

Japan-Based Investors Embrace Alternative Assets

Institutions look to alternatives to offer portfolio diversification and long-term yield

The Bank of Japan adopted negative interest rates in 2016, leading many investors in the country to seek more diversification and higher yields by investing in alternative assets. In 2019, two-thirds of Japan-based investors now allocate to at least one alternative asset class, ranging from almost six out of 10 that invest in private equity to a third that invest in hedge funds. Investors are primarily focused on local investments in private capital, with the largest proportions targeting the Far East; by contrast, hedge fund investors generally take a global approach. But increasingly, Japan-based investors are also seeking to allocate to North America and the rest of Asia-Pacific in search of diversification. In most asset classes, investors are also more favourable toward strategies higher up the risk/return curve, indicating that they are looking to alternatives to provide yield, not simply protect capital.

For more information and analysis, see the full *Preqin Investor Outlook: Alternatives in Japan* report here: <http://docs.preqin.com/reports/Preqin-Investor-Outlook-Alternatives-in-Japan-June-2019.pdf>

Jie Sin Chia, Head of Asia Products:

“A persistent low-interest environment set by the central bank, as well as stagnant growth in recent years, have put enormous pressure on Japan-based investors as they look to meet their returns targets. Alternative assets have long been a part of the investment landscape in Japan, but the industry’s ability to offer diversification and long-term yield have brought them to the forefront of investors’ minds. While they are clearly looking for opportunities to allocate to the rest of Asia, North America and Europe, in most asset classes investors remain primarily focused on domestic opportunities. We are likely to see this shift if the low-interest and slow-growth environment remains in place.”

Key Japan Investor Outlook Facts:

- There are currently **303 Japan-based investors active in alternative assets**, second only to China (450) within Asia-Pacific.
- Of these, **66% invest in at least one alternative asset class**. The largest proportion (58%) allocates to private equity, while the lowest proportion (34%) invests in hedge funds.
- Compared to the rest of Asia-Pacific, Japan-based investors are more active in private equity, hedge funds and private debt, but less active in real estate and real assets.
- **The Far East remains the most sought-after investment destination** for private capital investors, while hedge fund investors prefer to allocate with a global focus.
- However, across most asset classes significant proportions of investors also look to allocate to funds in North America and the rest of Asia-Pacific.
- Investment activity in the next 12 months does not look set to be equal across asset classes. **Ninety-six percent of private equity investors intend to make fresh investments in the coming year**, compared to just 54% of hedge fund and private debt investors, and 41% of natural resources investors.
- **The majority of investors (71%) have already established ESG policies in their mandates** or are planning to include them within the next five years.

Preqin is the home of alternative assets, providing industry-leading intelligence on the market and cutting-edge tools to support participants at every stage of the investment cycle. More than 80,000 industry participants in over 90 countries rely on Preqin as their indispensable source of data, solutions and insights.

Preqin’s data and analysis is frequently presented at industry conferences, and is used in the global financial press and academic journals & white papers. We are always happy to support journalists by providing reports, custom data and one-on-one interviews.

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