CHAPTER XIV

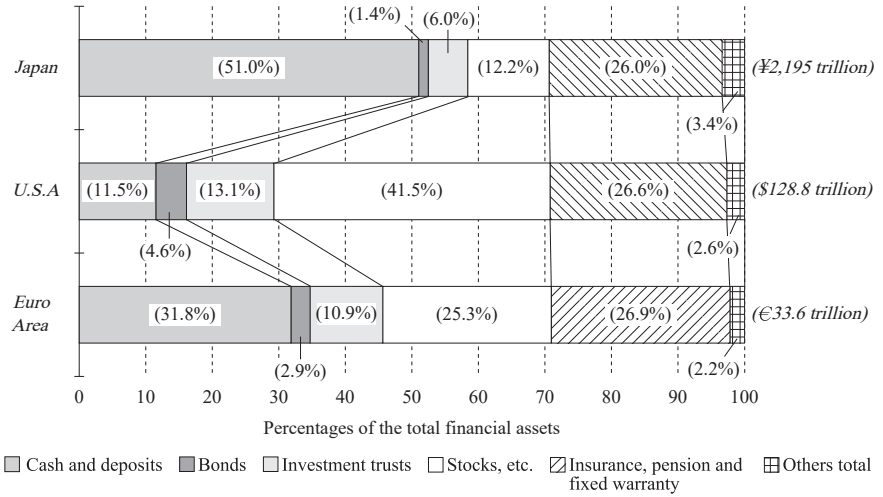
Asset Management Services

1. Management of Individual Financial Assets

According to a survey by the Bank of Japan, "Comparison of the Flow of Funds between Japan, the United States, and Europe," at the end of March 2025 individuals in Japan had ¥2,195 trillion worth of financial assets. Of this amount, 51.0% was invested in cash and deposits and 19.6% in securities (debt securities, investment trusts, stocks, etc.). Compared with the United States and Europe, Japanese individuals' financial assets are heavily skewed toward cash and deposits, more so than both the U.S. and the Euro area, and thinly invested in higher-yielding securities. Since 2022, while inflation has remained above 2%, interest rates on deposits have continued to stay below 1%, resulting in a persistent decline in the real value of savings and deposits. In a survey by the Japan Financial Literacy and Education Corporation (J-FLEC) "Public Opinion Survey on Household Financial Assets and Liabilities 2024" (survey of households with two or more members), 40.9% of respondents highlighted "profitability" as their reason for selecting financial instruments, ahead of "safety" (25.0%) and "liquidity" (19.9%). From 2021 onward, prioritizing profitability has been the main driver, and it can be concluded that the erosion of the real value of savings and deposits due to rising inflation and artificial low-interest-rate policies has influenced households' choices regarding financial assets.

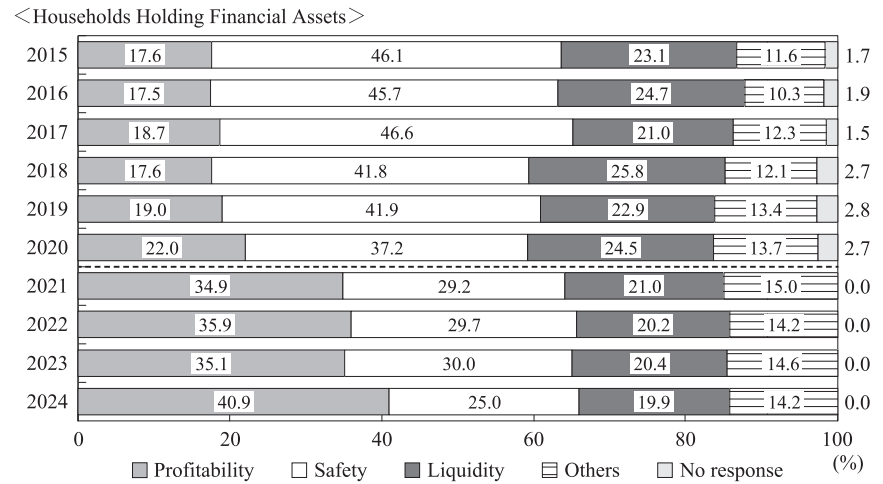
Against this backdrop, certain restrictions on the NISA preferential tax treatment investment system (Nippon Individual Saving Account, a small-amount investment tax exemption scheme), which was introduced in 2014 to promote the "shift from savings to investment," are being relaxed. The tax-exempt holding limit rose from ¥5 million to ¥18 million in 2024, and the tax-exempt holding period increased from the original limit of five years to an indefinite period. In addition, the age limit for making contributions to iDeCo (Individual-Type Defined Contribution Pension Plan) has been raised from under 60 to under 70, and an increase in the contribution limit is also under review. Investment income for both NISA and iDeCo is tax-free, and with iDeCo, all contributions made at the time of saving are fully tax deduct-

