CHAPTER VII

Investment Trusts

1. Overview

An investment trust is a financial instrument that raises money from multiple investors in order to establish a large fund which is then managed by an investment specialist across a diverse range of domestic and international assets, such as stocks and bonds, with the returns distributed to investors in proportion to their contributions.

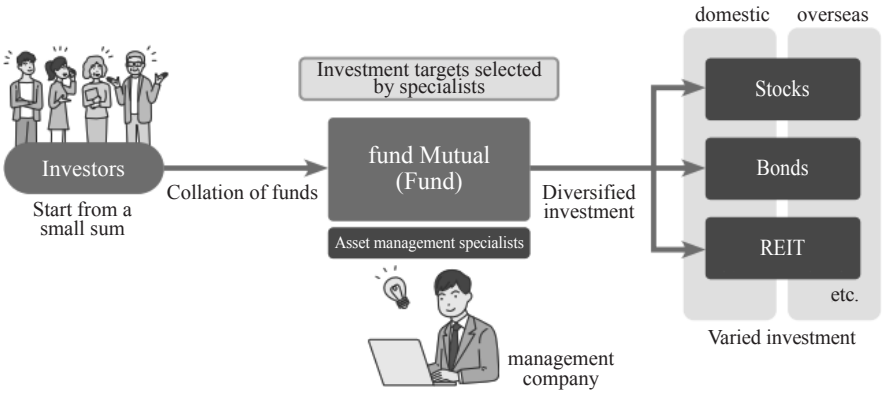
For investors, even if the size of their individual investment is small, their funds are managed efficiently on a large scale, providing cost advantages (economies of scale). In addition, since a single product allows for investment across a variety of assets, it helps diversify risk. Furthermore, the ability to benefit from professional expertise in gathering and analyzing information is another significant advantage. However, since returns fluctuate depending on investment performance, the repayment of the principal is not guaranteed. The market offers a wide variety of products, from those prioritizing stability to those aiming for higher returns by taking on increased risk.

The structure of the Japanese investment trust system is stipulated in the Act on Investment Trusts and Investment Corporations. In addition, the conduct of asset management companies (investment trust management companies) is regulated by the Financial Instruments and Exchange Act (FIEA), and investor protection is further ensured by the rules of the Investment Management Association of Japan (formed by the merger of the Investment Trusts Association with the Japan Investment Advisers Association in April 2026).

Investment trusts serve not only as a means for individuals' asset building but also play a significant role in the national economy by channeling pooled funds into the market and supporting corporate fundraising. They also perform the function of contributing to efficient price formation in the market as institutional investors.

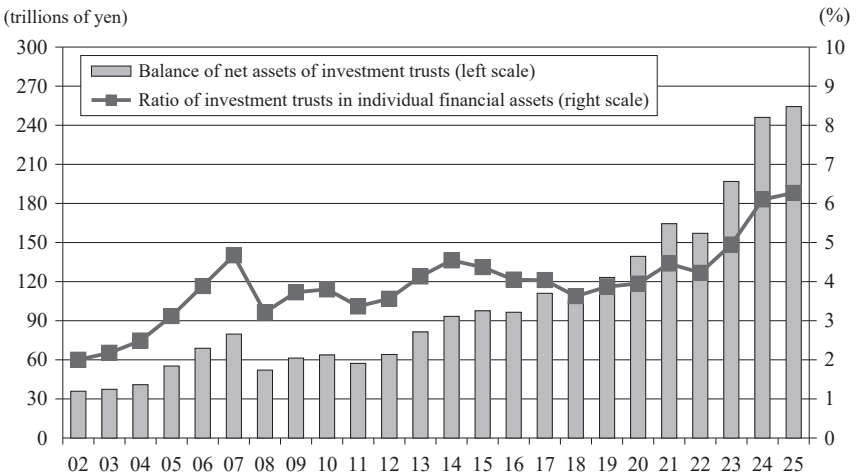
The net assets of publicly offered investment trusts in Japan have been growing in recent years. After recovering following the global financial crisis and reaching ¥100 trillion in mid-2015, this figure declined temporarily in 2022 but began to rise again in 2023. In particular, with the launch of the

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 fiscal 2025 are as of the end of June (the percentage of household financial assets is based on preliminary figures as of the end of June).

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".

new NISA program in 2024 serving as a catalyst, the shift "from savings to asset building" gained significant momentum, leading to rapid expansion in net assets, which surpassed ¥250 trillion by the end of June 2025. The proportion of investment trusts in household financial assets is also on the rise.

As of the end of 2024, the global assets under management for publicly offered investment trusts reached $68.5 trillion, although Japan's share remained at just 2.3%. While the domestic market is growing rapidly, there is still significant room for expansion on an international scale. With the growing popularity of the new NISA program and other factors, investment trusts are expected to become increasingly important as a core financial product supporting stable asset building for individuals.

2. History of Investment Trusts

Investment trusts, a form of collective investment scheme, have proved popular in various forms around the world since their inception in the U.K. in the late nineteenth century. The current investment trust system in Japan dates back to the enactment of the Securities Investment Trust Act in June 1951. At that time, investment trusts were unit-type stock investment trusts of the contractual type. Unlike in Europe and the United States, where such systems arose naturally from investor needs, this system was introduced for policy purposes, including balancing supply and demand for the large volume of shares released following the break-up of the *zaibatsu* and raising capital for industry during the post-war reconstruction period.

Since the system was established, a series of legislative amendments have been enacted to protect investors. In particular, in 1967, following the stock market crash, measures were taken to clarify the fiduciary duties of investment trust management companies to beneficiaries and to strengthen the provisions prohibiting certain conduct. The financial "Big Bang" of the late 1990s marked a turning point that significantly transformed the nature of investment trusts. The major reforms implemented under the 1998 Act on Revision, etc. of Related Acts for the Financial System Reform introduced corporate-type investment trusts, the mainstream model in Europe and the United States, and shifted the establishment of funds from an approval system to a filing system. This allowed investment trust management companies to outsource investment management instructions to outside parties. Furthermore, the complete deregulation of over-the-counter sales by banks and other financial institutions expanded distribution channels. These amendments led to the launch of a succession of investment trusts with diverse investment strategies, thereby fostering competition.

In the 2000s, investment assets became increasingly diverse. A legal

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)			
		The marketing of foreign investment trusts in Japan was liberalized (1972)	Foreign securities began to be included in assets of investment trusts (1970)
Investment trust management companies entered the investment advisory business (1984)	The medium-term government bond investment trusts were established (1980)		
Foreign companies entered Japanese investment trust management business (1990)			
Bank affiliates entered investment trust management business (1993)	MMFs were established (1992)	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 (J-REITs) (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)	Monthly distribution investment trusts are popular		Target of investment trusts was expanded to commodities (2008)
			ETF purchases by BOJ began (2010)
Launch of NISA (2014)			
		FSA promotes customer-first business practices (2017)	Implementation of credit risk regulations (2014)
Launch of Tsumitate NISA (2018)			MMF balances go to zero on negative interest rates (2017)
		Introduction of Critical Information Sheet (2021)	
Decision to expand NISA, make the system permanent and make tax-free holding period indefinite after 2024 (2022)	Listing of Actively Managed ETFs(2023)		

Source: Materials prepared by Mr. Koji Sugita (modified by the author)

amendment in 2000 expanded the scope of investment to include real estate, giving rise to "Real Estate Investment Trusts (J-REITs)." Consequently, the law was renamed the Act on Investment Trusts and Investment Corporations. In 2007, the FIEA came into effect, and the rules of conduct regarding investment trusts, such as the duty of good faith and the obligation to explain products to customers, were transferred to this Act, establishing a more comprehensive and cross-cutting framework for investor protection.

