



# The Hedge Funds Club Japan Investor Survey 2011



**A research report on Japanese institutional investors' hedge fund allocations**

Researched and produced by  
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[www.hedgefundsclub.com](http://www.hedgefundsclub.com)



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## Introduction

We are pleased to present this summary of the Hedge Funds Club Japan Investor Survey 2011. The report offers a valuable insight into what Japanese investors are doing and what they want from their hedge fund investments. Japan is by far the Asia-Pacific region's biggest and most important hedge fund investor market and, at the same time, probably the most difficult investor market in the region for foreign hedge fund managers to understand and access. This report can help investors compare themselves to other investors and hedge fund managers to better understand the needs of Japan-based investors. We are very grateful to all the investors that participated in this survey.

Yours faithfully,

**Stefan Nilsson**

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## Investor survey highlights

- ▶ 42% of the investor respondents plan to increase their allocations to hedge funds in the near term.
- ▶ Japanese pension funds keep increasing their allocations to hedge funds. The average allocation to hedge funds among the pension fund respondents to this survey was 21%.
- ▶ Equity long/short was the most popular hedge fund strategy to allocate to in 2010/2011 while the global macro/managed futures category is the most popular for planned allocations in 2011/2012.
- ▶ Most investors allocate the majority of their money to liquid strategies but there is also a fair bit of investments in less liquid strategies such as credit and distressed as well as other more niche strategies.
- ▶ 63% of the survey respondents said that they do not use any investment consultants.
- ▶ Funds of funds (FoF) are still alive and have a future in Japan. While there is an increasing trend to do more direct investments in hedge funds, 58% of respondents said they do both single manager strategies and FoF or just allocate to FoF.
- ▶ The main concerns expressed about hedge fund investments were liquidity, transparency and fraud.



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## Survey participants

A selection of Japanese institutional investors was interviewed for this survey between May and August 2011. The interviewed investors included pension funds, insurance companies, bank treasuries/prop desks, trust banks, corporate treasuries, funds of hedge funds (FoF), gatekeepers/discretionary asset managers and investment consultants. Interviews were conducted in both Japanese and English. The interviewed institutions' assets under management ranged from around US\$45m to several hundred billion dollars.

## Summary of the main findings of the survey

### Typical hedge fund allocations

- ▶ The proportions of different types of Japanese investors' hedge fund allocations vary greatly.
- ▶ The average allocation to hedge funds by the pension funds that participated in this survey was 21% (taken from a range of 3.6% to 50%), while HFC Advisory estimates that the average hedge fund allocation of all Japan's corporate and industry pension funds is around 10% and increasing. There is at least one confirmed case of a Japanese pension fund with a 100% allocation to hedge funds and many more in the 30%-60% range.
- ▶ Large Japanese insurance companies typically allocate around 1%-2% of assets to hedge fund investments.
- ▶ Because of the size of many of Japan's banks, insurers and pension funds, this means quite a few of these firms have multi-billion dollar hedge fund portfolios.

### **Planned changes to the size of investors' hedge fund exposure**

- ▶ 42% of respondents plan to increase their allocations to hedge funds in the near term.
- ▶ 42% said they plan to keep their current level of hedge fund exposure.
- ▶ No respondents said they were planning to decrease their hedge fund allocations.
- ▶ Also, it is worth noting that among those with no planned increases, many plan to change some hedge fund managers in their portfolio and will thus still be active investors with money to allocate.



### **Funds of funds vs. single strategy hedge fund allocations**

- ▶ 42% of respondents said they only or mainly invest in single manager hedge funds.
- ▶ 58% said they that they do both single manager strategies and FoF or just allocate to FoF.
- ▶ Over the past few years the trend very clearly points to a shift away from FoF to more direct allocations to single managers. However, there is still room for FoF managers, especially those who offer a flexible approach. One reason for this is that the investment decisions at many corporate pension funds are made by one person and they thus need the FoF managers due to lack of in-house resources to do sourcing, due diligence, selection, monitoring, etc. Of those investing in FoF, there is a trend to invest in customised FoF where the investor gets to have a say on which hedge fund managers are included in the portfolio.
- ▶ There is also a growing number of investors who use established FoF managers as consultants but not as asset managers.