Chart XIV-1. Composition of Household Assets (at March 31, 2025)



Note: Others total is the remains after deducting "Cash and deposits", "Bonds", "Investment trusts", "Stocks, etc.", and "Insurance, pension and fixed warranty" from total financial assets.
Source: Bank of Japan.

Chart XIV-2. Points of Focus When Selecting Financial Products



Source: Japan Financial Literacy and Education Corporation.

ible.

Asset management companies include trust banks, life insurance companies, and discretionary asset management companies that manage the pension and insurance reserves of individuals, providing people with security for the future. Investment trust management companies are also asset management companies, handling investment trusts for individual financial assets. Either indirectly or directly, asset management companies play an important role in stable financial asset formation by households in a society with a declining birthrate and an aging population. These asset management companies also contribute to growth in corporate performance and to the sound development of the economy—and therefore society—through the following two functions. To begin with, they fulfill a role in achieving the efficient allocation of capital by supplying growth companies with capital through the market. Furthermore, they engage in stewardship activities to increase investment returns for customers and beneficiaries on a medium- to long-term basis, thereby contributing to enhancing corporate value and promoting sustainable growth of investee companies.

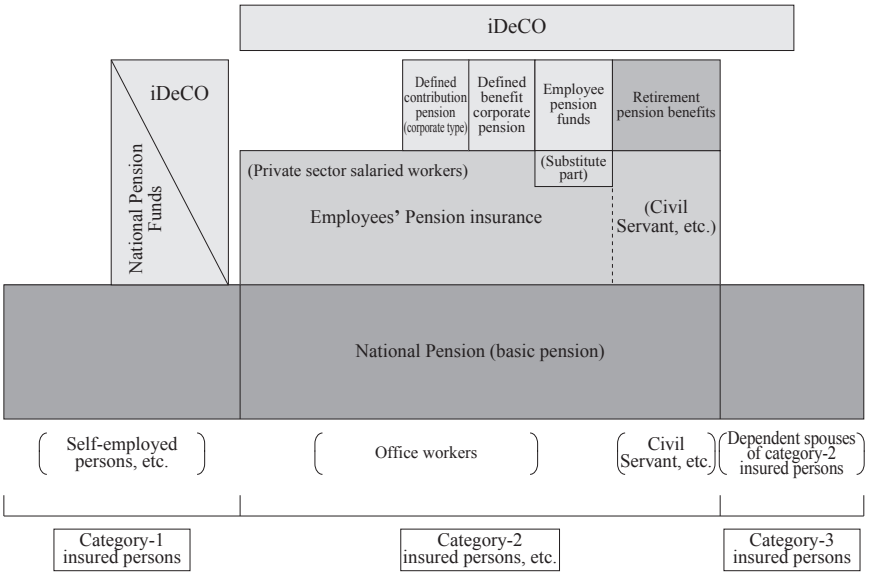
2. Pension Fund Management

Japan's pension system is a three-tier system consisting of (1) a national pension (basic pension) common to all citizens, supplemented by (2) employee pension plans for employees of private companies and government employees, and (3) private pensions (corporate pension plans, etc.) that provide additional benefits on top of employee pension plans. Of these plans, the national pension and employee pension plans utilize a modified pay-as-you-go system which provides support shared among generations in the form of public pensions, while private pension plans use a funding system.

Private pensions can be broadly divided into (1) defined benefit and (2) defined contribution types. For (1) defined benefit pensions, the benefits are determined based on the duration of membership of the scheme or the contributions made. For (2) defined contribution pensions, the contributions of each individual are clearly segregated, with pension benefits being determined based on the total of contributions and investment income. (1) Defined benefit pensions include defined benefit corporate pensions (scheme- or fund-type) or the national pension fund; (2) Defined contribution pensions include corporate defined contribution pensions and individual-type defined contribution pensions (iDeCo).

