CHAPTER VII

Investment Trusts

1. Overview

An investment trust is a financial instrument that raises money from plural number of investors in order to establish a large fund that it invests in regarding a variety of assets, such as stocks and bonds, under the management of an investment specialist, and the profits earned through that investment are then distributed among the investors in proportion to their contributions.

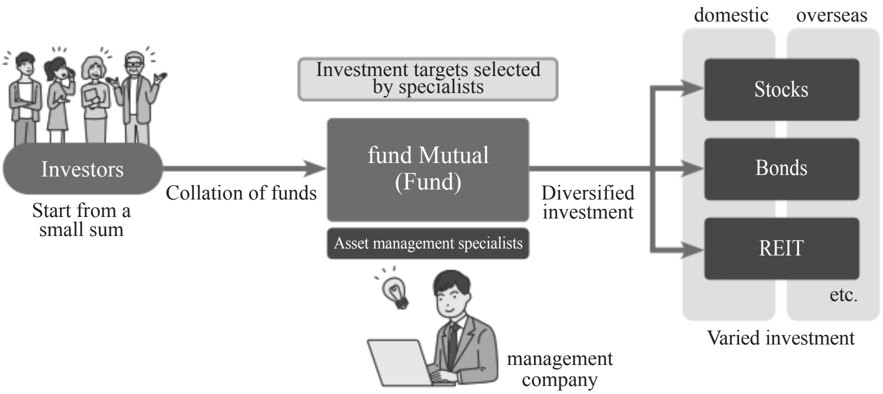
From an investor's perspective, even if the size of their investment is small, they can benefit from scale economies and efficient diversification through indirect investment in a variety of assets since their investment is managed collectively with other investors' funds. Investment trusts give investors access to the superiority of information and investment methods provided by experts. The repayment of the principal of an investment trust is not guaranteed, because its earnings depend upon its performance. There are a variety of investment trusts depending on investment instruments and methods, including some that are similar to deposit and savings accounts and others that are more like derivatives since they aim to achieve higher returns through assuming a greater degree of risk.

The overall structure of the Japanese investment trust system is stipulated in the Act on Investment Trusts and Investment Corporations. Regulations concerning the actions of investment trust management companies, the key players in the management of investment trusts, are defined in the Financial Instruments and Exchange Act. Investor protection is also provided by self-regulatory rules established by The Investment Trusts Association, Japan (JITA), an approved self-regulatory organization under the Financial Instruments and Exchange Act.

Investment trusts play a major role in making investments for the general public and have the economic benefit of helping companies to raise money by bringing the funds of the general public to the securities market. They also perform the function of contributing to the reasonable determination of prices in the securities markets as an institutional investor.

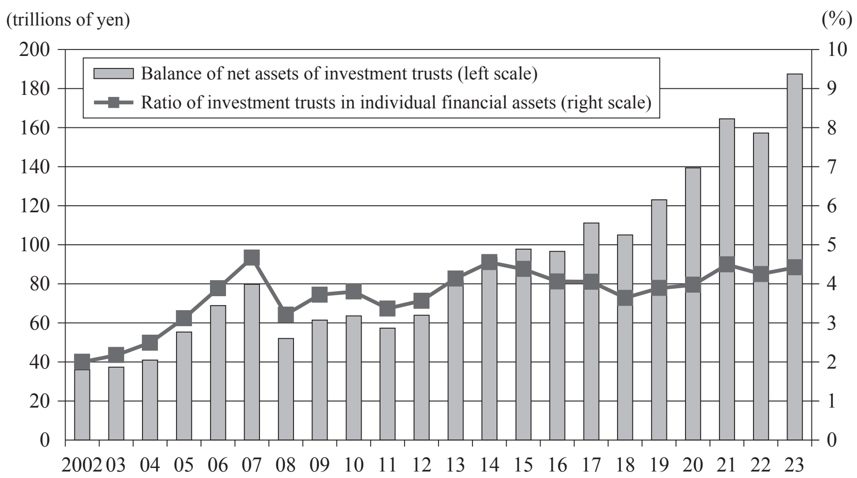
The chart on the top right shows the balance of Japan's publicly offered in-

Chart VII-1. Investment Trust Concept



Source: The Investment Trusts Association, Japan.

Chart VII-2. Trend of Total Net Assets of Publicly Offered Investment Trusts and Their Positions



Note: Figures for 2023 are as of the end of June (percentages in individual financial assets are as of the end of May).

Source: Balance of net assets of investment trusts: the Investment Trusts Association, Japan; ratio of investment trusts in individual financial assets: Bank of Japan "Flow of Funds Accounts".

vestment trusts over the past 20 years, which had a temporary period of growth in the early to mid-2000s as public awareness of investments increased against the backdrop of the ultra-low interest rate environment and recovery in the stock market. The outstanding balance fell again, a drop of 35% year on year, following the global financial crisis in 2008. Nevertheless, it hit the bottom in January 2009 and topped the ¥100 trillion level for the first time in May 2015. The net asset balance dropped in 2022 as the Japanese stock market declined against the backdrop of rapid rate rises in the U.S. and Europe, but then started to rise again in 2023. The balance of publicly offered open-end investment trusts worldwide is $60.1 trillion (¥7,886 trillion) as of the end of 2022, but Japan only accounts for 3.4% of this. Investment trusts are expected to be a core product to drive the shift from “shift from savings to asset building” in the future.

2. History of Investment Trusts

A product of the investment trust, a collective investment scheme, has proved popular in various forms around the world since its inception in the U.K. in the late nineteenth century.

In Japan, investment trusts existed before World War 2; however, the current system started with the implementation of the Securities Investment Trust Act in June 1951, taking the form of unit-type stock investment trust (contractual type). It was not naturally generated from demands from investors as in the U.S. and Europe but was politically introduced for a supply-and-demand adjustment of stocks substantially released as a result of the break-up of the zaibatsu financial combines (democratization of securities) and in order to raise money for revivifying industries during the postwar period, when there was a severe lack of funds.

The Securities Investment Trust Act was partially amended in 1967 after the securities crisis, to establish the code of conduct for investment trust management companies; to clarify the fiduciary duty of investment trust management companies to beneficiaries (persons who process operations for others in trust are required to act only for the benefit of the others); and to adopt and strengthen provisions on prohibited activities. In 1995, a major reform was conducted, mainly for the purpose of advancing deregulation and greater disclosure.

The drastic amendments to the law made in 1998 were associated with implementation of the Act on Revision, etc. of Related Acts for the Financial System Reform. As a result of the amendments, the corporation type investment trust, the mainstream in the U.S. and Europe, was introduced in Japan, where only the contractual type had existed, deregulating the establishment

Table VII-1. History of the Investment Trust in Japan (Post-war)

