investment undertakings, which account for about 10%. None of the surveyed investment trusts engage in cash borrowing, likely due to the regulatory restriction that prohibits domestic investment trusts<sup>14</sup>—whether publicly offered or privately placed—from using borrowed funds for investment purposes.

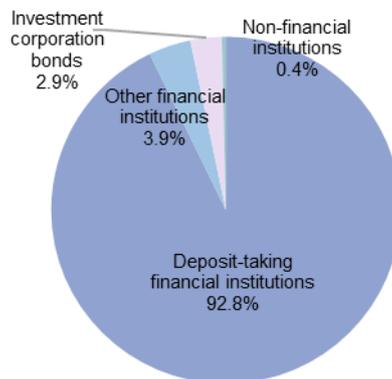
Regarding the sources of borrowing, approximately 93% of the borrowings come from deposit-taking financial institutions. Although some funds also obtain financing from other financial institutions such as life insurance companies, or through the issuance of investment corporation bonds, the amounts involved are relatively small.

Figure 18: Breakdown of Cash Borrowings, etc. by Fund Structure (Based on Outstanding Balances)



Total : 11.9106 trillion

Figure 19: Breakdown of Lenders for Cash Borrowings, etc. (Based on Outstanding Balances)



Total : 11.9106 trillion

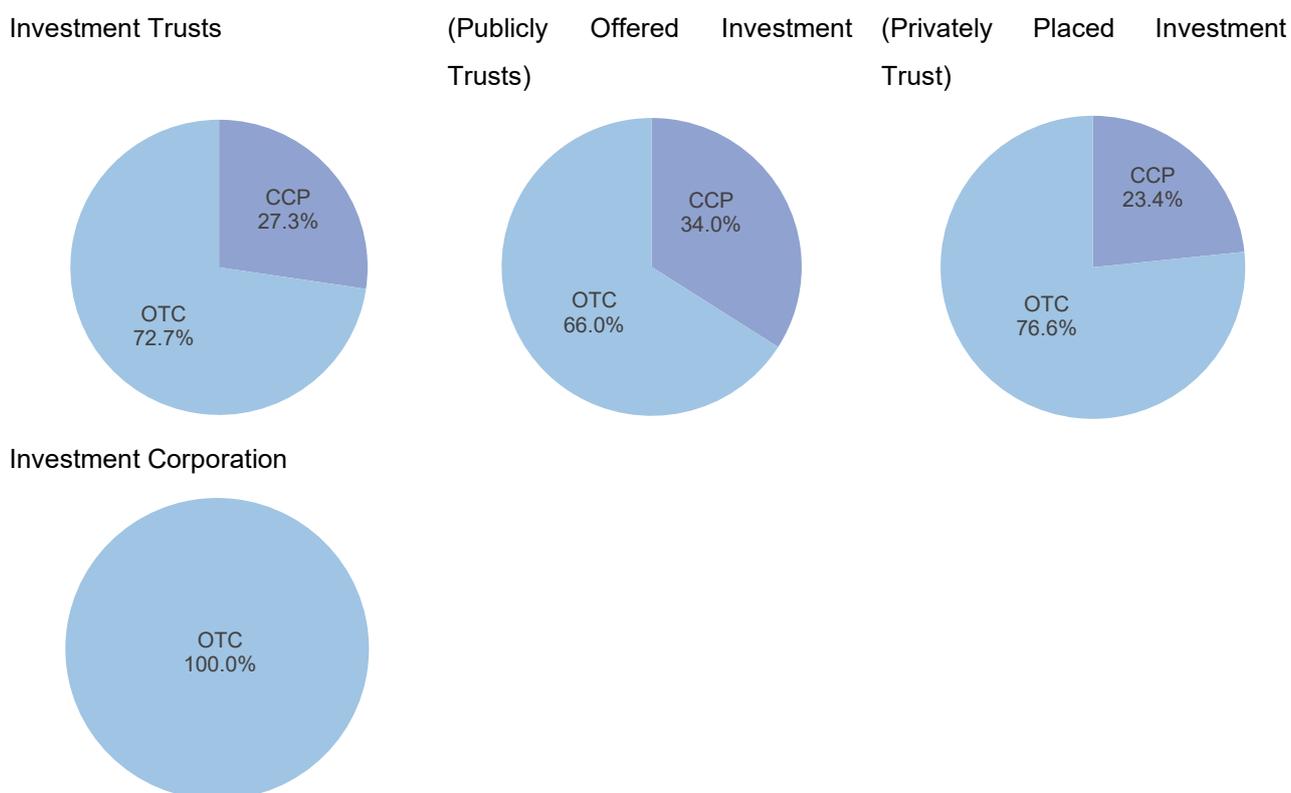
<sup>14</sup> It should be noted that temporary borrowings for the purpose of meeting redemption requests or similar needs are permitted.