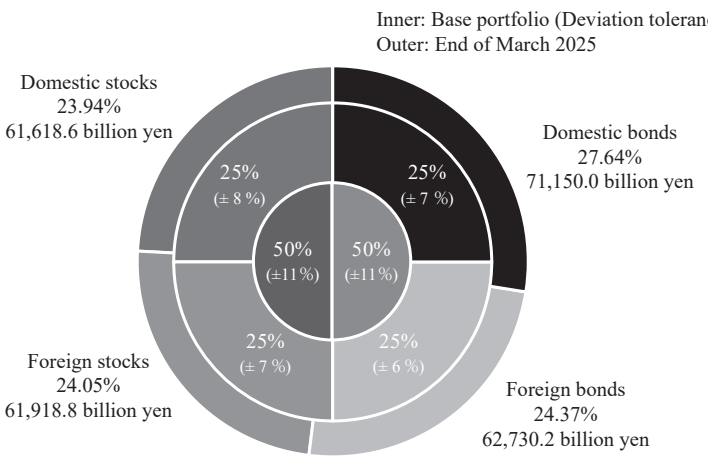
The management of pension reserves should be safe and efficient from the perspective of protecting entitlement to pension benefits (Article 67 of the Defined Benefit Corporate Pension Act, etc.). With the exception, therefore,

Chart XIV-3. Structure of Pension System



Source: Ministry of Health, Labor and Welfare.

Chart XIV-4. GPIF's asset/composition ratio (total pension fund)



Source: The Government Pension Investment Fund (GPIF).

of a few large-scale pension funds that manage investments in-house, asset management of pension funds is commissioned to outside investment companies. According to the Corporate Pensions Survey (fiscal year 2023) by the Pension Fund Association, the allocation of defined-benefit corporate pension plans to asset managers was trust banks, 48%; discretionary asset management companies, 27.1%; and life insurance companies, 24.9%. By composition of fund assets, domestic bonds accounted for 17.5%, domestic stocks for 10.3%, foreign bonds for 17.2%, foreign stocks for 15.1%, the general account of life insurance companies for 16.5%, short-term assets for 4.3%, hedge funds for 5.3% and others for 13.9%.

The cumulative reserves of the national pension and employee pension plans, which are public pensions, are administered and managed by the Government Pension Investment Fund (GPIF). By composition of fund assets of GPIF (as of the end of March 2025), domestic bonds accounted for 27.64%, foreign bonds for 24.37%, domestic stocks for 23.94%, and foreign stocks for 24.05%. Prior to 2014, the portfolio was focused primarily on domestic bonds, but it has since been diversified to include equities and foreign-currency-denominated assets that offer potential for returns.

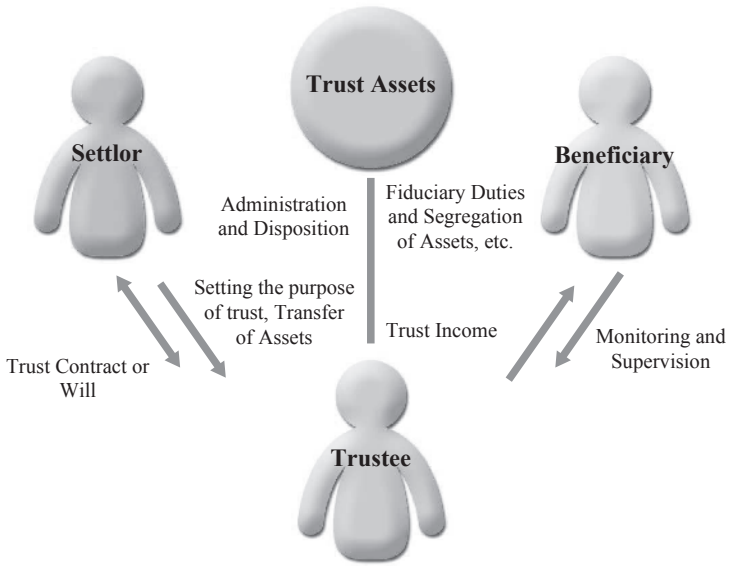
In August 2024, the Asset Owner Principles were formulated as part of the "Policy Plan for Promoting Japan as a Leading Asset Management Center" (formulated in December 2023). These principles establish common guidelines considered useful for asset owners, including pension funds, insurance companies, and university endowments, in fulfilling their fiduciary duty to manage assets in the best interests of beneficiaries and others.

