



# The 3<sup>rd</sup> Annual AIMA Japan Eureka Hedge Investor Survey June 2016

## **Executive Summary**

EurekaHedge was commissioned by AIMA (Japan) to conduct a survey of investors with mandates to invest in Japan. The survey itself was conducted from February 2016 to May 2016 to gauge important insights into market sentiment, investment trends, and key regulatory challenges facing the Asian asset management industry, with a particular emphasis on the outlook for Japan. There were 88 respondents to this survey, whose key findings can be summarized as follows:

The overall trend for this year's survey was that there was not a significant change in the survey respondents' market outlook, investment trends, or their perceived challenges going forward. It should be said however, that the degree of pessimism towards the Japanese economy and government policies has increased when compared to last year's results.

### **Market Outlook**

- There was a significant shift in the respondents' evaluation of Abenomics. In the 2015 survey, 72% had thought Abenomics was 'successful', while 23% thought it was 'partially successful'. For the 2016 survey, only 16% thought it was 'successful', while 76% thought it was 'partially successful', which points to a significant change in a just one year.
- In the 2015 survey, 20% thought there would be growth in the Japanese economy in 2015, and 42% in 2016. For the 2016 survey, only 6% thought there would be growth in 2016 and 13% in 2017, as 31% thought there would be growth in 2018 - 2019. 36% responded 'not in the foreseeable future.'
- The respondents' outlook for the major indices as of the end of the year were lower than they were last year. For example, for last year's survey, 85% thought that the Nikkei 225 would end the year above 20,000, but for this year, only 5% think so. Likewise, 72% thought that the USD/JPY rate would end the year at above 120, but this year, the market view is about evenly split 50-50 at 110.

**Investment Trends**

- 79% of the respondents did not indicate any change in their overall asset mix for 2016. Those who indicated a change decreased their allocation to hedge funds (asset-weighted basis).
- Asia ex. Japan and North America were the preferred geographical mandated areas for increased investment, while Fund of Hedge Funds and Private Equity were the favoured asset classes if exposure to alternatives were to be increased. Long/Short Equities, CTA/Managed Futures, and Global Macro were the preferred strategies.
- Within the most important factors that influence investor's decision to invest; 'Risk-adjusted Returns' retained the top spot, while 'Corporate Governance' slipped from second to fourth.

**Challenges Going Forward**

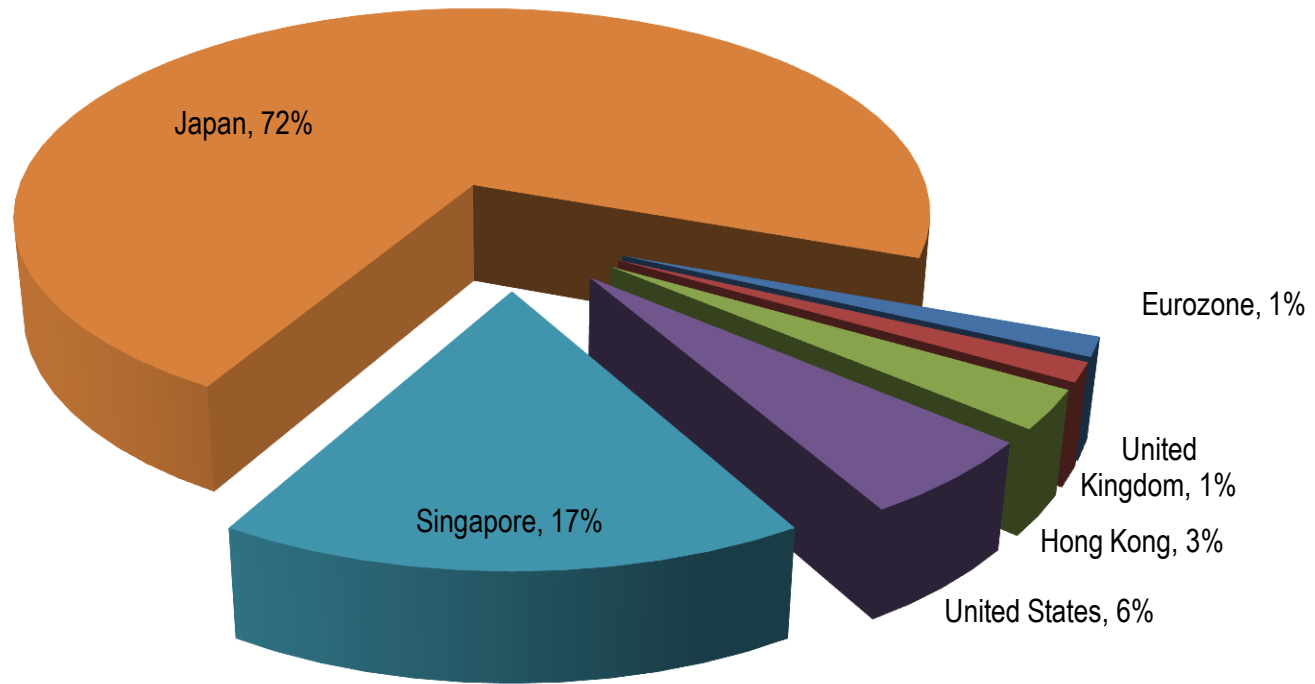
- Among the regulatory issues, the Dodd-Frank Act was seen as the most serious challenge (33%), followed by the Basel III Accords (31%).
- China (both economic slowdown and expansionist policies in the South China Sea) was perceived to be the most significant geopolitical challenge (40%), followed by an economic slowdown in the US (32%).
- While 43% believe that a financial crisis of the likes of 2008 is unlikely to happen this year, 57% feel its chances cannot be dismissed with 39% indicating a high probability for a major crisis and 18% indicating a neutral stance.