In recent years, investment trusts have played an increasingly important role in asset building for individuals. With the expansion of programs offering tax advantages such as NISA (Nippon Individual Savings Account, small-amount investment tax exemption scheme) and iDeCo (individual-type defined contribution pension plan), many individual investors have started to buy investment trusts through these programs. In light of these circumstances, distributors and other entities are under increasing pressure to adopt "customer-first business practices" that prioritize the interests of their customers. The Financial Services Agency is also working to create an environment that makes it easier for investors to choose better products, including by encouraging clear disclosure of fees. For investment trusts to truly contribute to stable asset building for the public, it remains important to create an environment for the healthy development of the market from both a regulatory and investment management perspective.

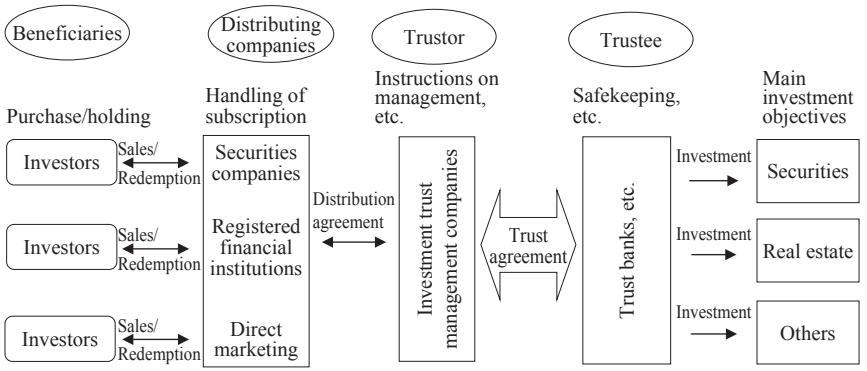
3. Types of Investment Trusts

Investment trusts are broadly classified into the contractual type and the corporate-type.

Contractual type investment trusts are structured based on a trust agreement between an asset management company and a trust bank, and account for the majority of investment trusts in Japan. Contractual type investment trusts are divided into trusts with investment instructions from trustors and those without investment instructions from the trustor, with the former accounting for the majority.

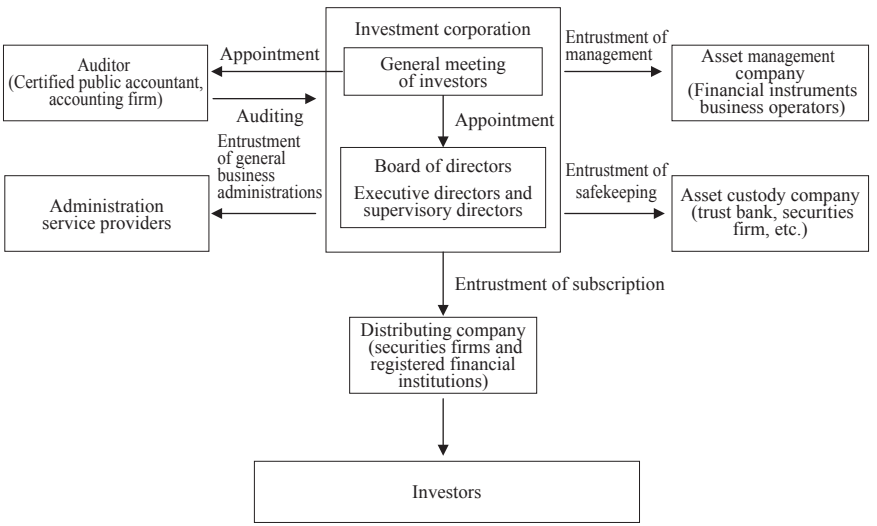
An investment trust with investment instructions from the trustor consists of the following three parties (see upper diagram on the next page). The trustor (investment trust management company) designs the fund, prepares a trust deed, files it with the relevant authorities, issues investment instructions to the trustee regarding the management of the trust assets, and prepares investment reports for the beneficiaries. The trustee (such as a trust bank) buys, sells, holds, and manages the trust assets in accordance with the trustor's instructions, and the trust assets are managed on a segregated basis. Beneficiaries (investors) are investors who have purchased investment trusts and are

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."

entitled to receive investment returns in the form of distributions or redemptions.

In the case of an investment trust without investment instructions from trustors, the trustee manages the assets on a discretionary basis without receiving instructions from the trustor.

For corporate-type investment trusts (investment corporations), an "investment corporation" is established for the purpose of asset management and is operated in a manner similar to a corporation (see diagram on next page). Investors purchase investment securities issued by the investment corporation to become investment trust investors (unit holders). These investors have voting rights at general meetings of investors, just like shareholders of a corporation. However, the investment corporation itself serves merely as a vehicle for asset management. Actual asset management, custody of the fund's assets, and general business administration, must by law be outsourced to outside specialist companies. Typical examples include J-REITs (real estate investment trusts) that invest in real estate and infrastructure funds that invest in infrastructure facilities.

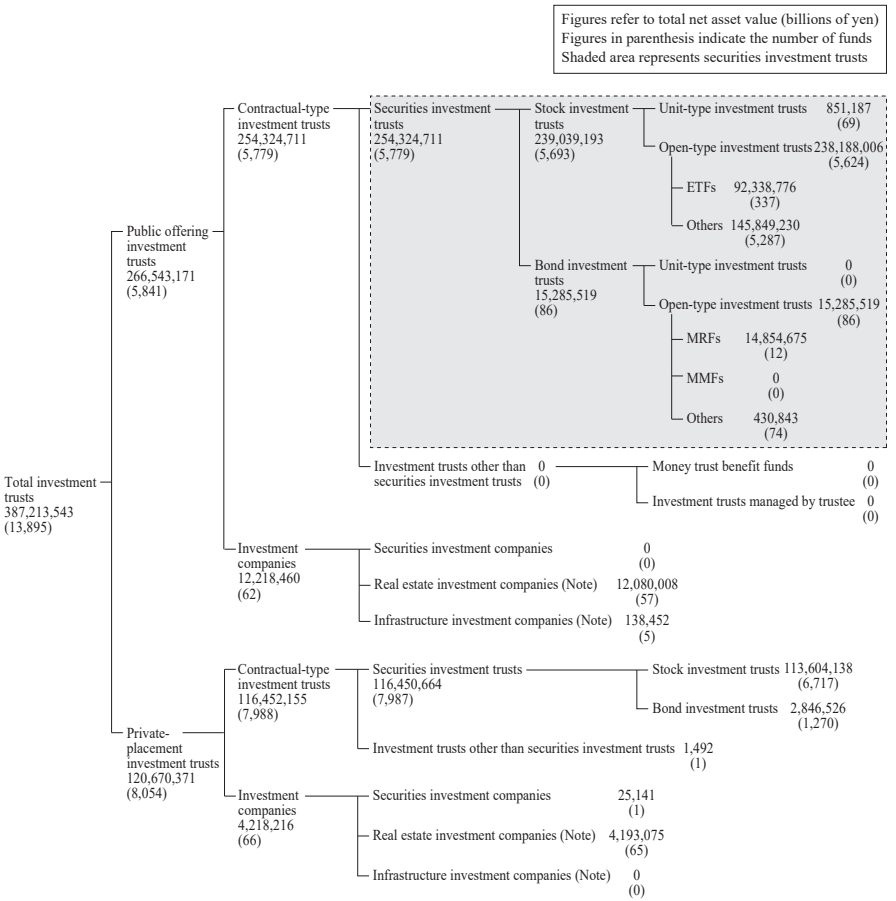
Besides their organizational structure, investment trusts are also classified by the methods that investors use to liquidate their investments. This is an important classification related to the liquidity of investment trusts. The open-end type accepts beneficiary requests and redeems the certificates at market price by selling trust assets, while the closed-end type does not accept beneficiary requests to redeem their certificates. In the latter case, many are listed on stock exchanges and traded at market prices so that investors can convert them into cash. Examples of this include J-REITs and ETFs (exchange-traded funds). In Japan, contractual type investment trusts are principally of the open-end type, while corporate-type investment trusts are of the closed-end type (listed).