System	Products	Marketing	Management
The Securities Investment Trust Act was implemented (1951)	Investment trusts were launched in the form of unit-type investment trusts (1951)	Investment trusts became available at securities companies	Assets were invested mainly in domestic stocks
	Open-type investment trust was launched (1952)		
Investment trust management business was separated from securities companies (beginning operations in 1960)	Bond investment trusts were established (1961)		The weight of domestic bonds substantially increased (1961)
The Securities Investment Trust Act was amended to add provisions for the duty of loyalty of investment trust management companies to beneficiaries and the duty of disclosure, etc. (1967)			
			Foreign securities began to be included in assets of investment trusts (1970)
		The marketing of foreign investment trusts in Japan was liberalized (1972)	
	The medium-term government bond investment trusts were established (1980)		
Investment trust management companies entered the investment advisory business (1984)			
Foreign companies entered Japanese investment trust management business (1990)			
	MMFs were established (1992)		
Bank affiliates entered investment trust management business (1993)		Investment trust management companies started to sell investment trusts directly (1993)	
Investment trust reform was determined (1994) Reform was implemented in 1995	Nikkei 300 Exchange Traded Fund was established (1995)		Investment restrictions were deregulated, including utilization of derivatives for purposes other than hedging (1995)
Act on Revision, etc. of Related Acts for the Financial System Reform was implemented (1998)		Banks and insurance companies started to sell investment trusts (1998)	
	Private placement investment trusts were launched (1999)		
The Act on Investment Trusts and Investment Corporations was implemented (2000)	Corporation type investment trusts were established (2000)		Target of investment trusts expanded to a variety of fields, including real estate (2000)
Portfolio valuation method of bond investment trusts shifted to market value accounting (2001)	Real estate investment trusts were established (2001)	The Act on Sales, etc. of Financial Instruments was implemented (2001)	Some MMFs' net asset value fell below their principle amount (2001)
Defined contribution pension plaus started (2001)	In-kind contribution ETFs were listed (2001)		
Revision of Investment Advisory Service Act lifted the ban on securities companies offering discretionary investment services, such as on discretionary investment services such as wrap accounts (2004)			
		Sales of investment trusts started at post offices (2005)	
The Financial Instruments and Exchange Act was implemented (2007)			Target of investment trusts was expanded to commodities (2008)
			ETF purchases by BOJ began (2010)
Launch of NISA (2014)	Monthly distribution investment trusts are popular	FSA promotes customer-first business practices (2017)	Implementation of credit risk regulations (2014) MMF balances go to zero on negative interest rates (2017)
Launch of Tsumitate NISA (2018)			
	The share of index-type investment trusts exceeds 50% (2020)		
Decision to expand NISA, make the system permanent and make tax-free holding period indefinite after 2024 (2022)	Balance of investment trusts for defined contribution pension plans exceeds ¥10 trillion (2021)	Introduction of Critical Information Sheet (2021)	

Source: Materials prepared by Mr. Koji Sugita (modified by the author) of new funds by changing from an approval system to a filing system, and allowing investment trust management companies to outsource the management of the fund to outside companies. Distribution channels were also expanded to financial institutions, and banks became able to distribute investment trusts. In addition, efforts were made to strengthen disclosure in accordance with the Securities and Exchange Act.

In 2000, investment objects were expanded to those other than securities. This allowed investment trust management companies to establish the "real estate investment trust." The law was renamed "the Act on Investment Trusts and Investment Corporations," deleting the word "Securities." Amendments were made to include additionally the duty of due care of a prudent management (investment fund management companies are required to give instructions on asset management of investment trusts as good managers) in the rules of conduct for investment trust management companies.

In 2006, in relation to the enactment of the Financial Instruments and Exchange Act (implemented at the end of September 2007), the Act on Investment Trusts and Investment Corporations was amended to relegate provisions on the rules of conduct for investment trust management companies. Further, in 2014, risk regulations on managed assets were also introduced.

In recent years, NISA (Nippon Individual Savings Account, a small-amount investment tax exemption scheme) and defined contribution pensions systems, such as iDeCo, as well as wrap accounts haven been developed. The investment trust industry, being well aware of the expectations that its products and services will be utilized and developed in a healthy manner, requests distributors to be fully compliant with customer-first business practices.

3. Forms of Investment Trusts

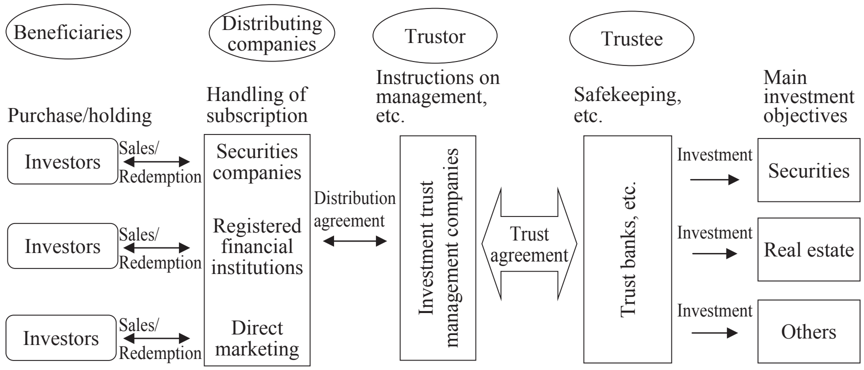
Investment trusts are broadly classified into the contractual type and the corporation type.

Contractual Type (Investment Trust)

Contractual type investment trusts take such legal form as a trust or a common fund; in Japan the contractual type investment trust takes the legal form of a trust and is subclassified into investment trusts with investment instructions from trustors and those without investment instructions from trustors.

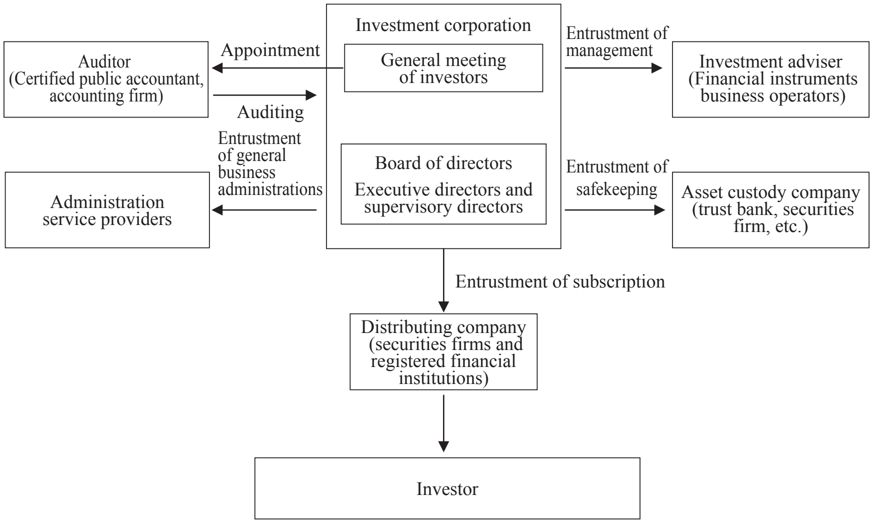
Investment trusts with investment instructions from trustors are widespread in Japan and involve three players: the trustor, the trustee, and the beneficiary. The trustor is an asset management company (investment trust management company) registered with the Financial Services Agency. It carries out product development, prepares a trust deed and files it with the au-

Chart VII-3. The Operating Structure of Investment Trusts with Instructions from Trustors



Source: Partially adjusted flowchart from the Investment Trusts Association, Japan's report on "Investment Trusts in Japan 2014."

Chart VII-4. Operating Structure of Corporation Type (Investment Corporation) Investment Trusts



Source: The Investment Trusts Association, Japan, "Investment Trusts in Japan 2014."

thorities, and provides investment instructions to a trustee (it has the authority to outsource the investment instructions to outside companies). The trustee is a trust company or a bank concurrently engaging in the trust business of holding and administrating assets under investment trusts according to a trust agreement. Investors obtain the position of beneficiary by accepting a beneficiary certificate and receive the profits arising from investment management as dividends or by redeeming the certificate. This structure is illustrated in the figure on the right.

In the case of an investment trust without investment instructions from trustors, the trustee enters into a trust agreement with two or more investors and combines their funds into a trust asset, which is then invested mainly in specified assets excluding securities and held and administrated by the trustee without instructions from the trustors.