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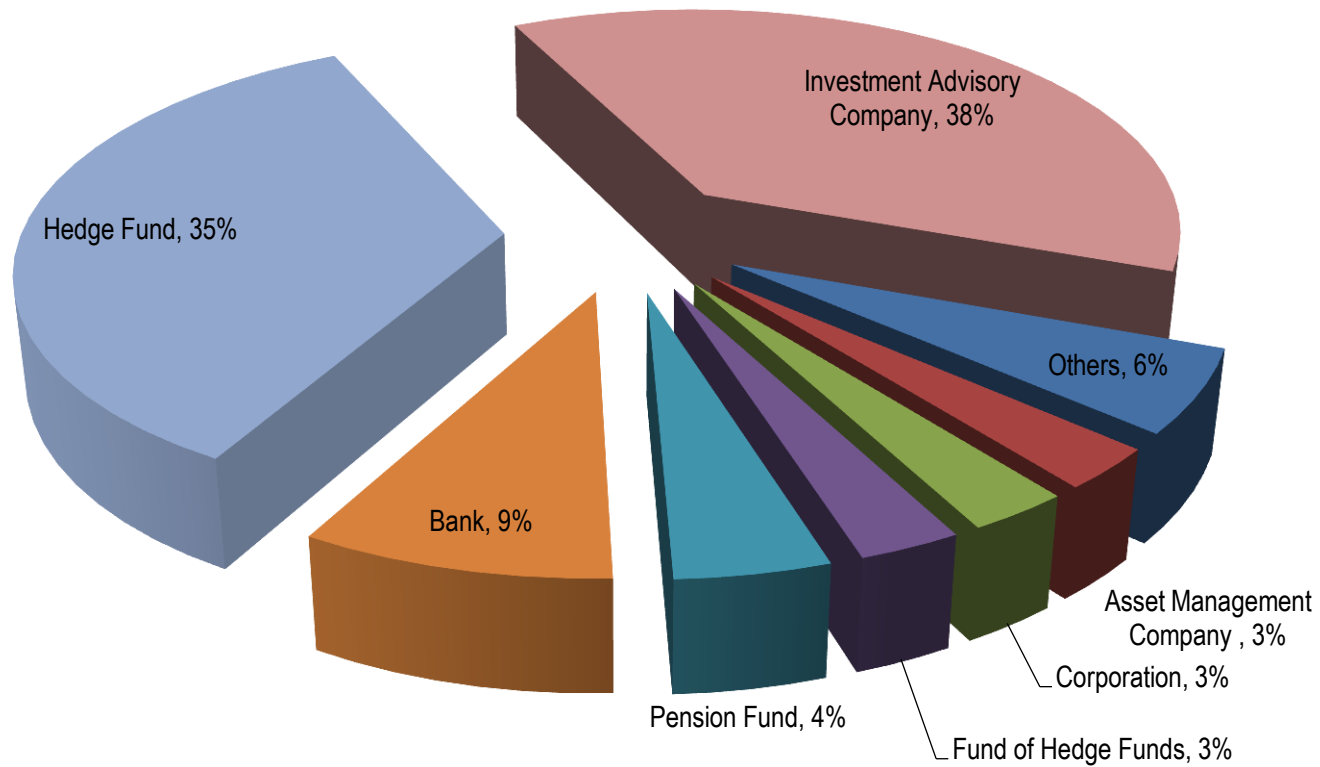
**SECTION I:  
RESPONDENT PROFILE**