4. Categories of Investment Trust Products

In broad terms, the overall landscape of investment trusts is summarized in the diagram on the next page. Among these, contractual-type securities investment trusts (shaded area), which account for a large portion of assets under management, are classified as follows.

Classification by target investors: Publicly offered and privately offered investment trusts are broadly classified based on their target investors
Publicly offered investment trusts are targeted at a broad range of investors, and includes investment trusts that are purchased by ordinary individual investors through securities companies and other intermediaries. On the other

Chart VII-5. Overview of Investment Trusts (total net assets, number of funds)
As of June 30, 2025



Note: Shading indicates contract-type securities investment trusts.
Data for REITs and infrastructure investment trusts is from the previous month (one month lag).
Source: The Investment Trusts Association, Japan.

hand, privately offered investment trusts are offered exclusively to specified institutional investors or a small number of investors, fewer than 50. Private placements are subject to less stringent regulations regarding investment management than publicly offered investment trusts and can be designed as flexible products tailored to investors' needs.

Classification by subscription and redemption method: Open-end and unit-type funds are categorized based on how they accept capital
Open-end funds allow investors to purchase units at market value at any time after the fund is established while the fund is operational. In contrast, unit-type funds can only be purchased during the initial offering period, and no additional purchases can be made after investment begins.

Classification by investment assets
The types of assets in which an investment trust invests are the most critical factors determining its profitability and risk. The Investment Trusts Association classifies products into categories such as equities, bonds, and multi-asset based on a fund's investment targets. Each fund's prospectus specifies which category it belongs to.

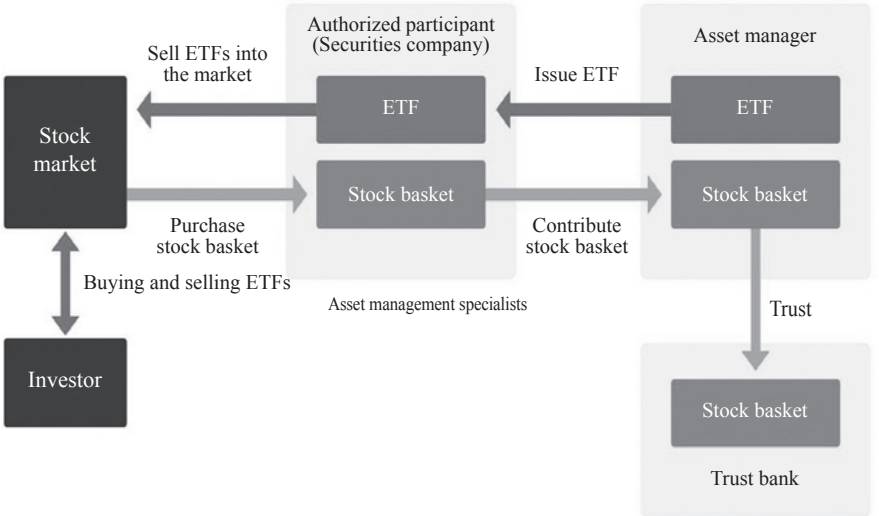
Tax classification: Stock and bond investment trusts
Under Japanese tax law, investment trusts are classified as either stock investment trusts or bond investment trusts based on whether their articles of incorporation permit the inclusion of stocks. A bond investment trust does not hold any stocks and invests solely in bonds and short-term financial instruments. All other investment trusts are classified as stock investment trusts regardless of whether they actually hold stocks. Due to restrictions such as the inability to make daily additional subscriptions in bond investment trusts (excluding daily settlement type funds), even funds that invest exclusively in bonds are often established as stock investment trusts.

Exchange-Traded Investment Trusts: Exchange-Traded Funds (ETFs)
Among open-end investment trusts, those listed on an exchange and tradable like stocks in real time during trading hours are called ETFs (Exchange-Traded Funds). ETFs are explained in more detail in the next section.

5. Exchange-Traded Funds (ETF)

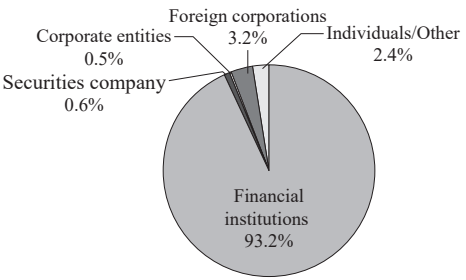
Investment trusts listed on financial instruments exchanges are also called exchange-traded funds. Unlike ordinary investment trusts, which are traded at a net asset value calculated once a day, ETFs can be bought and sold in real time while the market is open at market prices that fluctuate in response to supply and demand, just like stocks. As a result, investors can place limit orders at specified prices and conduct margin trades, which allows them flexibility in trading. In addition, management fees tend to be lower than those of conventional investment trusts, and disclosure of portfolio holdings ensures a high level of transparency, which is another advantage.

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



Source: Investment Trusts Association.

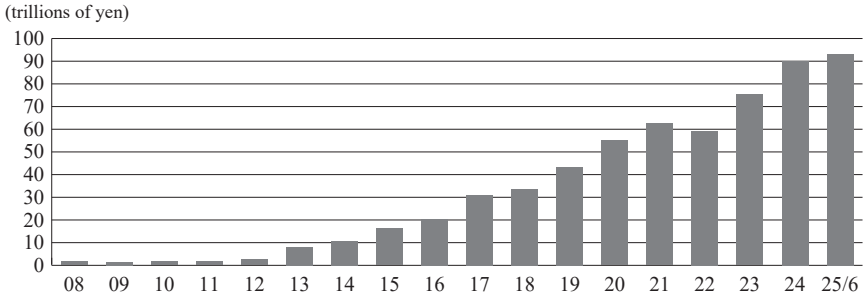
Chart VII-7. ETF holding ratio by investment sector (July 2024)



Note: The holdings of financial institutions include holdings of the Bank of Japan.
Source: Compiled from JPX's "ETF Beneficiary Information Survey".

As a general rule, the creation and redemption of ETFs are conducted through in-kind creation and redemption, in which a basket of physical securities is exchanged for ETF beneficiary certificates. This is a system in which institutional investors, such as securities companies, known as authorized participants, procure a basket of stocks that make up the target index on the market and, in exchange, receive beneficiary certificates of the ETF from the

Chart VII-8. Total net assets of domestic ETFs



Source: Compiled from JPX's "Monthly Report".

asset management company. Because of this mechanism, when a price difference arises between the market price of an ETF and its underlying net asset value, arbitrage trading takes place, ensuring that any price discrepancy is kept to a minimum. Furthermore, for some ETFs that track overseas assets and are difficult to exchange in physical form, creation and redemption can also be conducted for cash.

For a long time, Japan's ETF market was dominated by passive (index) investment products that track major domestic stock price indices, such as the Nikkei 225 and TOPIX. However, in recent years, investment targets have expanded beyond domestic stocks to include J-REITs (real estate investment trusts) and foreign stocks. Furthermore, the market has become increasingly diversified with the addition of products such as leveraged and inverse funds, designed to achieve daily target returns that are several times the rate of change of an index or move inversely to the underlying instrument. Furthermore, in September 2023, the first actively managed ETF in Japan was listed. It does not track a specific benchmark, with fund managers selecting stocks based on proprietary strategies with the aim of outperforming the market average. This has further expanded investors' options by allowing them to benefit from the real-time aspect of ETFs while also investing in professional active management strategies.

The Japanese ETF market expanded rapidly following the Bank of Japan's ETF purchase program which started in 2013 (at one time, the central bank's holdings exceeded 80% of the market), with the impact on price formation a concern. Subsequently, the Bank of Japan reversed its policy, ending new purchases in March 2024 and announcing a long-term plan to sell its ETF holdings in September 2025. The Bank of Japan's policy shift as the largest buyer will have a significant impact on future market supply and demand, making its actions a focus of attention.