Corporation Type (Investment Corporation)

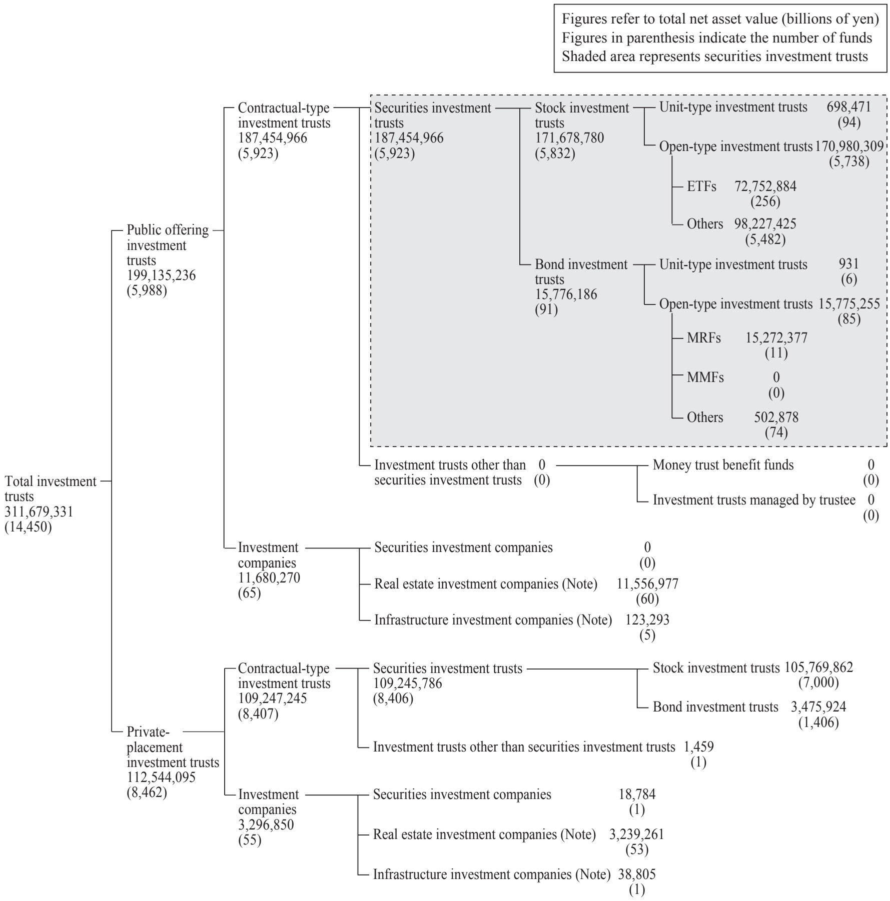
The corporation type is operated in a legal form that is similar to a corporation. In Japan, an investment corporation with a corporate veil is established and operated by officers who are appointed by an investors meeting, but it must entrust its business, such as asset management, custody of the fund's assets, general business administration, and the handling of subscriptions, to outside companies. Investors obtain the position of shareholder by accepting share certificates (investment certificates) issued by the investment corporation and receive the profits arising from the investment management as dividends. Chart VII-4 illustrates such a structure.

Both the contractual type and the corporation type of investment trusts in the world include the open-end type and the closed-end type. Which type they are grouped into depends on the claims of investors to redeem issued certificates. The open-end type accepts the beneficiary's request and redeems the certificates at market price by selling trust assets, while the closed-end type does not accept the beneficiary's request to redeem the beneficiary's certificates. The latter ensures liquidity by listing its issued certificates. In Japan, contractual type investment trusts are principally of the open-end type, while corporation type investment trusts, in particular, real estate investment trusts, are of the closed-end type.

4. Investment Trust Products

Overview of investment trusts in Japan is as shown in the diagram and divided into the following classifications.

Chart VII-5. Overview of Investment Trusts (total net assets, number of funds)
As of June 30, 2023



Note: Figures on real estate investment companies and infrastructure investment companies are from the previous month.
Source: The Investment Trusts Association, Japan.

Public Offering of Investment Trusts and Private Placements of Investment Trusts

A public offering of investment trusts is offered to 50 or more unspecified investors, while a private placement is sold to Qualified Institutional Investors or specified investors stipulated in the Financial Instruments and Exchange Act or to fewer than 50 investors. Establishment of a private placement was made possible by the 1998 amendment to the Investment Trust Act. It has the margin to freely design products only with the approval of the investors, because a private placement is subject to less-rigid investment restrictions than a public offering. Therefore, privately placed funds attract the attention of large investors, in particular institutional investors, and rapidly increase in volume as funds invested in by variable annuities, etc.

Stock and Bond Investment Trusts

Under Japanese tax law, funds that can include even a small number of stocks are defined as stock investment trusts, while funds that do not include any stocks and invest only in bonds are defined as bond investment trusts. The treatment of each is different. For this reason, investment trusts that invest in bonds are often set up as stock investment trusts to start with so that investors can benefit from the advantages of stock investment trusts. Therefore, stock investment trusts invest in a wide variety of assets and include many different funds. Bond investment trusts include funds that invest mainly in long-term bonds and Money Reserve Funds (MRF) that invest in short-term money market vehicles.

Unit-Type and Open-Type Investment Trusts

Unit-type investment trusts are funds that do not allow additional subscriptions after having accepted funds in principal value only during their initial subscription period, while open-end investment trusts are funds that do accept additional subscriptions at market value after their establishment. In Japan, investment trusts were launched in the form of the unit type, which was similar to savings instruments, in 1951; however, open-end investment trusts have currently become a mainstream, just as in overseas markets.

Classification by Investment Object

The Investment Trusts Association, Japan, offers a product classification according to the objects of investment of the funds, so that investors can select funds easily. The prospectus of each fund must clearly describe into which classification the fund falls.

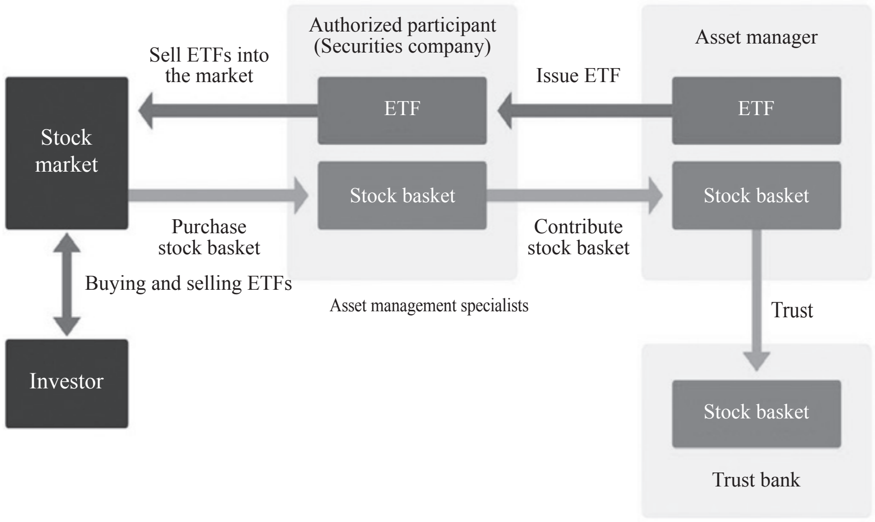
Exchange Traded Funds (ETF)

Among open-type funds, funds whose beneficiary certificates are listed on exchanges and traded like stocks are called exchange traded funds (ETFs). ETFs are explained in more detail in the next section.