3. Asset Management of Trust Banks

A trust is a legal arrangement in which (1) an entity (trustor) transfers their rights to property to an entity that can be depended on (trustee) based on a trust or some other legal agreement and (2) the trustee legally manages and disposes of the entrusted property on behalf of the trustor or a third party (beneficiary) in accordance with a specified purpose of the trust. In the case of a fund-based corporate pension trust, for example, the corporate pension fund is the trustor and beneficiary, while the trust bank is the trustee. Because the system is premised on trust in the trustee, trust banks have a duty of due care of a prudent manager, duty of loyalty, and duty of segregated asset management.

Trust banks can service pension funds in three different ways: (1) Manage the funds at their own discretion (designated asset management-type trust); (2) Administer the assets without any asset management responsibilities (specified asset management-type trust); (3) When a pension fund commis-

Chart XIV-5. Trust Scheme



Source: Trust Companies Association of Japan.

sions asset management to multiple investment institutions, trust banks act as the general manager overseeing multiple investment institutions. One of the characteristics of trust bank operations is their higher proportion of passive investment in comparison with discretionary asset management companies. Passive management is an investment method that aims to achieve a return in line with movement in a specified benchmark (index). In comparison with active management, where a manager makes trading decisions based on the investment value of individual securities with the aim of outperforming a benchmark, passive management has the advantage of keeping trading turnover costs low as well as curtailing management fees because detailed research and analysis is not required for individual securities.

Unlike general commercial banks, trust banks also engage in trust business and securities transfer agency business, in addition to their regular banking business. For example, in terms of business with companies, trust banks can arrange corporate loans as part of banking business, manage an entrusted corporate pension as part of trust business, or administer the shareholders' register, etc. as part of securities transfer agency business. This suggests there are business synergies to be leveraged in terms of trust bank transactions with companies. However, acting simultaneously as a lender, a shareholder, and a

provider of securities transfer agency services for a company can give rise to numerous conflicts of interest. In addition, business overlaps in areas such as corporate lending and pension management with commercial banking and asset management operations in the same financial group can lead to inefficiencies (or diseconomies) such as intra-group competition. To this end, Mitsubishi UFJ Trust and Banking Corporation consolidated corporate loans with MUFG Bank, Ltd. and Mizuho Trust & Banking Co., Ltd., Sumitomo Mitsui Trust Bank, Limited, and Resona Bank, Ltd. (financial institution and trust business) integrated and consolidated their asset management functions with the asset management companies in their respective groups.

4. Asset Management of Life Insurance Companies

Life insurance is insurance under which insurance benefits are paid upon a person's death or survival. There are generally two types of life insurance: death insurance that provides death benefits and annuities that provide for livelihood in old age. Life insurance companies (insurers) accumulate the insurance premiums received from policyholders into a liability reserve to provide for future insurance benefit payments and invest them. There are two types of accounts used to manage the investment of insurance premiums: (1) the general account in which individual insurance and corporate pension assets, etc. are jointly managed and operated under one account, and the principal and a specified interest rate are guaranteed (guaranteed rate), with the life insurance company bearing the operational risk, and (2) special accounts that are separate from the general account, with the customer bearing the operational risk and benefits varying according to asset management performance.

Under a general account life insurance policy, the insurer promises to pay a certain amount of benefits, and the policyholder agrees to pay a premium that is commensurate with the promised benefit. The premium is computed on the premise of an assumed basic rate comprising such factors as assumed mortality rate, assumed ratio of expenses, and assumed rate of return. Since the assumed basic rate is set conservatively, a positive difference can occur between the assumed and actual rate. When this happens, a portion of the profit is returned to policyholders as a dividend.

For group pension plans, special account insurance offers several options. In a policy with a Class 1 rider, the assets of multiple customers are managed as a pool based on the investment policies of the life insurance company. In a Class 2 rider policy, the assets of each customer in the group are managed separately using investment policies that reflect the wishes of the individual customer. Within a Class 1 rider policy, there also are balanced-type consolidated accounts for which the life insurer determines the allocation among as-

Table XIV-1. Asset Composition

(%)

	Cash and deposits	Call loans	Money trusts	Securities	Loans	Tangible fixed assets	Others	Total assets
FY2019	2.7	0.5	1.8	81.9	7.7	1.6	3.8	100.0
2020	2.6	0.4	2.1	83.2	7.2	1.5	3.0	100.0
2021	2.4	0.4	2.2	83.3	6.9	1.5	3.3	100.0
2022	2.8	0.7	2.3	82.3	7.1	1.5	3.3	100.0
2023	2.3	0.6	2.6	83.0	6.9	1.5	3.1	100.0

Source: The Life Insurance Association of Japan.