6. Sale of Investment Trusts

In terms of the distribution of investment trusts in Japan, the monopoly of securities companies ended with the entry of banks in 1998 and post offices in October 2005, and the sales network expanded nationwide. The share of publicly offered investment trust assets sold through financial institutions was over 40% in the late 2000s, but has since fallen to 19.6% as of June 2025, partly due to the rise of online brokerages. Meanwhile, privately placed investment trusts, which are primarily aimed at institutional investors, have a significant presence in the market, accounting for over 80% of total assets. The share of direct sales by investment trust management companies for publicly offered investment trusts has remained at a low level of 0.6% to 0.7% over the past 20 years.

In addition to traditional face-to-face sales, online transactions have grown significantly. According to a 2024 survey by the Japan Securities Dealers Association, the most common place for purchasing investment trusts was at a financial institution branch (34.9%), followed by online trading through a securities company (31.7%) and at a securities company branch (27.8%). While face-to-face sales still have a share of the market, it is clear that online transactions are on the rise. In addition, online trading through financial institutions accounted for 11.2% of sales, indicating that online purchases are now commonplace.

Distributing companies are obliged to comply with strict investor protection rules under the Financial Instruments and Exchange Act (FIEA) and regulations established by the Japan Securities Dealers Association and other bodies. Specifically, they must comply with the suitability rule, which prohibits inappropriate solicitation activities based on a customer's circumstances; the obligation to explain products to customers, which requires explaining risks and other factors; regulations regarding prohibited activities, such as providing conclusive evaluations; and the duty of good faith and fair dealing. When depositary institutions, such as banks, sell these products, they are also required to take measures to prevent customers from mistaking investment trusts for deposits. As part of recent developments, the use of Critical Information Sheets, designed to facilitate product comparisons, was introduced in 2021. Furthermore, in 2024, a section on product governance was added to the "Principles for Customer-First Business Practices." Based on this, distributors are required to establish a framework that ensures the best interests of customers are served through integrated sales and investment management. This includes understanding the asset management company's initiatives to improve product governance and utilizing this information in product selection, as well as sharing post-sale customer information with the asset

Chart VII-9. Changes in Composition of Total Net Assets of Publicly Offered Investment Trusts by Distribution Channel

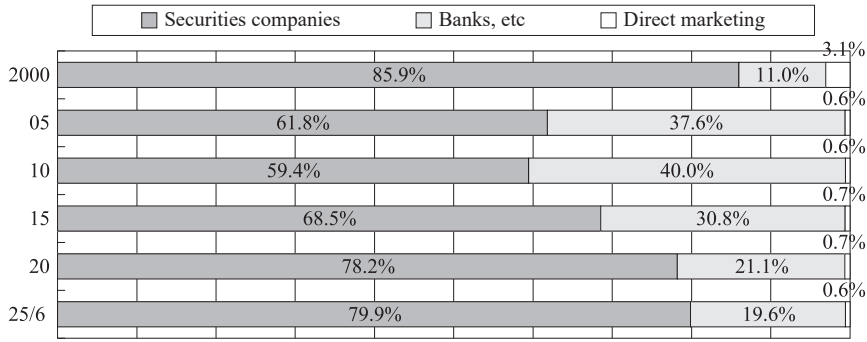
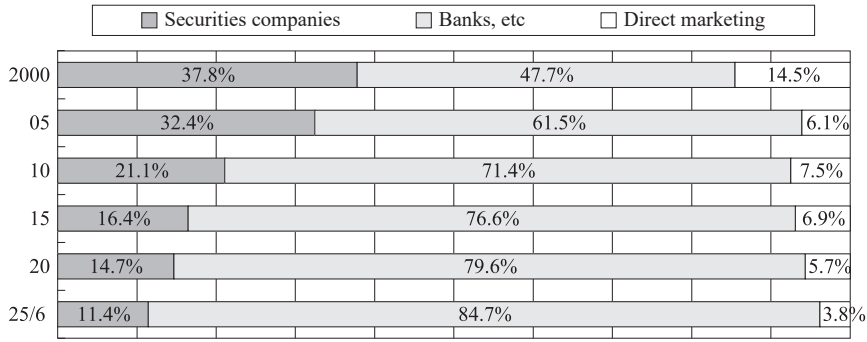


Chart VII-10. Changes in Breakdown of Total Net Assets of Overall Private Placement Trusts by Distribution Channel

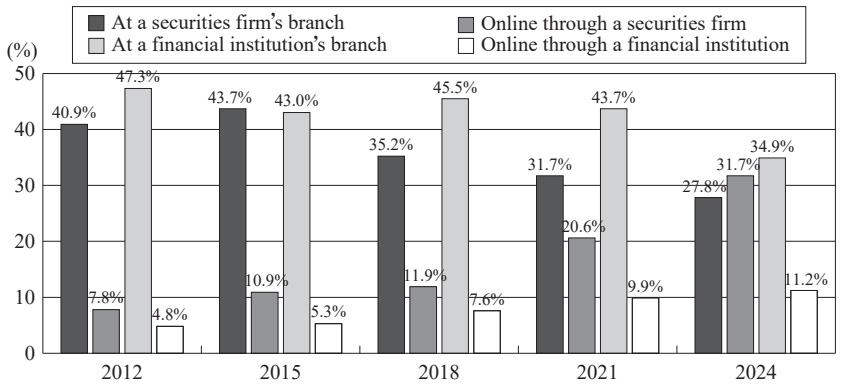


Source: All the above are based on statistics of the Investment Trusts Association, Japan.

management company.

Until sales commissions were liberalized in 1998, the sales commission for each investment trust was fixed. Since the market was liberalized, competition among distributors has led to different commissions even for the same fund depending on the distributor. Fees have also been steadily declining. In particular, many online-only brokerage firms now offer investment trusts with no sales commission, which has shifted investors' awareness of costs.

Chart VII-11. Where Individual Investors Can Purchase Investment Trusts



Source: Compiled by the author based on the "National Survey on Securities Investment (2012-2024, every three years)" (Japan Securities Dealers Association).

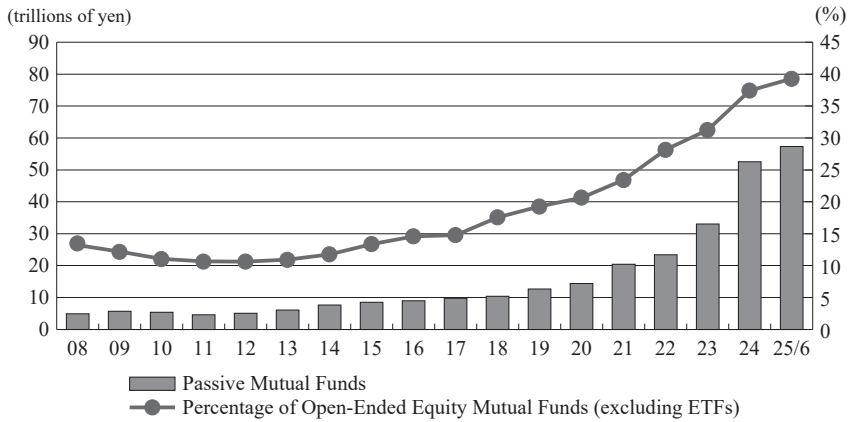
7. Management of Investment Trusts

In managing an investment trust, the professional asset management company pools funds raised from investors and looks to generate returns through investing in stocks, bonds, and other assets in line with its investment policy. Investment styles are broadly categorized into passive and active investing, each with a distinct economic role in the market.

Passive investment aims to track market indices such as the Nikkei Stock Average. Based on the "efficient market hypothesis," which posits that it is difficult to consistently outperform the market because all information is instantly reflected in prices, management fees are kept low by eliminating the need for research on individual stocks. Investors can benefit from the growth of the overall market at low cost, and as an option for long-term asset building, assets under management have expanded rapidly in recent years, as shown in the data on the next page, now accounting for 40% of open-end stock investment trusts.