5. Exchange Traded Funds (ETF)

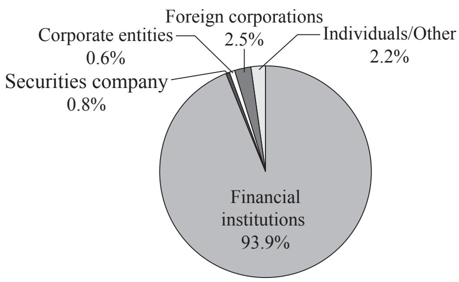
ETF (Exchange Traded Funds) is an investment trusts listed on financial in-

Chart VII-6. Structure of in-kind type ETFs (stock ETF example)



Source: Investment Trusts Association.

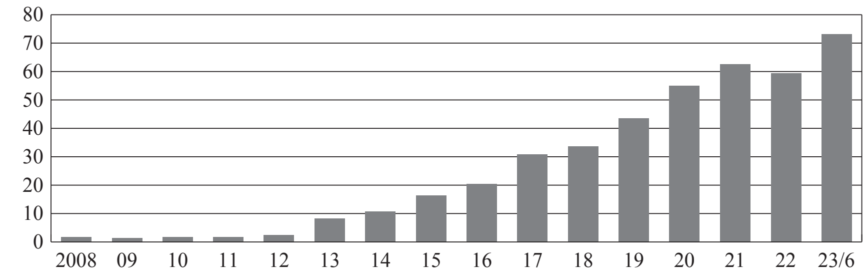
Chart VII-7. ETF holding ratio by investment sector (July 2022)



Note: The holdings of financial institutions include holdings of the Bank of Japan.
Source: Japan Exchange Group "ETF Beneficiary Survey".

struments exchanges, which is also called listed investment trust. Unlike ordinary investment trusts, ETFs can be bought and sold in real time while the market is open with the traded price changing in line in line with market movements. Investors can also place buy and sell orders by specifying a price and conduct margin trades. Lower trust fees and expenses compared to general investment trusts are another attractive feature of ETFs for individual in-

Chart VII-8. Total net assets of domestic ETFs



Source: Japan Exchange Group "Monthly Report".

vestors.

ETFs are constructed on the basis of creation and in-kind exchange of the underlying instrument. The process is as follows. Institutional investors such as securities companies, banks, insurance companies, or pension funds, called "authorized participants," purchase a specified physical basket of securities in the market and transfer this to the investment trust management company. The investment trust management company creates the ETF on this basis and provides the beneficiary certificates of the ETF to the authorized participants in exchange for the basket of securities. Conversely, authorized participants may also exchange their ETF beneficiary certificates for a physical basket of shares.

The ETF beneficiary certificates can often be exchanged for the physical basket of shares as and when required. This creates arbitrage opportunities with the component stocks, a mechanism that keeps the gap between the traded prices of the fund on the exchange and the physical busket of shares within a small range.

In Japan, only index-managed ETFs that are linked to a specific index were listed. Typical examples include TOPIX-linked and Nikkei 225-linked ETFs, which alone account for nearly 90% of the net asset balance of ETFs. Other domestic ETFs include J-REIT and leveraged/inverse ETFs; overseas ETFs include US stock and foreign bond-linked ETFs. The majority of ETFs are held by financial institutions, including the Bank of Japan. As of July 2022, the share of ETFs held by financial institutions was 93.9% (the Bank of Japan alone is thought to own over 80%). In comparison, ownership by individuals was only 2.2%.

The net asset balance of ETFs has been growing rapidly since around 2013, largely reflecting full-scale purchases of ETF by the Bank of Japan from 2013 as part of its monetary easing measures. Moreover, due to an increase in holdings by general banks and rising stock prices, the net asset balance of ETFs rose to ¥73 trillion as of the end of June 2023.

Against the backdrop of continuing diversification, actively managed ETFs that do not track underlying indicators have been available in Japan since September 2023, with seven issues listed and traded.

6. Sale of Investment Trusts

The subscription and sale of investment trusts had been practiced only by securities companies in Japan since the establishment of investment trusts in 1951. The entries of financial institutions, including banks, in 1998 and some post offices in October 2005 expanded the distribution network rapidly. The share of publicly offered investment trusts sold through financial institutions was over 40% in the early 2000s, but as of June 2023, this has declined to 21%. On the other hand, the share of privately placed investment trusts was almost 50% from the beginning and has recently exceeded 80%. Although the share of direct sales by investment trust management companies has been sluggish, direct online sales have increased in popularity as online transactions have grown. Investment trusts have generally been sold on an over the counter basis by distributing companies and through sales agents. According to a JSDA survey in 2021, the number of individuals buying investment trusts online has increased in recent years, with 20.6% purchasing through securities companies and 9.9% purchasing through financial institutions.

Distributing companies are subject to the Financial Instruments and Exchange Act, the Act on the Provision of Financial Services and the regulations of the Japan Securities Dealers Association, and they are obliged to comply with the rules on sales of the Investment Trusts Association, Japan. For example, they must comply with the suitability rule, which requires distributing companies not to engage in inappropriate solicitation activities in light of customers' knowledge, experience, investment purpose, and assets and to assume "accountability" for risk factors, including market and credit risk, and for important portions in the structure of transactions and to maintain the "duty of sincerity to customers" not to conduct "prohibited activities" at the time of sale, such as providing conclusive evaluations. Depository institutions, such as banks, shall be required to take measures to prevent customers from mistaking investment trusts for deposits at the sale of investment trusts, including explaining that they are not covered by the deposit insurance system. As a part of the enhancement of accountability at the implementation of the Financial Instruments and Exchange Act in 2007, the "duty to deliver documents prior to the conclusion of a contract" was introduced. For investment trusts, the requirement is satisfied by delivering the eligible prospectus.

Chart VII-9. Breakdown of Total Net Assets of Publicly Offered Stock Investment Trusts by Distribution Channel (As of June 30, 2023)

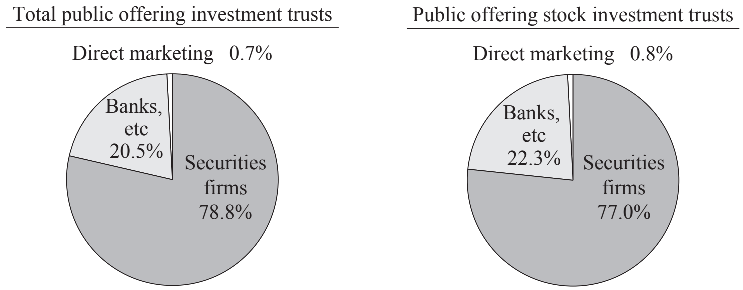


Chart VII-10. Changes in Composition of Total Net Assets of Publicly Offered Investment Trusts by Distribution Channel