Table XIV-2. Composition of Securities under Management

(100 millions of yen, %)

	Government securities		Municipal bonds		Corporate bonds		Stocks		Foreign securities		Other securities		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
FY2019	1,512,024	47.0	101,342	3.1	283,830	8.8	187,661	5.8	981,283	30.5	152,239	4.7	3,218,383
2020	1,576,192	45.9	90,168	2.6	285,328	8.3	250,424	7.3	1,062,979	31.0	166,037	4.8	3,431,132
2021	1,624,246	46.5	78,043	2.2	273,538	7.8	243,158	7.0	1,115,312	31.9	160,761	4.6	3,495,060
2022	1,650,335	49.3	66,669	2.0	253,804	7.6	241,744	7.2	969,795	29.0	164,331	4.9	3,346,682
2023	1,654,088	46.5	57,753	1.6	253,357	7.1	331,913	9.3	1,070,535	30.1	191,008	5.4	3,558,656

Source: The Life Insurance Association of Japan.

set classes and separate designed investment accounts that reflect individual customer preferences in asset allocation.

According to the 2024 issue of Trends in the Life Insurance Business, published by the Life Insurance Association of Japan, of the total assets under management by life insurance companies at the end of fiscal 2023, securities accounted for 83.0%. Looking at the breakdown of securities, Japanese government bonds made up the greatest portion (46.5%), followed by foreign securities (30.1%, of which bonds accounted for 28.6% and equities 1.5%), Japanese domestic stocks (9.3%), Japanese corporate bonds (7.1%), and domestic municipal bonds (1.6%).

In the "Policy Plan for Promoting Japan as a Leading Asset Management Center" (formulated in December 2023), major financial groups, including large life insurers, were requested to formulate and publish plans addressing:

(1) the strategic positioning of their asset management businesses within their group; (2) the enhancement of investment capabilities; and (3) the improvement of governance and the strengthening of organizational structures. In response to this, there is a growing trend among major life insurers to transfer their asset management functions to asset management companies within their respective groups.

5. Asset Management of Discretionary Asset Management Companies

Discretionary asset management companies manage the assets of customers based on a discretionary investment contract that gives those companies the necessary authority to make investment decisions and execute investments on behalf of their customers. Among the major customers of these companies are institutional investors (asset owners), such as pensions funds. Discretionary asset management is one of the most deregulated and internationalized businesses in the financial services industry, with low barriers to entry for other types of financial businesses and foreign companies. As a category for investment specialists, the asset management company category includes investment trust management companies and fund managers that manage group investment schemes, such as venture capital funds, as well as discretionary management companies.

The Investment Management Association of Japan is a self-regulatory body for the discretionary asset management industry. It is designed to protect investors and also contributes to the sound development of the investment management business and related matters. In light of the importance of the investment management industry to the capital markets, the association also compiles and publishes information on initiatives taken by its members regarding the Stewardship Code and has formed the stewardship study group to discuss the code in order to contribute to the sustainable enhancement of corporate value. In addition, it holds the Asset Management Industry Forum, as a way of reaffirming the social mission of asset management companies and the role that they play, and to promote initiatives aimed at reforming and advancing the asset management industry. The Investment Trusts Association, Japan and Japan Investment Advisers Association merged to form the Investment Management Association of Japan in April 2026 to work effectively to advance the asset management industry and to develop Japan as a leading nation in asset management.

A special feature of discretionary asset management companies in comparison with trust banks is the high proportion of active investment and customized asset management services that closely reflect the wishes of customers. When commissioned to handle the management of assets, they leave the ad-

Chart XIV-6. Investment of Pension Assets by Discretionary Asset Management Company