### **Investment consultants**

- ▶ 63% of the survey respondents said that they do not use any investment consultant to assist with their hedge fund investments.
- ▶ The cost of consultants is often the reason given by pension funds and other investors for not using them while some investors question that the investment consultants' expertise when it comes to hedge funds is better than their own expertise.
- ▶ Among those who do use consultants, it is often to gain access to approved manager shortlists or for operational due diligence on funds that the investor wants to allocate to.
- ▶ Mercer was the most frequently used consultant by investors in survey responses while others mentioned included Russell, Towers Watson and R&I.



### **Strategy allocation in 2010/2011**

- ▶ The institutional investor market in Japan is very large and diversified. With so many investors with different needs there is always someone who has an interest in any specific investment strategy.
- ▶ In the Japanese fiscal year that ended on 31st March 2011, the strategies most frequently mentioned as having been allocated to were relatively liquid strategies such as global macro, CTAs/managed futures and equity long/short.
- ▶ 57% of the respondents specifically mentioned that they had invested in equity long/short strategies.
- ▶ 28% mentioned investments in global macro/managed futures.
- ▶ Strategies and sub-strategies frequently mentioned in survey responses included multistrategy, fixed income, credit, distressed, emerging markets, relative value, market neutral, event driven, activist and FoF.

### **Planned strategy allocation in 2011/2012**

- ▶ In the fiscal year that started on 1st April 2011, survey respondents said that they are interested in a wide range of hedge fund investment strategies.
- ▶ 34% specifically said that they plan to allocate to global macro/managed futures.
- ▶ Other strategies and sub-strategies frequently mentioned included equity long/short, multistrategy, fixed income, credit, distressed, emerging markets, event driven, relative value and FoF.

### Investment rules

- ▶ 51% of respondents said that they don't have any strict investment rules such as minimum length of track record or assets under management (AUM).
- ▶ However, many investors prefer to allocate to hedge funds with a 2-3 year track record and a firm (but not necessarily fund) AUM of US\$200m-US\$300m. Because of the relatively large size of tickets written by some larger Japanese investors, it is difficult for them to consider funds with less than US\$500m or even US\$1 billion in AUM.
- ▶ Most hedge fund investments from Japan tend to go to big, established, brand name, multi-billion dollar hedge funds from North America or Europe. There are, however, exceptions. Some respondents do day one or early investments and some prefer to allocate to younger, smaller hedge funds. There are also some pools of money in Japan (primarily from FoF) earmarked for investments with Japanese and Asian hedge fund managers/strategies.



### **Current concerns with investing in hedge funds**

- ▶ Unsurprisingly some of the main concerns expressed were liquidity, transparency and fraud (especially insider trading).
- ▶ Risk management and poor performance were also frequently mentioned.
- ▶ Other concerns included the issue of large hedge funds getting too large, the macro environment and related sovereign debt risks, downside risk protection, tail risk, business and operational risks, increased correlation between asset classes, changing regulations, government interventions (such as short selling bans), how to identify strategies that will continue to perform in the ever changing markets, the impact of other investors' actions, lack of information and knowledge, hidden risks, black swan events, raised gates, crowded trades and strategies, expense ratios, remuneration and managers' skills and ability to generate alpha.

### **The impact of the March triple earthquake, tsunami and nuclear disasters in Japan**

- ▶ 95% of the respondents said that the March 2011 triple earthquake, tsunami and nuclear disasters in Japan had no or very little impact on their hedge fund investments.
- ▶ The exceptions were some of those investors who had large allocations to Japanese hedge fund strategies. The Japanese markets took a big hit following the disasters and this had an impact on many Japanese hedge fund strategies in March and April.
- ▶ The limited impact on the investors participating in this survey can partly be explained by the fact that many Japanese investors tend to invest in global hedge fund strategies rather than Japanese strategies.



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## About the Hedge Funds Club

The Hedge Funds Club, Asia's largest network of hedge fund managers and investors, was founded by Stefan Nilsson in Tokyo in 2005. The club organises regular networking events across Asia and also publishes industry news and interviews on [www.hedgefundsclub.com](http://www.hedgefundsclub.com).





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## About HFC Advisory

The research for the Hedge Funds Club Japan Investor Survey 2011 was carried out by HFC Advisory, a Tokyo-based hedge fund consulting and research firm headed by Stefan Nilsson. HFC Advisory conducts its own industry surveys as well as customised research for specific clients with a focus on the Asia-Pacific region. Its clients include hedge funds and other alternative investments firms as well as service providers to the hedge fund industry. The firm also assists fund managers with investor introductions and market intelligence. For more information about HFC Advisory and its research and consulting capabilities, please contact:

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