In contrast, active management aims to generate returns that exceed the benchmark, based on the assumption that markets are inefficient. Fund managers and others identify undervalued stocks and growth companies through their own research and invest in them. This activity plays a role in promoting the efficient allocation of resources across the economy by providing funding to companies driving innovation and enhancing the market's price discovery function.

Chart VII-12. Net Assets of Publicly Offered Passive Mutual Funds



Source: Nomura Research Institute.

The asset management companies responsible for these operations are subject to strict legal duties in their capacity as trustees. The cornerstones of this are the "duty of due care of a prudent manager" and the "duty of loyalty." To effectively ensure this, the Financial Instruments and Exchange Act specifically prohibits conduct that could lead to conflicts of interest. For example, proprietary trading for the benefit of the asset management company itself, transactions between investment assets (i.e., between funds) (with certain exceptions), and unnecessary transactions conducted for profit purposes for the parent of the asset management company or group companies are all prohibited. Furthermore, the Act on Investment Trusts and Investment Corporations and the self-regulatory rules of the Investment Trusts Association establish a multi-layered framework governing specific investment instruments and credit risk management, thereby ensuring thorough investor protection.

Furthermore, as part of its proactive efforts to fulfill its responsibilities to these beneficiaries, the asset management company also assumes responsibilities as a shareholder of the companies in which it invests. In accordance with the "Principles for Responsible Institutional Investors," it promotes improvements in corporate governance and strives to enhance corporate value through dialogue with companies and the exercise of voting rights. As shown in the data on the following page, asset management companies consistently vote against proposals, such as executive retirement benefits and takeover defense measures, that could potentially undermine shareholder value, thereby playing a role in holding company managements accountable in the market. This is an important responsibility of the trustee in ultimately serving the

Table VII-2. Status of voting on domestic stocks at shareholders' meetings of investment trust management companies (one-year period ending June 2024): voting status on proposals submitted by companies; total for 70 companies managing domestic stocks

Proposals		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 Organs	Election and Dismissal of Directors (*1)	332,770	47,813	68	11	47,881	380,662	12.6%
	Election and Dismissal of Company Auditors (*1)	37,909	5,166	5	0	5,171	43,080	12.0%
	Election and Dismissal of Accounting Auditors	832	20	0	0	20	852	2.3%
Proposal about Remuneration for Officers	Remuneration for Officers (*2)	16,479	1,559	0	0	1,559	18,038	8.6%
	Payment of Retirement Benefits for Retired Officer	308	1,059	0	0	1,059	1,367	77.5%
Proposal about Capital policy (except for Proposal about Articles of Association)	Disposal of surplus	28,998	1,273	6	1	1,279	30,278	4.2%
	Reorganization related (*3)	494	29	0	0	29	523	5.5%
	Introduction/update/abolition of takeover defense measures	27	721	1	0	722	749	96.4%
	Other capital policy proposal (*4)	1,192	98	0	0	98	1,290	7.6%
Proposal about Articles of Association		9,232	473	0	1	473	9,706	4.9%
Total of Other proposals		159	30	0	0	30	189	15.9%
Total		428,400	58,241	80	13	58,321	486,734	12.0%

*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: "Results of the Survey on the Japanese Stewardship Code" (May 2025, The Investment Trusts Association, Japan).

best interests of the beneficiaries.

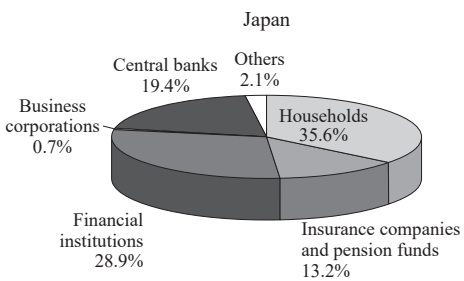
8. Customer Base of Investment Trusts

As of the end of 2024, the breakdown of Japanese holders of investment trusts (based on asset value) was as follows: individuals, 35.6%; financial institutions, 28.9%; the central bank, 19.4%; and insurance and pension funds, 13.2%. In the United States, individual holders account for 58.6% and insurance and pension funds for 27.3%. Therefore, the proportion held by individuals is significantly lower in Japan than in the United States. In Japan, financial institutions' share of holdings is high, especially for private placement investment trusts. In addition, the central bank's share is also high due to the Bank of Japan's purchases of ETFs (exchange-traded funds).

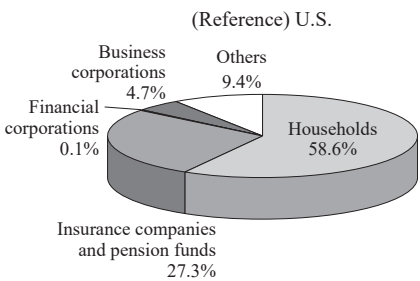
The penetration rate of investment trusts among individual investors is steadily increasing. According to a survey by the Japan Securities Dealers Association, the proportion of the adult population holding investment trusts rose from 8.8% in the 2018 survey to 12.6% in the 2024 survey. Although this does not match the household penetration rate of over 16% recorded in 1988 during the bubble economy, it has been on a steady recovery since bottoming out at 6.1% in 2003, and that pace has accelerated in recent years.

Of particular note is the significant shift in the age profile of ownership. While ownership was historically high among the elderly, in recent years ownership among younger and middle-aged people has expanded significantly. In 2018, among men, the highest ownership rate was 16.2% for men aged 75-79, but by 2024, the highest rate was 21.6% for men aged 65-69, followed by 20.1% for men aged 40-44. This indicates that ownership is spreading to younger generations. This is because an increasing number of people, partic-

Chart VII-13. Breakdown of Holders of Investment Trusts (as of the end of 2024)



Source: Compiled from the Bank of Japan's "Flow of Funds Accounts (Final)".



Source: Compiled from FRB, *Fund of Funds Accounts*.

Table VII-3. Profiles of Individual Investors Holding Investment Trusts (2024)

Investment trust holding ratio by age			Investment trust holding ratio by annual income	
	Male	Female		
Aged 18 to 19	1.2%	1.3%	Less than ¥1 million	7.4%
Aged 20 to 24	3.9%	3.3%	¥1 million or above, less than ¥2 million	9.3%
Aged 25 to 29	8.0%	10.4%	¥2 million or above, less than ¥3 million	11.6%
Aged 30 to 34	13.0%	3.5%	¥3 million or above, less than ¥4 million	15.4%
Aged 35 to 39	14.4%	12.6%	¥4 million or above, less than ¥5 million	15.2%
Aged 40 to 44	20.1%	9.7%	¥5 million or above, less than ¥7 million	22.8%
Aged 45 to 49	18.8%	12.5%	¥7 million or above, less than ¥10 million	26.7%
Aged 50 to 54	15.5%	15.4%	¥10 million or above	47.8%
Aged 55 to 59	16.0%	16.5%		
Aged 60 to 64	16.4%	15.9%		
Aged 65 to 69	21.6%	15.5%		
Aged 70 to 74	14.4%	13.8%		
Aged 75 to 79	12.4%	10.4%		
Aged 80 to 84	12.2%	5.2%		
Aged 85 to 89	7.6%	4.4%		
Aged 90 or above	14.3%	4.2%		
Overall average:12.6%				

Note: 7,000 respondents overall.
Source: Compiled from JSDA "Nationwide Survey (on individuals) concerning Securities Investment Trusts)" FY2024.