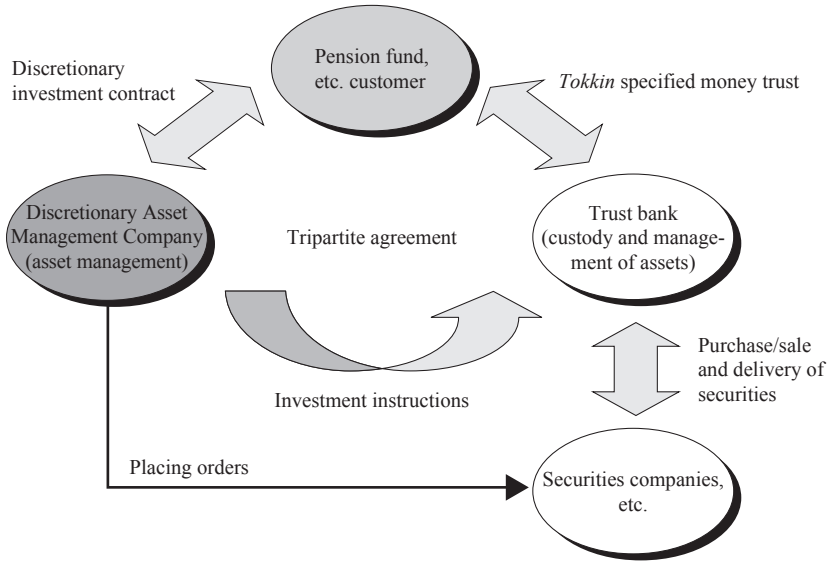


Table XIV-3. Scheme comparison

	Traditional discretionary investment contract	Real estate private placement fund	Wrap Account
Customer	Institutional investors	Fund	Individual investors
Investment target	Traditional securities	Real estate trust beneficiary rights	(Through investment trusts) Traditional securities
Managing entity	Specialized management company	Specialized management company	Company concurrently engaged in securities business

(In the case of wrap accounts, there are also structures in which investment management is handled by a specialized asset management company, while asset administration and other functions are handled by securities companies or similar entities.)

ministration side of the business to trust banks and other financial institutions. Allocation of the assets of customers is carried out according to investment guidelines and other agreements determined through discussions with pension funds and other relevant parties. In recent years there has been a growing trend, driven by the diversification of the investment needs of customers, towards alternative investments, including real estate-related securi-

ties and hedge fund-style strategies aimed at generating absolute returns, in addition to investments in high-growth emerging markets, beyond traditional investment products such as stocks and bonds.

In addition to traditional discretionary investment services as described above, schemes targeting real estate private placement funds as well as wrap accounts provided by securities companies and trust banks for individual investors have also been attracting attention. With wrap accounts, there are an increasing number of schemes in which investment management is handled by discretionary asset management companies, while asset administration and other functions are handled by securities companies or registered financial institutions.

6. Asset Management of Investment Trust Management Companies

Investment trusts are a type of collective investment scheme with the following characteristics (1) diversified investment with small amounts of funds, (2) management by experts, and (3) transparency. (1) Using investment trusts allows individual investors to lower their risk through diversification just like institutional investors even with small amounts of capital. For example, investment in an investment trust fund that has diversified its investments into no less than 2,000 stocks and in 40 or more countries starts from about ¥100. (2) Building the optimum investment portfolio based on macroeconomic analysis as well as financial trends and corporate value analysis requires advanced knowledge, analytic capabilities, and investment technology. Through investment trusts, even individual investors can benefit from the skills of professional fund managers. (3) The mark-to-market net asset value of investment trust funds is published on a daily basis, and Japanese laws have beefed up disclosure requirements.

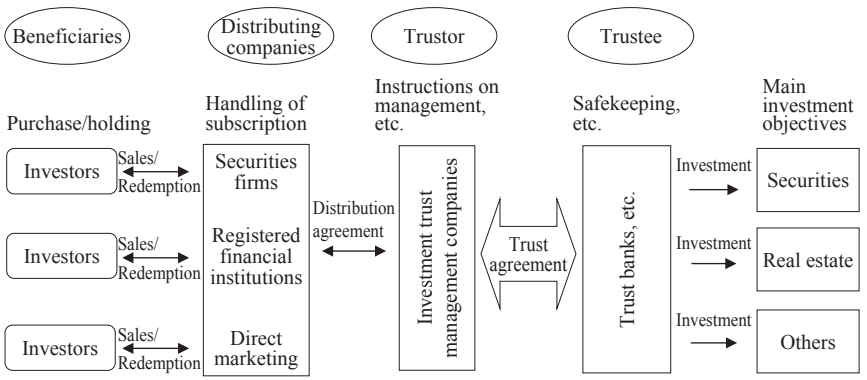
An investment trust with instructions from trustors is the typical type of scheme in Japan. Funds raised from investors (beneficiaries) by distributing companies, such as securities companies and registered financial institutions, are managed by a trustor (investment trust management companies) and held in safekeeping and administered by a trustee (trust banks).