## RESPONDENT PROFILE (LOCATION)



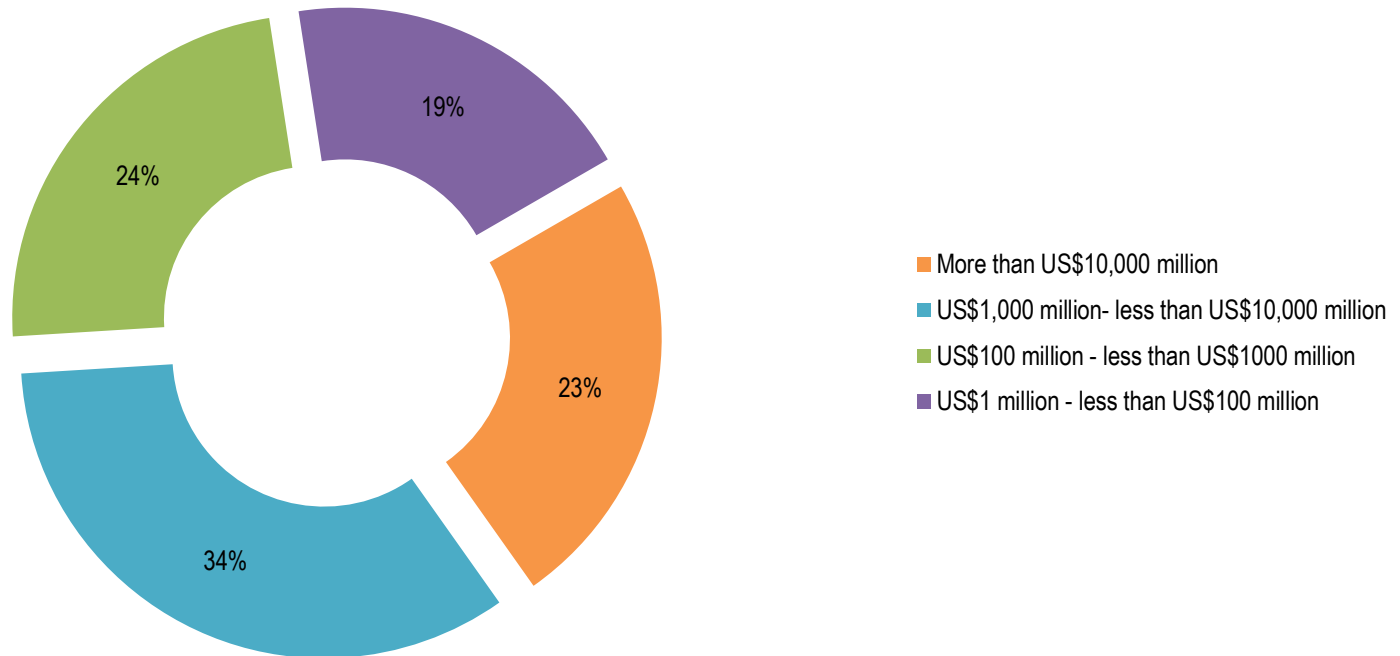
(Due to rounding, numbers presented in the charts may not add up to 100%)

## RESPONDENT PROFILE (SECTORAL BREAKDOWN)



(Due to rounding, numbers presented in the charts may not add up to 100%)

## RESPONDENT PROFILE (SIZE OF AUM OR FUNDS)



- More than US\$10,000 million
- US\$1,000 million - less than US\$10,000 million
- US\$100 million - less than US\$1000 million
- US\$1 million - less than US\$100 million