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

Japan		Reference: USA	
Living expenses after retirement	55.5%	Post-retirement funds	80%
Diversify risk assets	28.2%	Supplement current income	6%
To learn about finance, economics, and investment	15.5%	In case of emergency	5%
Be prepared for contingencies	10.7%	Home or high value purchase	3%
Inflation (to prepare for rising prices)	10.2%	Tax savings	3%
To fund payment of life events, such as marriage, housing, etc.	9.6%	Funds for education	2%
Funds for items such as children's or grandchildren's education	8.3%	Other	1%

Source: Investment Trusts Association, "Questionnaire on Investment Trusts", 2024, multiple responses, top answers only shown.
USA: ICI "Profile of Mutual Fund Shareholders" 2024 Single answer responses to survey on "Primary Purpose of Owning Mutual Funds".

ularly the younger generation, are beginning to engage in asset building using new programs such as the NISA (small-amount investment tax exemption scheme), which was introduced in 2024. That said, in the United States, the ownership rate of investment trusts by generation stands at 35% for Gen Z (18-27 years old) and 58% for Baby Boomers (60-78 years old) (as of 2024), which is far higher than in Japan, indicating that there is still significant room for growth.

There have also been changes in the investment objectives of individual investors. According to a 2024 survey by the Investment Trusts Association, the most common reason for buying investment trusts (55.5% of respondents) was to fund living expenses after retirement. This percentage has been rising every year. This is followed by diversify investment risk (28.2%), but in recent years, protection from inflation has also ranked high among the top reasons, showing the impact of current economic conditions on investment motivation. In the United States, post-retirement savings accounts for 80% of investment purposes, and there is a well-established culture of making regular contributions through defined-contribution plans such as 401(k)s. In Japan, too, with the growing popularity of NISA and iDeCo (Individual-Type Defined Contribution Pension), the regular purchases of investment trusts for long-term purposes, such as living expenses after retirement, are expected to accelerate.

9. Disclosure of Investment Trusts

Disclosure of investment trusts is conducted in accordance with the Financial Instruments and Exchange Act (FIEA) and the Act on Investment Trusts and Investment Corporations (the Investment Trust Act) for the purpose of protecting investors. While the Investment Trust Act was originally the primary governing framework, as a result of the Act on Revision, etc. of Related Acts for the Financial System Reform in 1998, which shifted the establishment of funds from an approval system to a filing system, the Securities and Exchange Act (now the Financial Instruments and Exchange Act) started to be applied to investment trusts, in the same way as it was for stocks and other securities. Disclosure can be broadly categorized into issuance disclosure at the time of purchase and continuous disclosure during the holding period.

With regard to disclosure in connection with a securities offering, the FIEA requires the filing of a securities registration statement with the regulatory authorities and the distribution of a prospectus to investors. While securities registration statements are made available for public inspection, prospectuses serve as a key source of information for investors considering a purchase. Since 2004, prospectuses have been divided into two types with a focus on

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.

making them easier for investors to understand. One is the summary prospectus, which must be provided in advance to all investors prior to purchase; the other is the detailed prospectus, which is provided upon request by the investor and contains more detailed information.

On the other hand, while disclosure requirements under the Investment Trust Act include notification of the details of the trust agreement to the regulatory authorities, this requirement can be satisfied by including the information in the prospectus.

In addition to disclosures required under these legal frameworks, the use of a Critical Information Sheet has been recommended since 2021. While a prospectus aims to provide comprehensive information to comply with the law, this document summarizes important information such as fees and risks in an easy-to-understand format of one to two A4 pages, making it easier for investors to compare similar funds. Although there is no legal obligation to provide a Critical Information Sheet, financial institutions are increasingly adopting them.

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.

With regard to continuous disclosure, a securities report must be filed after the end of each accounting period in accordance with the FIEA (a semi-annual report is also required when funds settle accounts once a year). This information is primarily available for public inspection. Individual investors are provided with a management report in accordance with the Investment Trust Act. Since 2014, this fund management report has also been structured in two volumes: a "summary management report" issued to all beneficiaries, and a "management report (full version)" published on the website.

In addition, in accordance with the self-regulatory rules of the Investment Trusts Association, each asset management company publishes monthly reports and other information on its website and other platforms as timely disclosures, giving investors access to more up-to-date information.

10. Services and Products Based on Investment Trusts

General Securities Account

MRFs (Money Reserve Funds), which are open-end corporate bond investment trusts, are held in general securities accounts. Dividends and proceeds from the sale of stocks credited to this account are automatically invested in MRFs, and funds for the purchase of securities are drawn from MRFs upon redemption. Because MRFs are also used for the settlement of securities transactions, there are rules in place that prioritize safety and liquidity, such as investing in short-term financial instruments with high credit ratings. As of June 2025, the balance of MRFs managed in general securities accounts is ¥14.9 trillion (Source: Investment Trusts Association, Japan).

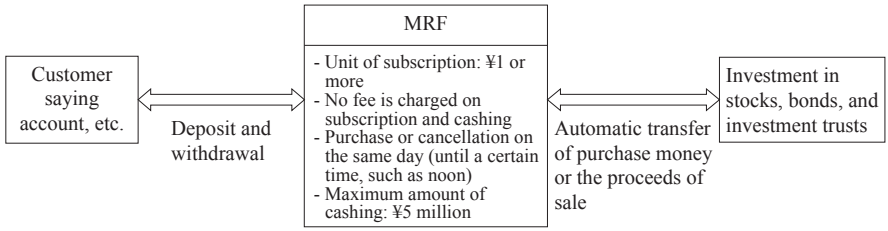
Wrap Account

A wrap account is a discretionary asset management service aimed mainly at individuals. Securities companies assess clients' tolerance of risk through consulting with them and provide comprehensive services ranging from asset allocation and selection of securities to trading and investment reports based on that assessment. 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 exclusively 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 ¥22.3 trillion as of June 2025.

Defined Contribution Pension Plans (DC)

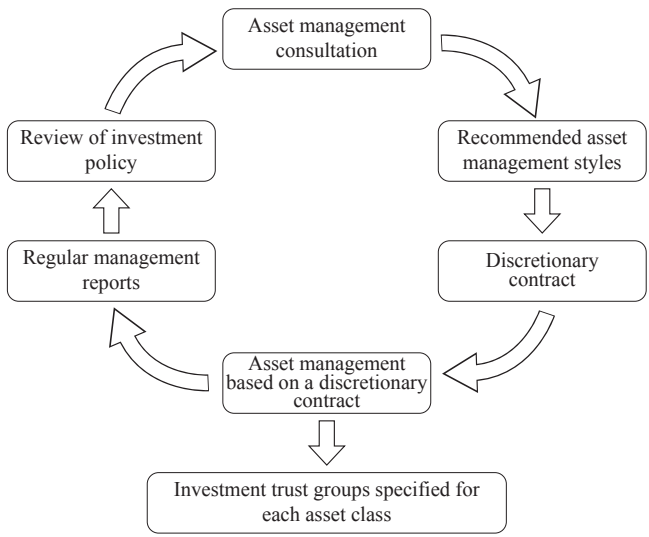
DC pension plans were established in 2001. There are two types: the corpo-

Chart VII-14. Outline of a Securities General Account



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

Chart VII-15. Flow of Wrap Account Service (example)



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

rate type, in which the employer introduces the plan and primarily makes contributions (employees may also make additional contributions), and the individual type (commonly known as iDeCo), in which individuals select a financial institution and primarily make contributions themselves. In both types, scheme participants are responsible for managing their own investments, such as investment trusts, bank deposits, and insurance funds, at their own risk, and the future benefits vary depending on the performance of those investments. As of March 2025, investment trusts held through DC pension

plans amounted to ¥22.0 trillion, accounting for 70.7% of total pension assets (source: Management Organization Liaison Council).

Variable insurance and variable annuities
These are financial products in which the insurance premiums paid by the policyholder are invested in investment trusts, and the insurance benefits and pension benefits received in the future fluctuate based on investment performance. In addition to direct sales by insurance companies, banks and securities companies also sell these products as agents. Investments in investment trusts through variable insurance and variable annuities are estimated to be approximately ¥8 trillion as of March 2025 (according to information disclosed by the insurance companies).