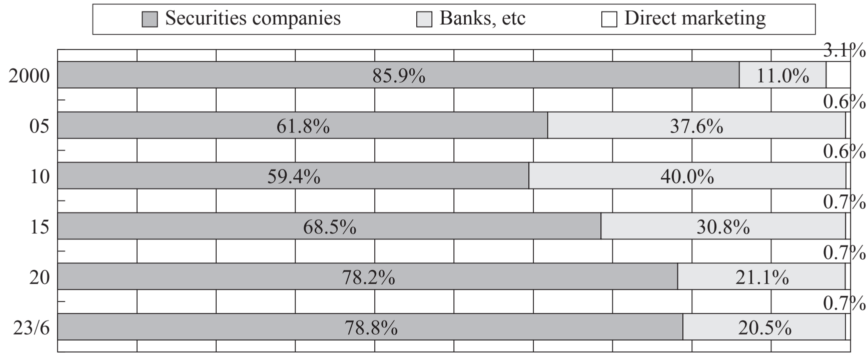
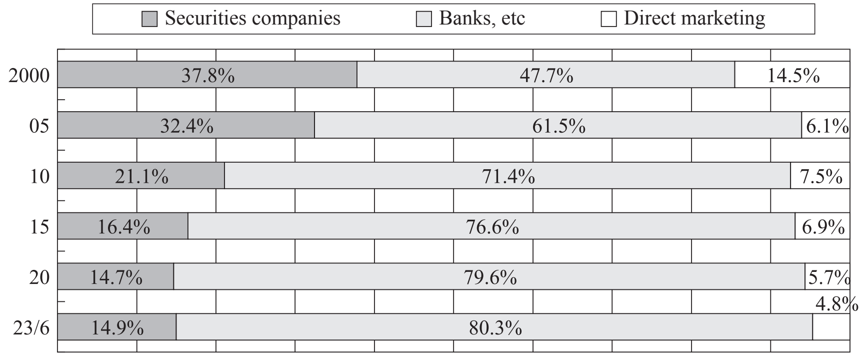


Chart VII-11. Changes in Breakdown of Total Net Assets of Overall Private Placement Trusts by Distribution Channel



Source: All the above are based on statistics of the Investment Trusts Association, Japan.

Furthermore, "Critical Information Sheets" to help customers compare products with investment risk for the advancement of "customer-first business practices" were introduced from 2021.

The sales commission for investment trusts, which had been determined by the fund, was liberalized in Japan as a result of amendments to the business rules of the Investment Trusts Association, Japan, in 1998. At present, different companies can charge different commissions even for the same fund. There have also been many instances of reductions in commissions and diversification of commission systems.

7. Investment Management of Investment Trusts

Investment trusts invest mainly in "specified assets" defined by the Order for Enforcement of the Act on Investment Trusts and Investment Corporations. (As of September 2019, the specified assets consist of 12 types of assets, including securities, real estate, and rights associated with derivatives trading.) Funds investing mainly in securities are called securities investment trusts.

The chart on the top right shows the distribution of assets under the management of publicly offered investment trusts as of June 2023. The ratio of stocks is high at around 60%, while the ratio of bonds is less than 10%. In addition, in terms of the domestic stocks included in the funds, these are mainly taken from the electric, information and communications sectors.

In operating business activities, investment trust management companies, which invest their assets according to the investment policies described in the prospectus of funds, are subject to the Special Provisions Concerning the Investment Management Business of the Financial Instruments and Exchange Act. They assume the duty of sincerity to customers and the duty of loyalty and the duty of due care of a prudent management to the beneficiaries; they also are prohibited from undertaking following activities: (1) transactions between the investment trust management company and its directors/executive officers; (2) transactions among funds under management (excluding certain portions); (3) transactions for the purpose of its own benefit or the benefit of a third party by taking advantage of the changes in price of specific financial instruments resulting from such transactions; (4) transactions whose terms are different from those of ordinary transactions and that affect adversely the benefits of beneficiaries; (5) transactions of securities and other transactions for its own account by using the information for investment management; and (6) cases in which an investment trust management company or some third party provides beneficiaries or a third party with compensation to offset a loss or increase profit. As firewalls it is prohibited to execute unnecessary transactions in light of the investment management policy to promote profits

Chart VII-12. Distribution of Assets of Investment Trusts in Japan (as of June 30, 2023, total publicly offered securities investment trusts)

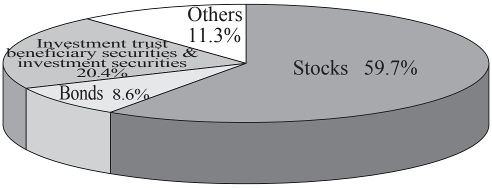
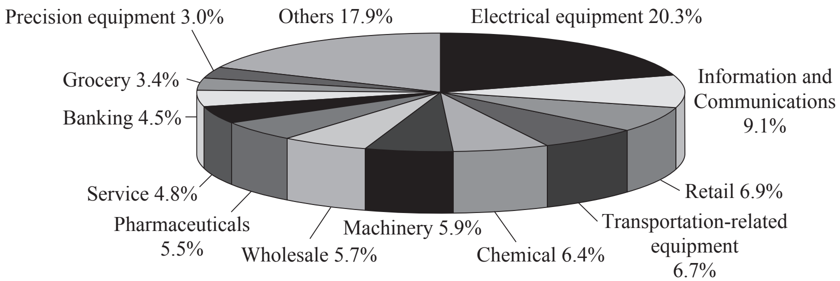


Chart VII-13. Breakdown by Industry Group of Domestic Stocks Held by Investment Trusts (publicly offered stock investment trusts as of the end of June 2023)



Source: All of the charts on this page are based on data from the Investment Trust Association, Japan.

of other businesses or of the parent company, subsidiaries, etc.. Additionally, the Investment Trust Act imposes a restriction on investment trust management companies prohibiting them from giving instructions to acquire stocks of the same issuing company when the number of stocks held by all investment trusts managed by the given investment trusts management company exceeds 50% of the total number of outstanding stocks of that same issuing company. The Investment Trusts Association, Japan, has self-regulatory rules concerning investment instruments and investment methods in addition to those concerning credit risk regulations.

The Investment Trust Act stipulates that an investment trust management company exercises the rights of shareholders, including voting rights, on portfolio stocks. Investment trust management companies disclose their basic policies and the results of the exercise of voting rights on their websites. Additionally, in accordance with Japan's Stewardship Code formulated in 2014, activities to promote engagement by listed companies are also under way.

Table VII-2. Exercise of Voting Rights for Domestic Stocks at General Shareholders Meetings by Investment Trust Management Companies (One year until June 2022)
— Voting on Items Proposed by Companies, Total for 68 Companies that Invest in Domestic Stocks —

Name of proposal		For (A)	Against (B)	Abstain (C)	Blank mandate (D)	Total Against and Abstain (E) (B)+(C)	Total number of proposals (E) (A)+(E)+(D)	Percentage of votes against, etc. (E)/(F) %
Proposal about Establishment of Organs	Election and Dismissal of Directors (*1)	342,203	47,328	221	39	47,549	389,791	12%
	Election and Dismissal of Company auditors (*1)	30,864	3,998	5	4	4,003	34,871	12%
	Election and Dismissal of Accounting Auditors	1,392	7	0	1	7	1,400	1%
Proposal about Remuneration for Officers	Remuneration for Officers (*2)	20,175	1,906	2	1	1,908	22,084	9%
	Payment of Retirement benefits for Retired Officer	673	1,457	0	0	1,457	2,130	68%
Proposal about Capital policy (except for Proposal about Articles of Association)	Disposal of surplus	30,335	1,480	5	6	1,485	31,826	5%
	Reorganization related (*3)	788	83	2	0	85	873	10%
	Introduction/update/abolition of takeover defense measures	48	1,078	1	0	1,079	1,127	96%
	Other capital policy proposal (*4)	1,493	111	0	0	111	1,604	7%
Proposal about Articles of Association		46,472	1,492	16	6	1,508	47,986	3%
Total of Other proposals		214	75	1	0	76	290	26%
Total		471,998	59,019	251	57	59,270	531,325	11%

*1 Revision of executive compensation, issuance of stock options, introduction/revision of performance-based compensation system, officer bonus, etc.
*2 Merger, business transfer/acquisition, share exchange, share transfer, company split.
*3 Purchase of treasury shares, decrease in statutory reserve, capital increase by third-party allotment, capital decrease, share consolidation, issuance of class shares, etc.
Source: Compiled by the author from data of the Investment Trusts Association, Japan.