## 2.5 Counterparty Risk

Figure 20 shows the proportion of derivative transactions (including exchange-traded derivatives and over-the-counter (OTC) derivatives) conducted by the surveyed funds<sup>15</sup> that are cleared through a central counterparty (CCP) versus those settled bilaterally (OTC). The figure indicates that the surveyed funds primarily engage in bilateral settlement. It should be noted that the percentages represent the simple average of each surveyed fund's respective ratios, and are not weighted by the volume of derivative transactions.

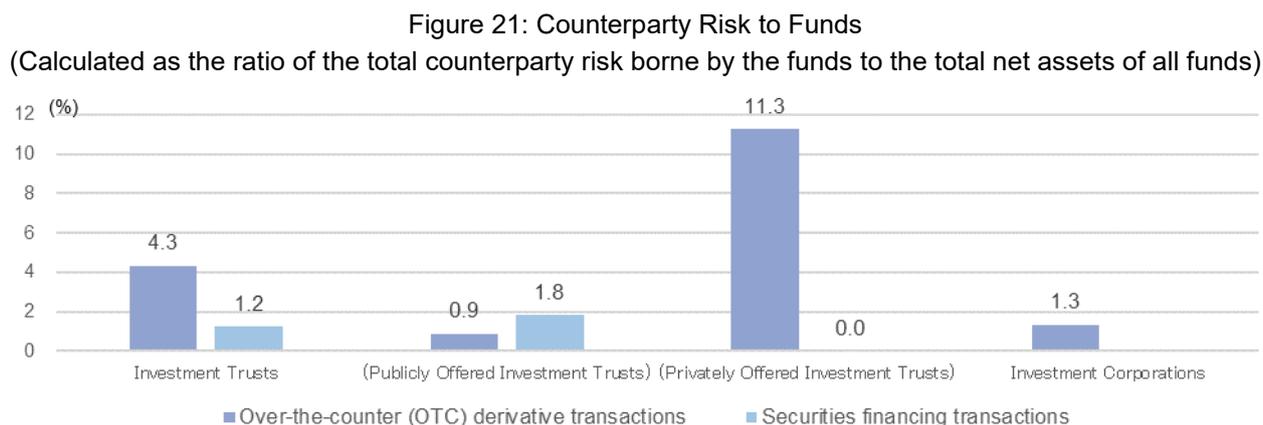
Figure 20: Settlement Methods for Derivative Transactions

(Calculated as the simple average of the CCP and OTC ratios for each fund)



<sup>15</sup> As shown in Figure 12 of Section 2.2, there were no applicable derivative transactions for collective investment undertakings.

Figure 21 shows the total amount of counterparty risk calculated by the surveyed entities in relation to over-the-counter (OTC) derivative transactions or securities financing transactions<sup>16</sup>, expressed as a percentage of the total net assets of the surveyed funds<sup>17</sup>. For privately placed investment trusts, the ratio of counterparty risk arising from OTC derivative transactions to total net assets is approximately 11%, whereas for publicly offered investment trusts and investment corporations, the ratio for both OTC derivative transactions and securities financing transactions remains below 2%.



<sup>16</sup> Repos, reverse repos, securities lending, and sell/buy-back transactions (*gensaki torihiki*, including new sell/buy-back transactions)

<sup>17</sup> For collective investment undertakings, there were no applicable derivative transactions or securities financing transactions.