When the investment trust system was first set up, government regulators only approved investments in Japanese stocks. However, the investment regulations have gradually been liberalized, so that it is now possible to create a diverse range of investment products depending on the underlying assets included. For example, by including short-term financial instruments, it is possible to create products such as money reserve funds (MRFs) that mimic bank deposits. Furthermore, with investment in real estate and commodities now permitted, individual investors can take stakes in office buildings, gold,

Table XIV-4. Trends in the Liberalization of Investment Trust Regulations in Japan

1951	Securities companies begin investment trust management business
1959	Investment trust management companies made independent of securities companies
1961	Ban on inclusion of public bonds lifted (Bond investment trusts established)
1970	Ban on inclusion of foreign securities lifted
1978	Ban on use of forward exchange contracts lifted
1986	Ban on inclusion of OTC-registered stocks lifted
1987	Ban on use of derivatives for hedging purposes lifted
1990	Foreign-affiliated investment management companies enter market
1993	Bank-affiliated investment management companies enter market
1995	Ban on use of derivatives for other than hedging purposes lifted (Bull/Bear funds established) Exchange traded funds (ETFs) introduced Ban on conducting both discretionary asset management and commissioned investment trust management businesses lifted
1998	Financial System Reform Law passed (Japanese Big Bank) Deregulation converts investment trust management companies from licensing to approval system Ban on outsourcing asset management lifted Ban on investment trusts being sold through banks on an agency basis lifted
1999	Ban on fund of funds (FoFs) lifted
2001	Real estate investment trusts (REITs) introduced
2007	Further deregulation converts investment trust management companies from approval system to registration system
2008	Ban on inclusion of commodities lifted
2016	Infrastructure Fund introduced
2023	Launch of actively managed exchange traded funds (ETFs)
2024	Ban on inclusion of unlisted stocks lifted

Chart XIV-7. The Structure of Investment Trusts with Instructions from Trustors



Source: The Investment Trusts Association, Japan.

oil, and other investments such as infrastructure or solar power generation facilities through investment trusts. In addition, there are investment trusts utilizing AI (artificial intelligence). Also, restrictions on the inclusion of unlisted stocks in portfolios have been lifted.

Entry into the investment trust market has been liberalized from a limitation to only approved companies associated with major securities companies to a registration system that requires only that companies meet certain conditions. As a result, the number of investment trust management companies has grown from around 10 to over 100, and as competition intensifies, passive funds with low management fees that are comparable to institutional investor funds are also gaining in popularity. Moreover, with the lifting of the bans on outsourcing asset management and on investing in "funds of funds", investment trusts can also indirectly offer their customers access to the investment services of foreign asset management companies.

7. Stewardship Code (1)

The UK Stewardship Code, on which the Japanese version of the Stewardship Code is based, was established in 2010 with the aim of making shareholders responsible for monitoring and curbing excessive risk-taking by corporate management, in response to criticism that shareholders, who have limited liability, were protected even though public funds were used to bail out financial institutions following the Lehman crisis. Following the Cabinet's approval of the Japan Revitalization Strategy in June 2013, the Principles for Responsible Institutional Investors (Japan's Stewardship Code), formulated by the Council of Experts Concerning the Japanese Version of the Stewardship Code (with its secretariat established within the Financial Services Agency (FSA)), were formulated and published in February 2014 as part of a growth strategy, and revised versions were released in May 2017, March 2020 and then again in June 2025.

The Stewardship Code defines the principles deemed to be helpful for institutional investors in fulfilling their stewardship responsibilities of enhancing medium- to long-term investment returns for their clients and beneficiaries by increasing the investee companies' corporate value and promoting their sustainable growth through conducting "constructive dialogue" based on in-depth knowledge of the companies and their business environment, alongside consideration of sustainability issues in accordance with their investment strategies.

The Stewardship Code and the Corporate Governance Code serve as the "two wheels of the cart." Over 300 institutional investors have adopted the Stewardship Code in the expectation that the widespread adoption and imple-

Table XIV-5. The Principles of the Stewardship Code

So as to promote sustainable growth of the investee company and enhance the medium- and long-term investment return of clients and beneficiaries,

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

5. Institutional investors should have a clear policy on voting rights and disclosure of voting activity. The policy on voting rights should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

7. To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

8. Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

Source: Financial Services Agency.