8. Customer Base of Investment Trusts

The chart on the top right shows the breakdown of investment trust beneficiaries (in terms of holdings) in Japan. Over 30% of investment trust assets are held by households, and nearly 40% by financial institutions, followed by insurance companies and pension funds. Compared to the U.S., households and insurance companies and pension funds account for a smaller proportion. Investment trust holdings by private pensions are low, while financial institutions' share of holdings is high, especially for private placement investment trusts. Meanwhile, the holding ratio of the central bank has increased due to the purchases of ETFs by the Bank of Japan.

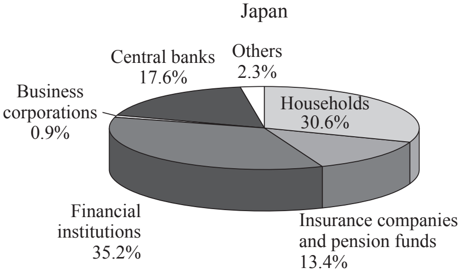
The penetration of investment trusts into household financial assets is low. A 2021 survey that was conducted by the Japan Securities Dealers Association indicates that only 10.1% of the adult population holds investment trusts. That ratio is a material fall compared to the level of more than 16% in 1988 during the bubble economy. The penetration shows signs of recovery after bottoming out at 6.1% in 2003. By age group, the ownership rate for men aged 55 or more is high, generally exceeding 15%.

For people in their 20s it is lower than 10%, although the number of new holders of investment trusts through NISAs and Tsumitate NISAs has risen sharply, especially among younger age groups. In the U.S., the average penetration rate of investment trusts among households is 52%, which is much higher than in Japan. By generation, the rate is 36% for Generation Z (18-25 years old) and 57% for Baby Boomers (58-76 years old) (as of 2022).

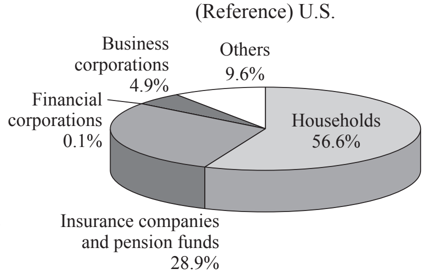
According to a 2022 Investment Trusts Association survey, the average total amount of investment trust purchases was ¥4.03 million. In terms of the number of subscribers, 35.2% of subscribers spent less than ¥1 million, 19.5% spent between ¥1 million to ¥3 million, while 11.3% spent more than ¥10 million (non-applicable responses were 11.0%).

In terms of individual investors' reasons for purchasing investment trusts, more people are buying investment trusts to fund "living expenses after retirement." According to the 2022 Investment Trusts Association Survey, 54.6% of respondents gave this as the reason for their purchases. In the U.S., there are even more individuals purchasing investment trusts for "post-retirement funds" than in Japan. In many cases, Americans continuously purchase the trusts via accounts for defined contribution pension plans, including the 401k. In Japan, an increasing number of people are purchasing investment trusts through defined contribution pension plans, including Tsumitate NISA and iDeCo. Therefore it is likely that more and more people will purchase investment trusts for long-term purposes such as "living expenses after retirement."

Chart VII-14. Breakdown of Holders of Investment Trusts (as of the end of 2022)



Source: Bank of Japan, "Flow of Funds Accounts".



Source: FRB, *Flow of Funds Accounts*.

Table VII-3. Profiles of Individual Investors Holding Investment Trusts (2021)

Investment trust holding ratio by age			Investment trust holding ratio by annual income	
	Male	Female		
Aged 20 to 24	2.9%	2.3%	Less than ¥1 million	5.7%
Aged 25 to 29	7.3%	4.7%	¥1 million or above, less than ¥2 million	8.5%
Aged 30 to 34	10.6%	7.5%	¥2 million or above, less than ¥3 million	9.4%
Aged 35 to 39	12.8%	7.2%	¥3 million or above, less than ¥4 million	11.7%
Aged 40 to 44	12.1%	10.4%	¥4 million or above, less than ¥5 million	13.1%
Aged 45 to 49	11.5%	8.3%	¥5 million or above, less than ¥7 million	16.8%
Aged 50 to 54	6.9%	6.0%	¥7 million or above, less than ¥10 million	20.4%
Aged 55 to 59	18.6%	12.0%	¥10 million or above	32.7%
Aged 60 to 64	15.1%	11.0%		
Aged 65 to 69	17.0%	10.2%		
Aged 70 to 74	14.3%	11.4%		
Aged 75 to 79	15.2%	7.8%		
Aged 80 to 84	15.2%	5.6%		
Aged 85 to 89	3.2%	5.3%		
Aged 90 or above	0.0%	3.3%		
Overall average: 10.1%				

Note: 7,000 respondents overall.
Source: JSDA "Nationwide Survey (on individuals) concerning Securities Investment Trusts)" FY2021 issue.

9. Disclosure of Investment Trusts

Until 1997, disclosure of investment trusts was covered not by the Securities and Exchange Act but by the framework defined in the Securities Investment

Table VII-4. Purpose of individual investors' purchase of investment trusts

Japan		(Reference) U.S.A.	
Living expenses after retirement	54.6%	Post-retirement funds	80%
Diversify risk assets	29.8%	Supplement current income	6%
To learn about finance, economics, and investment	15.2%	In case of emergency	5%
Be prepared for contingencies	11.7%	Home or high value purchase	3%
To fund payment of life events, such as marriage, housing, etc.	9.4%	Tax savings	2%
Funds for items such as children's or grandchildren's education	8.3%	Funds for education	2%
Funds for travel and leisure	6.8%	Other	2%

Source: Investment Trusts Association, "Questionnaire on Investment Trusts", 2022, multiple responses, top answers only shown.
USA: ICI "Profile of Mutual Fund Shareholders" 2022 Single answer responses to survey on "Primary Purpose of Owning Mutual Funds".

Trust Act (now the Act on Investment Trusts and Investment Corporations). Following the deregulation of the establishment of funds, in which the filing system replaced the approval system, as a result of the enforcement of the Act on Revision, etc. of Related Acts for the Financial System Reform in 1998, the Securities and Exchange Act (now the Financial Instruments and Exchange Act) was applied to investment trusts the same as to stocks, etc. Therefore, publicly offered investment trusts are now subject to both the Investment Trust Act and the Financial Instruments and Exchange Act in terms of disclosure. Details of disclosure are summarized as follows.

Issuance Disclosure

The Financial Instruments and Exchange Act requires investment trust management companies to make a disclosure at the time of offering by filing the "securities registration statement" with the competent authority (for public inspection) and by delivering the "prospectus" to individual investors at the time of subscription. Given the unique characteristics of the way in which investment trusts are sold (while offering for subscription of stocks is made only at initial public offering and capital increases, and at other times, investors purchase issued stocks on the secondary market, investment trusts are continuously offered after establishment of funds by initial subscription), the prospectuses were split into two volumes to "provide investors with information in an easy-to-understand manner" in 2004. That is, the two volumes consist of a "summary prospectus," which distributing companies are required to deliver in advance to all investors entering into contracts, and a "detailed prospectus," which distributing companies deliver to investors when requested.