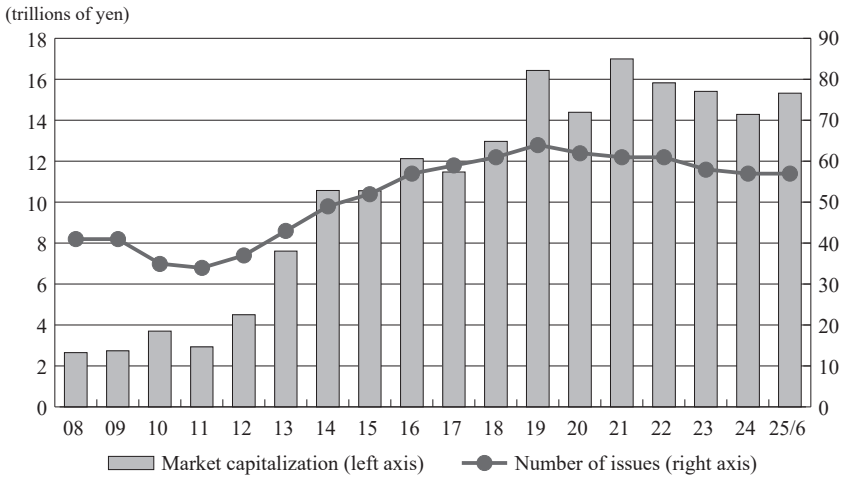
11. Real Estate Investment Trusts

Following the amendment to the Investment Trust Act in November 2000, Japan's first real estate investment trust (J-REIT) was listed on the Tokyo Stock Exchange in September 2001. Since the market was established, the number of listed issues has increased, peaking at 64 at the end of 2019. Since then, the number has decreased due to mergers and other factors, and as of June 2025, there are 57 listed issues. However, while the total market capitalization has fluctuated somewhat since peaking in 2021, it reached ¥15.3 trillion as of June 2025 and has now grown into one of the major asset classes.

In essence, a real estate investment trust (REIT) is a financial product in which an investment corporation pools funds from investors, invests in and manages multiple real estate and other assets, and makes distributions to investors from rental income and other income. Under the Investment Trust Act, there are three types of investment vehicles: the trust-type investment trust with investment instructions from the trustor, the trust-type investment trust without investment instructions from the trustor, and the corporate-type investment corporation. In an investment trust with instructions by the trustor, the asset manager instructs the trust bank on how to manage the assets, whereas in an investment trust without instruction by trustor, the trust bank manages the assets at its own discretion. With regard to investment corporations, the corporation owns the assets and outsources the management of the assets to a third party. All listed J-REITs are structured as "investment corporations," and investors purchase investment securities that are similar in nature to stocks.

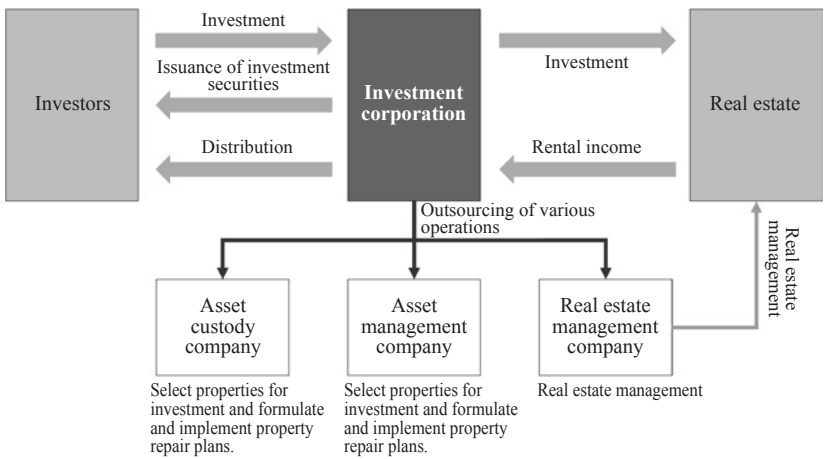
The advantage for investors is that they are able to invest in real estate, which typically requires a large amount of capital, with small amounts of money. Because the securities are listed and highly liquid, investors can buy

Chart VII-16. Market Capitalization and Number of Listed Issues of Japan Real Estate Investment Trusts (J-REITs)



Source: The Association for Real Estate Securitization's "J-REIT Statistics" Compiled from statistics.

Chart VII-17. Structure of Real Estate Investment Trusts



Source: Author.

and sell them freely on the market. Because J-REITs tend to move differently from stocks and bonds, they can help diversify a portfolio. From a tax perspective, if certain requirements are met, such as distributing more than 90% of income, pass-through tax treatment applies, effectively exempting the company from corporate income tax, which is a factor behind REITs' high distribution.

A key feature of J-REITs is that management of the assets is not handled by the investment corporation itself, but is outsourced to outside specialists. At the heart of this process is the "asset management company," which makes key decisions that determine the performance of J-REITs, such as formulating investment strategies and selecting, acquiring, and selling real estate, as well as raising capital. In addition, the day-to-day management and operation of individual properties, including aspects such as tenant recruitment, rent collection, and building maintenance, is often outsourced to specialist "property management companies." Thus, involving experts from various fields enables efficient real estate management.

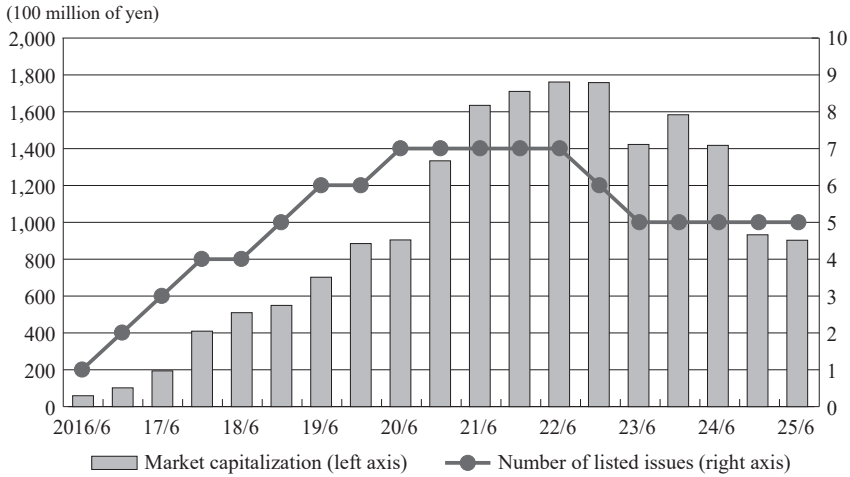
On the other hand, outsourcing asset management can lead to conflicts of interest between the investment corporation and the asset management company. For example, there could be a risk that a J-REIT might purchase real estate held by an affiliate of the asset management company at an inflated price. In light of these risks, expanding disclosure and strengthening governance structures remain ongoing challenges for the market in terms of investor protection.

12. Listed Infrastructure Funds

In April 2015, the Tokyo Stock Exchange established an infrastructure fund market for financial products that invest in infrastructure facilities such as renewable energy power generation facilities and concessions for the operation of public facilities. Following its launch, the market expanded steadily up to June 2022, when its market capitalization peaked. However, since then, the market has been on a downward trend due to a decline in the number of listed issues resulting from mergers, as well as concerns over rising operating and financing costs driven by inflation and rising interest rates. As of the end of June 2025, five issues are listed, with a total market capitalization of ¥90.3 billion.