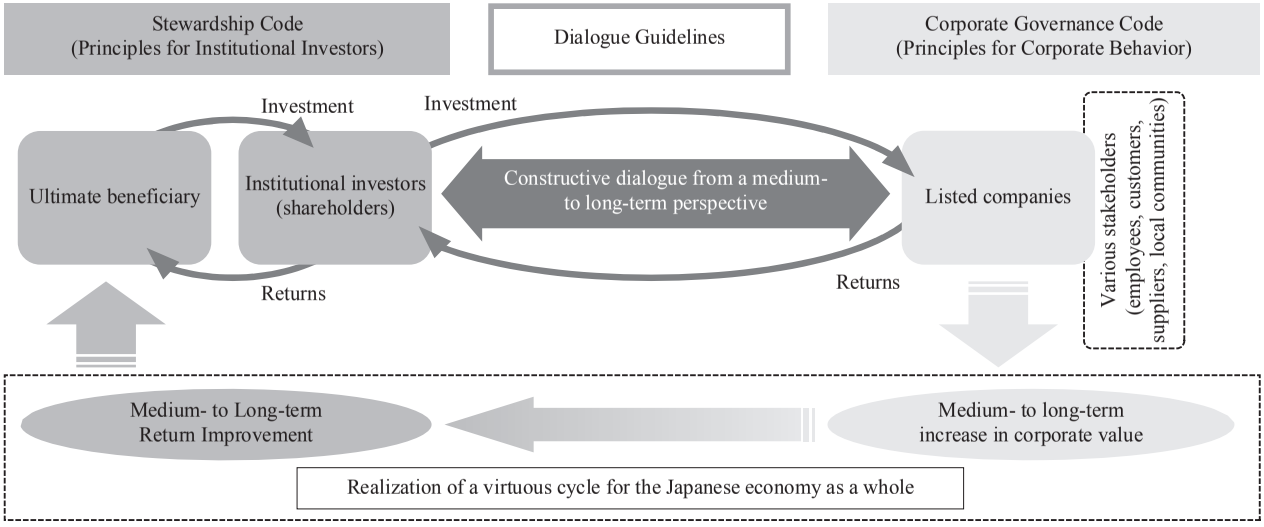
mentation of these two Codes will contribute to realizing effective corporate governance in Japan. The Stewardship Code is not a law or a legally binding regulation. Rather than adopting a rule-based approach, it adopts a principles-based approach. The Code adopts a "comply or explain" approach, according to which an institutional investor either implements the principles or, if not, explains the reasons for not doing so. In addition, the Guidelines for Dialogue between Investors and Companies, which provide an overview of agenda items on which institutional investors and companies are expected to focus for sustainable growth and medium- to long-term enhancement of corporate value, as required by the Stewardship Code (code of conduct for institutional investors) and the Corporate Governance Code (code of conduct for companies), were formulated and published in June 2018 as a supplemental document to both codes. The revised version was published in June 2021.

8. Stewardship Code (2)

The Stewardship Code calls for the following three key actions to be taken by institutional investors toward investee companies: (1) monitoring (Principle 3); (2) engagement (Principle 4); and (3) exercise of voting rights (Principle 5). (1) Institutional investors should monitor investee companies so that they can fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies. Monitoring should be performed continuously and effectively. This includes non-financial matters such as information regarding ESG (environmental, social and corporate governance). (2) Engagement refers to having "purposeful dialogue" with investee companies in order to foster a shared understanding and to work to solve problems. In addition, in order to engage in constructive dialogue, institutional investors are required to disclose to investee companies upon request the extent of their shareholdings in those companies. (3) Institutional investors should exercise voting rights on shares they hold. In exercising their voting rights, they are expected to decide on the vote in light of the results of the monitoring of investee companies and the contents of dialogue with them. In addition, the Code calls for the formulation and publication of a clear policy on the exercise of voting rights, the publication of the results of the exercise of voting rights for individual proposals, and clear public disclosure of the reasons for approval or disapproval. Principle 1 requires asset owners such as pension funds to encourage asset managers to engage in effective stewardship activities, and Principle 8 defines the roles of service providers for institutional investors such as proxy advisors and pension management consultants.

Historically, there was a time when the Wall Street Rule was the mainstream approach, whereby institutional investors would sell their holdings in a company if they were dissatisfied with the management of the investee company. However, for passive management and large public pension funds (universal owners) with widely diversified investments, selling shares is often difficult in practice, and the concept of holding shares and exercising voting rights as a part of fiduciary responsibility has become increasingly widespread. Furthermore, the Stewardship Code now requires engagement from institutional investors with the management of investee companies rather than just the exercise of voting rights. Similarly, with ESG investment, rather than divesting holdings, institutional investors are now more open to the notion of holding shares and setting out their opinions to companies through their exercise of voting rights and engagement with management.

Chart XIV-8. Relationship between the two codes and dialogue guidelines



Source: Financial Services Agency.