Table VII-5. Publicly Offered Securities Investment Trusts Disclosure System of Japan

	Statutory disclosure				Voluntary disclosure
	Disclosure for supervisory authorities and for public inspection		Individual disclosure for investors		Public disclosure for investors
	FIEA	Act on Investment Trusts and Investment Corporations	FIEA	Act on Investment Trusts and Investment Corporations	The Investment Trusts Association, Japan Rules, etc.
Issuance Disclosure (Disclosure at offering)	Securities Registration Statement Amendment of Securities Registration Statement	Registration on the contents of the agreement	Prospectus (Summary prospectus) (Detailed prospectus)	Document summarizing the contents of the agreement (may be indicated in the prospectus)	Define the Guidelines on Preparation of Prospectus
Periodic Disclosure (disclosure while under management)	Annual Securities Report Semi-annual Securities Report Extraordinary Report	Financial report (investment report)		Financial report (investment report) (Summary financial report) (full-version financial report)	Monthly disclosure of MMF, MRF and timely disclosure on the website of each investment management company

Source: Created by Mr. Koji Sugita.

As issuance disclosure, the Investment Trust Act requires investment trust management companies to "notify the details of the basic terms and conditions" to the competent authority and to "deliver documents describing the details of the basic terms and conditions" to the investors. Descriptions in the prospectus are substituted for the latter.

Periodic Disclosure

In terms of disclosure after the establishment of investment trust funds, pursuant to the Financial Instruments and Exchange Act investment trust management companies are required to file their "securities report" to the competent authority after the end of each accounting period (for public inspection). (Semi-annual securities reports are also filed when funds settle accounts once a year.)

As for periodic disclosure, pursuant to the Investment Trust Act investment trust management companies are required to deliver their "financial report" to individual investors. In 2014, it was decided that the financial report would

Table VII-6. Major Items in Summary Prospectus (Explanatory Document) of Publicly Offered Investment Trust

Items recorded	Contents recorded
(Items recorded on the front page, etc.)	
(1) Name of fund and product category	Name of the fund indicated on the securities registration statement and product category in the Guidelines Concerning Product Categories set forth by the Investment Trusts Association, Japan.
(2) Information on investment trust management company, etc.	Name of investment trust management company, date of establishment, paid-in capital, total net asset value of investment trusts managed, website address, telephone number, name of trustee, etc.
(Items recorded in the main text)	
(1) Fund objective and characteristics	Fund characteristics and investment focus based on the basic investment policy, investment attitude, etc. provided in the agreement; Matters reflecting the fund characteristics, e.g., fund structure, investment method, investment process, investment restrictions, and distribution policy; If investment management is outsourced, the name of the investment manager and the content of outsourcing
(2) Investment risks	Factors underlying fluctuations in standard price, risk management system, comparison with other assets
(3) Investment performance	(i) Transition of standard prices and net assets in the last decade—standard prices illustrated using a line graph; net assets illustrated using a bar or area graph (ii) Transition of distributions in the last decade (iii) Status of core assets—top 10 portfolio issues, ratio by industry, ratio by asset type, etc. (iv) Transition of annual earnings ratio in the last decade—illustrated using a bar graph. For funds with benchmarks, also indicate the percentage changes of benchmarks
(4) Procedure, commission, etc.	(i) Subscription memo (purchase price, application procedure, trust period, taxes, etc.) (ii) Fund costs (commission at purchase, partial redemption charge, investment management cost (trust fees) and allocation thereof, other expenses, taxes
(5) Additional information	If there is a need to provide explanations on fund characteristics and risks in a greater detail (e.g., for fund of funds, use of structured bonds and derivatives), the details

Source: Created by Koji Sugita from Cabinet Office Order on Disclosure of Information on Regulated Securities and the JITA Rules on Preparation of Summary Prospectus.

be made available in two phases based on an approach similar to having two volumes of prospectuses as described above: a summary financial report issued to all beneficiaries and a financial report (full version) publicized on the website of the management company and issued to beneficiaries upon request.

In addition, the Investment Trusts Association, prescribes in its self-regulatory rules a requirement for each investment trust management company, to make a timely disclosure on its website, to post and this disclosure is performed at least monthly for each fund.

10. Services and Products Based on Investment Trusts

General Securities Account

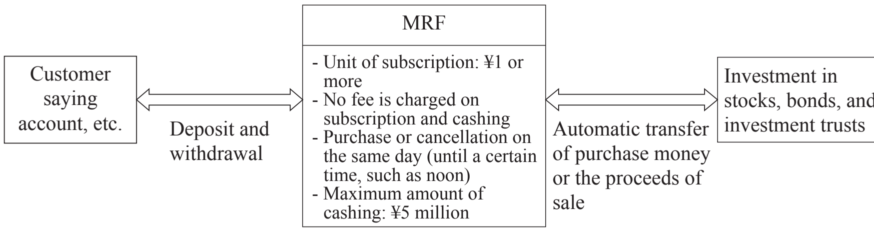
Money Reserve Funds (MRFs) are open-type bond investment trusts and are managed within the general securities accounts held by investors at securities companies. Funds deposited in the general securities account, such as dividends and proceeds from the sale of stocks, are invested in MRFs, and funds for the purchase of securities can be generated by selling securities within the MRFs. Because MRFs are used for settlement of securities transactions, there are rules in place for investor protection and to ensure liquidity, including the requirement to invest in financial products with high credit ratings and short-dated maturities. As of June 2023, the balance of MRFs managed in general securities accounts is ¥15.3 trillion (Source: Investment Trusts Association, Japan)

Wrap Account

A wrap account is a discretionary asset management service aimed mainly at individuals, whereby securities companies determine asset allocation, select and replace individual issues to be held in the account and provide investment reports on an integrated basis in accordance with their assessment of customers' tolerance of risk based on consultation and discussion with them. The provision of wrap accounts in Japan began in 2004, when the Investment Advisory Service Act was revised to allow securities companies to offer discretionary investment services.

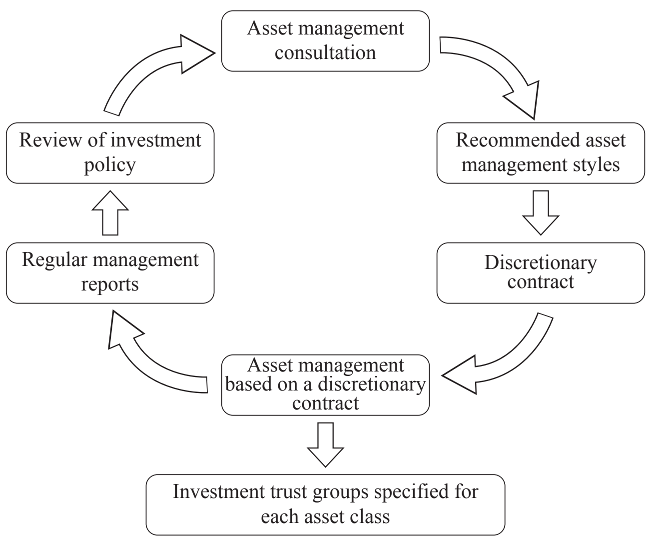
Investment trust wrap accounts focus mainly on investment trusts, and the balance of funds held in these has been rapidly increasing since around 2013. According to the Japan Investment Advisers Association, the balance of assets held in investment trust wrap accounts was ¥15.7 trillion as of June 2023.

Chart VII-15. Outline of a Securities General Account



Source: Information compiled by reference to product introductions on securities firms' websites.

Chart VII-16. Flow of Wrap Account Service (example)



Source: Information compiled by reference to Daiwa Securities website etc.

