
The Rapid Growth of Open Architecture in the Japanese Investment Trust Industry¹

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I. Good grasp of current situation necessary if *Investment Trust Law* is to be amended properly

A debate has started on how the *Investment Trust Law* should be amended in an attempt to revitalize Japan's investment trust market. At a meeting of the Financial System Council on 27 January 2012, the Financial Services Agency (FSA) was asked to review the *Investment Trust Law*², and a meeting was held of a Working Group to Review the *Law on Investment Trusts and Investment Companies* (i.e., the *Investment Trust Law*). The FSA is due to report the working group's findings in an interim report by the middle of this year and a final report by the end of this year.

One possible model for the future of Japan's investment trust market is the mutual fund market in the US. Japan's investment trust market was worth some ¥65 trillion as of the end of 2011, roughly 40% more than in 1990. In contrast, the US mutual fund market was worth some \$12 trillion (roughly ¥1,000 trillion) as of the end of 2011, making it the world's largest and roughly 1,000% larger than in 1990 (1,500% larger if we exclude money funds). Two of the reasons the US mutual fund market has expanded are that the US stock market did well in the period between 1990 and 2011, and that many people in the US have purchased mutual funds via their defined contribution pension plans as a means of saving for their retirement. (Roughly 40% of the net asset value of US mutual funds is held by defined contribution pension plans.)³ Other factors that may have contributed include the growth of open architecture in the retail mutual fund market and the availability of a greater choice of commission options.

There are therefore a number of factors to consider in the growth of the investment trust market. In this report, however, we focus on the retail market and the current state of open architecture in Japan. In particular, we take a look at the group ties between fund distributors and fund managers. In order to do this as accurately as

¹ This report was written with the help of Hisashi Kaneko of Nomura Research Institute's Financial IT Innovation Research division.

² *Nikkei*, 27 January 2012.

³ NICMR, *NICMR Guide to US Mutual Funds*, Nihon Keizai Shuppansha, September 2008 (Japanese only).

possible, we use the Nomura Research Institute (NRI)'s Fundmark database to count the number of products that distributors and managers share.

II. More than 70% of investment trusts de facto open architecture funds

1. Distributors' use of funds managed by other groups

Figure 1 gives management details of the funds marketed by Japan's top 10 investment trust distributors. Of the 2,159 funds (total for Column (A)), 892 (total for Column (B)) are managed by other groups. In other words, 41% (or nearly half) of the funds marketed by investment trust distributors in Japan are managed by other groups. This shows that open architecture is already well established in the industry.

Moreover, we also need to consider what might be called de facto open architecture funds. This is because fund managers often use subadvisors⁴ to manage some of their funds. In other words, those funds are, to all intents and purposes, being managed externally. As 714 funds are managed externally (total for Column (C)), the proportion of de facto open architecture funds is actually just over 70%.

Figure 1: Funds marketed by Japan's top 10 investment trust distributors

Distributor	Marketed funds					% of de facto open architecture funds (B+C)/A
	(A)	Non-group funds (B)	Group funds	Funds managed in house	Externally managed funds (C)	
Nomura Securities	586	219	367	141	226	76%
Mitsubishi UFJ Morgan Stanley Securities	249	112	137	56	81	78%
Daiwa Securities	216	55	161	90	71	58%
Okasan Securities	203	130	73	37	36	82%
Mitsubishi UFJ Trust and Banking Corporation	194	69	125	64	61	67%
Mizuho Securities	177	65	112	50	62	72%
Bank of Tokyo-Mitsubishi UFJ	149	41	108	44	64	70%
Chuo Mitsui Trust and Banking	133	69	64	34	30	74%
Mizuho Bank	126	57	69	22	47	83%
Mizuho Investors Securities	126	75	51	15	36	88%
Total	2,159	892	1,267	553	714	74%

Note: Data cover open-end investment trusts launched since 2000, excluding ETFs and funds available only to direct contribution pension plan participants. Only funds marketed by the top 10 distributors are listed. (Funds marketed by distributors affiliated to an insurance company, funds marketed by distributors marketing fewer than 10 funds, and funds available from on-line securities companies and banks are excluded.) "Externally managed funds" includes funds of funds and funds partly managed externally. Data as of end-December 2011.

Source: Nomura Institute of Capital Markets Research, from NRI Fundmark data

⁴ The use of subadvisors by Japanese fund managers gives overseas fund managers with expertise in a specific field but no base in Japan ready access to the Japanese market while giving Japanese investors access to overseas fund managers.

2. Managers' willingness to allow other groups to distribute their funds

Figure 2, on the other hand, shows how many of their funds managers are willing to allow other groups to distribute. Of the 1,651 funds managed by the top 10 fund managers (total for first column), 1,077 (total for the second column) (or nearly 70%) are available for distribution by other groups. This shows that open architecture is also well established when it comes to managers' willingness to allow other groups to distribute their funds.

Figure 2: Managers' willingness to allow other groups to distribute their funds

Fund manager	Total number of funds managed	Funds marketed by non-group distributors
Nikko Asset Management	169	164
Mitsubishi UFJ Asset Management	201	150
Nomura Asset Management	427	139
Daiwa Asset Management	241	115
Sumitomo Mitsui Asset Management	117	108
DIAM	95	86
Shinko Asset Management	103	81
KOKUSAI Asset Management	90	81
Okasan Asset Management	87	80
Mizuho Asset Management	121	73
Total	1,651	1,077

Note: Data cover open-end investment trusts launched since 2000, excluding ETFs and funds available only to direct contribution pension plan participants. Only funds marketed by the top 10 distributors are listed. (Funds marketed by distributors affiliated to an insurance company, funds marketed by distributors marketing fewer than 10 funds, and funds available from on-line securities companies and banks are excluded.)
Source: Nomura Institute of Capital Markets Research, from NRI Fundmark data