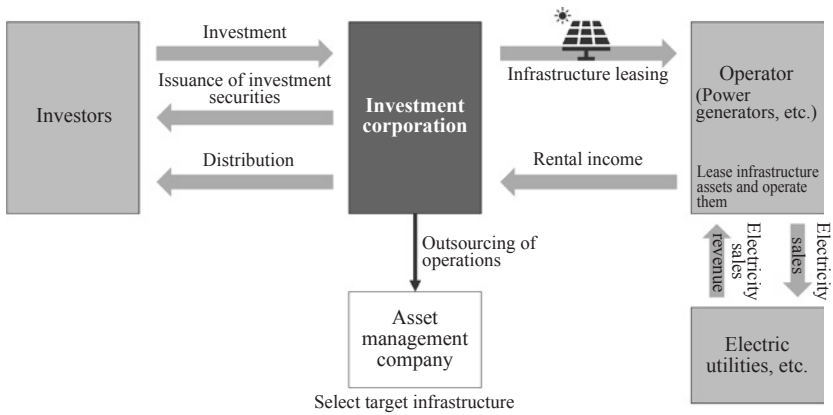
The basic structure is similar to that of real estate investment trusts (J-REITs). Funds raised from investors are used to acquire infrastructure assets, and the income generated from those assets is distributed to investors. All listed products are structured as investment corporations, similar to J-REITs, and investors trade investment securities that are similar in nature to

Chart VII-18. Market Capitalization and Number of Listed Infrastructure Funds in Japan



Source: Author.

Chart VII-19. Structure of Infrastructure Funds
(For an infrastructure fund targeting solar power generation facilities)



Source: Author.

stocks. From a tax perspective, the "pass-through treatment" applies, effectively exempting the infrastructure fund from corporate income tax provided that certain conditions are met, such as distributing more than 90% of its income (however, in the case of infrastructure funds, this is limited to a period of 20 years from the date when the renewable energy facilities were first leased). This is a key factor behind the high distribution yields.

The main difference compared to J-REITs is that the investment corporation does not manage the infrastructure assets itself, but leases them to specialist operators, with the rent providing the source of income. All of the investment assets for the currently listed funds are solar power generation facilities. This is because the Feed-in Tariff (FIT) program guarantees that electricity will be purchased at a price set by the government for a certain period, ensuring a stable income stream over that period. Against this backdrop, infrastructure funds are viewed as "medium-risk, medium-return" income products that are less susceptible to economic fluctuations and are expected to generate stable distributions. In addition, since they tend to have low correlation with traditional assets such as stocks, they can help diversify a portfolio.

The current infrastructure fund market faces the challenge that its investment assets are heavily skewed toward solar power facilities that rely on the Feed-in Tariff (FIT) system. In addition to the impact on profitability after the FIT program expires and changes to the program itself, the 20-year time limit on tax incentives is also a source of uncertainty for long-term investment. In light of these challenges, diversifying investment assets is considered an urgent priority for revitalizing the market. In the future, we can expect to see the emergence of funds that incorporate a diverse range of infrastructure assets beyond solar power, such as wind power generation, public facilities like airports and roads, as well as data centers and telecommunications infrastructure.

13. Foreign Investment Trusts/Foreign-Registered Investment Trusts

The sale of foreign investment trusts established under foreign laws in foreign countries was liberalized in 1972. Initially, these investment trusts were subject to regulations, such as a requirement to be invested in foreign-currency-denominated assets, out of concern for the impact on domestic investment trusts. On the other hand, because foreign investment trusts were not subject to the Investment Trust Act, private placement investment trusts, which were not permitted in Japan at the time, could also be introduced.

However, with the 1998 amendment to the Act on Investment Trusts and Investment Corporations, foreign investment trusts also became subject to

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

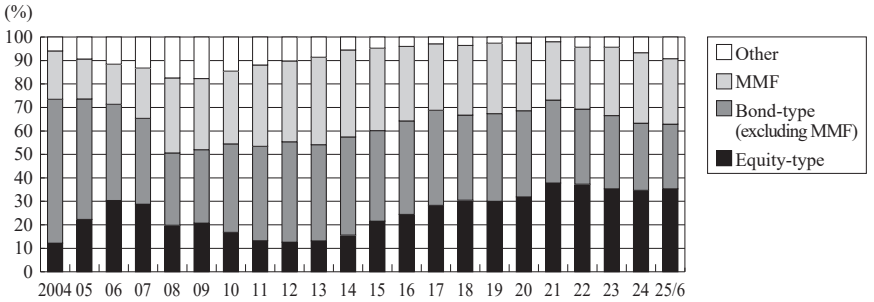
Year-end	Total net assets of foreign investment trusts (A)	Total net assets of domestic investment trusts (B)	Total (C)	(A)/(C)
2004	62,409	409,967	472,376	13.2%
05	79,669	553,477	633,146	12.6%
06	87,102	689,276	776,378	11.2%
07	79,507	797,606	877,113	9.1%
08	51,473	521,465	572,938	9.0%
09	59,306	614,552	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	4.0%
22	63,347	1,571,992	1,635,339	3.9%
23	76,095	1,969,070	2,045,164	3.7%
24	94,879	2,460,115	2,554,994	3.7%
25/6	95,362	2,543,247	2,638,609	3.6%

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.

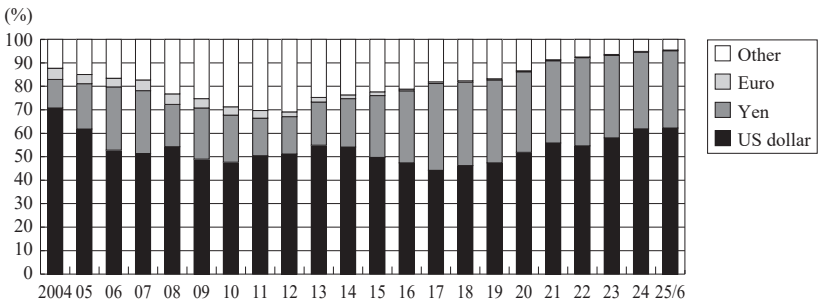
the Act and to the same regulations as domestic investment trusts. Specifically, the provisions included requirements to notify the regulatory authorities in advance for selling products domestically, as well as provisions allowing courts to suspend offerings in cases of inappropriate investment management or where there was an urgent need to protect investors. At the same time, yen-denominated funds also became permitted, and the tax treatment is now the same as that for domestic investment trusts. The disclosure system for prospectuses and other documents is essentially in line with that for Japanese investment trusts. The Japan Securities Dealers Association has Selection Criteria of Foreign Investment Trust Beneficiary Certificates to set the requirements for foreign funds to be available in Japan.

Chart VII-20. 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-21. 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.

Total net assets of foreign investment trusts sold in Japan have fluctuated due to factors such as exchange rate movements. In the early 2000s, demand for high-yield foreign bonds surged amid ultra-low interest rates, leading to a sharp increase in sales; by 2004, they accounted for more than 13% of Japan's total investment trust market. Since then, while the assets under management in domestic investment trusts have continued to grow, the balance of foreign funds has remained flat. However, in recent years, driven by rising global stock prices, a weak yen, and the need for diversified investment options, interest in investing in overseas assets has grown. As a result, total net assets of foreign investment trusts have resumed their upward trend, reaching a record high of approximately ¥9.5 trillion as of the end of June 2025. However, since the overall growth of domestic investment trusts during this peri-

od has outpaced foreign funds, their share of the total market has continued to gradually decline, and was 3.6% at the same point.

While money market funds and bond funds still account for a large share of the total assets by product type, equity-type funds have also been growing in recent years due to the global rise in stock prices. In addition, due to growing interest in alternative investments, such as private assets (unlisted stocks and real estate), funds in the Other category have also increased. By currency of denomination, U.S. dollar-denominated assets account for the majority of net assets of foreign investment trusts, and their share is on the rise. In terms of the breakdown by country of domicile, Luxembourg was historically the most popular location, but since around 2005, the number of investment trusts registered in the Cayman Islands has increased. As of the end of March 2025, investment trusts established in the Cayman Islands accounted for 51.3% of total net assets, while Luxembourg-registered entities accounted for 34.9%, maintaining a pattern whereby these two jurisdictions together account for more than 85% of the total.