Defined Contribution Pension Plans (DC)

DC pension plans were established in 2001. There are two types of DC pension plan: the corporate type, in which the employer sets up the scheme and makes contributions (employees can make additional contributions), and the individual type (also known as "iDeCo") in which individuals select a financial institution to manage their pension and make their own contributions. In both types, individuals invest at their own responsibility in assets such as investment trusts, deposits, insurance and other funds, and the value of the pension they receive in future is determined by the investment performance of the scheme. As of March 2022, investment trusts held through DC pension plans amounted to ¥12.6 trillion, accounting for 58.5% of total pension assets (source: Management Organization Liaison Council).

Variable insurance and variable annuities

These are products in which the insurance premiums paid by the policyholder are invested in investment trusts, and the receivable insurance benefits and pension are determined by the performance of those investments. In addition to direct sales by insurance companies, securities companies and banks also sell these products. Investments in investment trusts through variable insurance and variable annuities are estimated to be approximately ¥7 trillion as of March 2022 (according to information disclosed by the insurance companies).

11. Foreign Investment Trusts/Foreign-Registered Investment Trusts

The sale of foreign investment trusts created under foreign laws in foreign countries was liberalized in 1972. Initially, foreign investment trusts were subject to regulations that they should be invested mainly in foreign-currency-denominated assets and that a weighting of yen-denominated assets was limited to below 50% of the total assets, in consideration of the effect on domestic investment trusts. However, foreign private placement investment trusts were introduced into Japan, as foreign investment trusts were not subject to the Securities Investment Trust Act. At that time, private-placement investment trusts had yet to be recognized in Japan.

As a result of amendments to the Investment Trust Act in 1998, foreign investment trusts became subject to the same regulations as Japanese investment trusts was under the revised act. Namely, the amendments required foreign investment trust management companies to file the same notification as Japanese investment trusts did at the sale of foreign investment trusts in Japan and allowed Japanese courts to issue an order to prohibit or stop the sale of foreign investment trusts if inappropriate investment management of foreign investment trusts impairs the profits of domestic investors and if there is an urgent necessity to prevent further losses to investors. It was also permitted to introduce yen-denominated funds into Japan, and currently the same tax system as Japanese investment trusts is applied to foreign investment trusts. The disclosure system is also in line with Japanese and foreign investment trusts, including preparation and delivery of a prospectus and financial reports. The Japan Securities Dealers Association has “selection criteria of foreign investment trust beneficiary certificates” in the “rules concerning for-

Table VII-7. Total Net Assets of Foreign Investment Trusts in Japan (¥100 million) and Their Ratio to Total (Public Offering) Investment Trusts

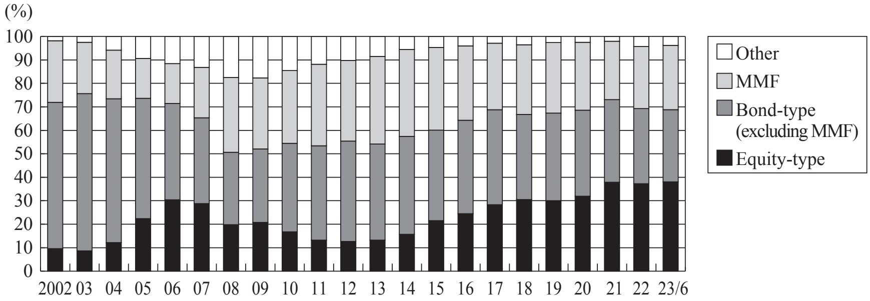
Year-end	Total net assets of foreign investment trusts (A)	Total net assets of domestic investment trusts (B)	Total (C)	(A)/(C)
2002	47,146	360,160	407,306	11.6%
03	54,424	374,357	428,781	12.7%
04	62,409	409,967	472,376	13.2%
05	79,669	553,477	633,146	12.6%
06	87,102	689,276	776,378	11.2%
07	79,507	797,606	877,113	9.1%
08	51,473	521,465	572,938	9.0%
09	59,306	614,552	673,858	8.8%
10	58,800	637,201	696,001	8.4%
11	52,358	573,274	625,632	8.4%
12	57,839	640,638	698,477	8.3%
13	59,625	815,232	874,857	6.8%
14	62,893	935,045	997,938	6.3%
15	54,248	977,562	1,031,810	5.3%
16	53,540	966,415	1,019,955	5.2%
17	60,913	1,111,920	1,172,832	5.2%
18	54,143	1,051,592	1,105,735	4.9%
19	62,094	1,231,723	1,293,817	4.8%
20	65,735	1,394,311	1,460,046	4.5%
21	68,886	1,645,000	1,713,885	4.8%
22	63,347	1,571,992	1,460,046	4.5%
23/6	74,093	1,874,550	1,948,643	3.8%

Note: The total net assets of domestic investment trusts are the total net assets of publicly offered investment trusts in Japan.
Source: Total net assets of foreign investment trusts and domestic investment trusts were taken from the Japan Securities Dealers Association and the Investment Trusts Association, Japan, respectively.

eign securities transactions” to set the requirements for foreign funds to be available in Japan.

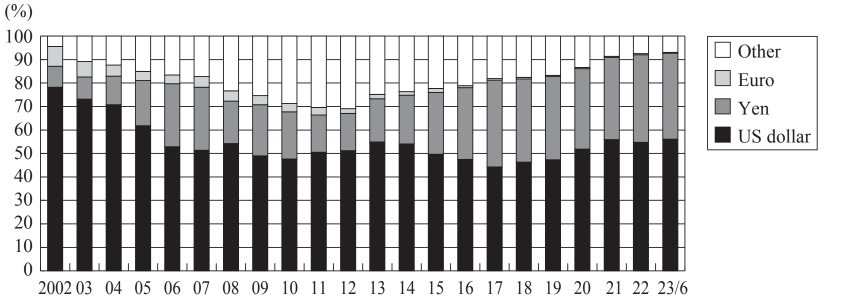
The table on the top right shows the trend of total net assets of foreign investment trusts sold in Japan for the recent 20 years. Total net assets have been dependent on exchange rates movements among other factors. Sales of foreign investment trusts surged in Japan in the early 2000s, reflecting increased demand for high-yield foreign bonds during the continued ultra-low interest rate environment. The ratio of foreign investment trust assets to total investment trust assets, including domestic investment trusts, was above 13% in 2004. Since then, assets under management in domestic investment trusts, mainly domestic stock funds and monthly dividend paying funds, have ex-

Chart VII-17. Breakdown of Total Net Assets of Foreign Investment Trusts in Japan by Product Category



Source: Compiled by the author based on materials disclosed by the Japan Securities Dealers Association.

Chart VII-18. Breakdown of Total Net Assets of Foreign Investment Trusts in Japan by Presentation Currency



Source: Compiled by the author based on materials disclosed by the Japan Securities Dealers Association.

panded, while the balance of foreign funds has stayed flat. The total balance of foreign investment trusts as of June 2023 was ¥7.4 trillion, the highest level in more than 10 years, but their share of Japan's overall investment trust market has fallen to 3.8%. The breakdown of assets by product is shown in the figure in the center right. The general trend is that broadly-defined bond funds, including MMFs, account for the majority of the balance. Looking at foreign investment trusts by country of establishment, Luxembourg investment trusts enjoyed an overwhelming share of the market in the past, but Cayman investment trusts have increased their share since around 2005. At the end of March 2023, Cayman, Luxembourg, and other investment trusts accounted for 52.2%, 34.3%, and 13.5% in terms of total net assets, respectively.