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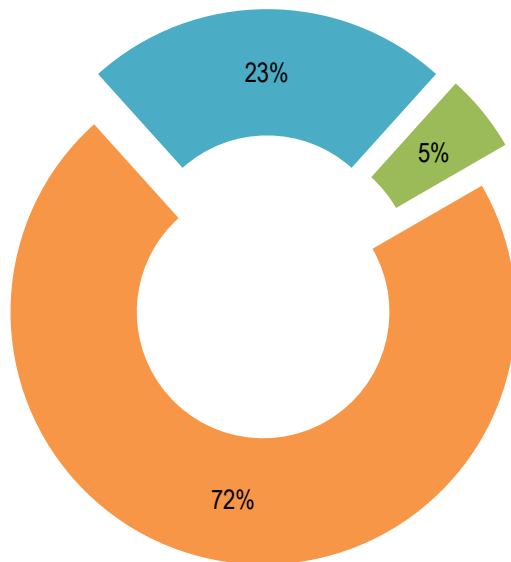
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## SECTION II: MARKET OUTLOOK



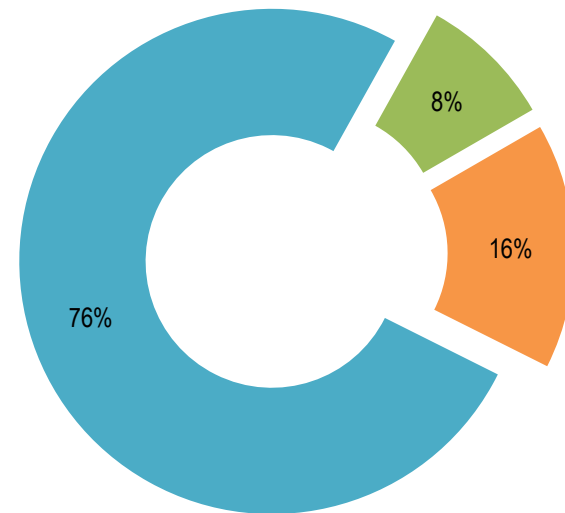
## MARKET OUTLOOK (ABENOMICS IN 2015 and 2016)

2015



Successful  
Partial Success  
Unsuccessful

2016

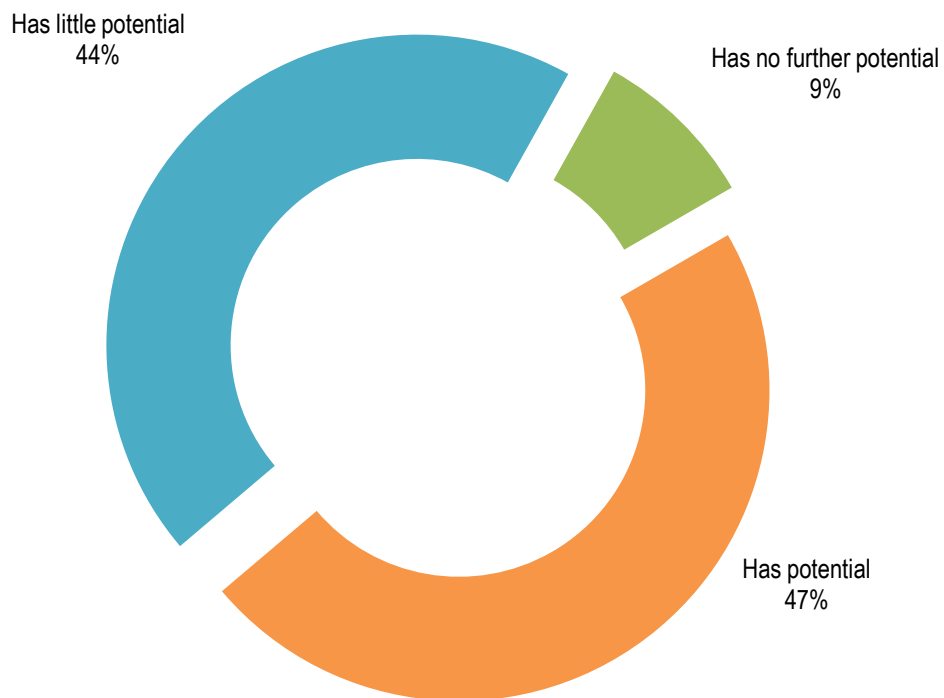


Successful  
Partial Success  
Unsuccessful

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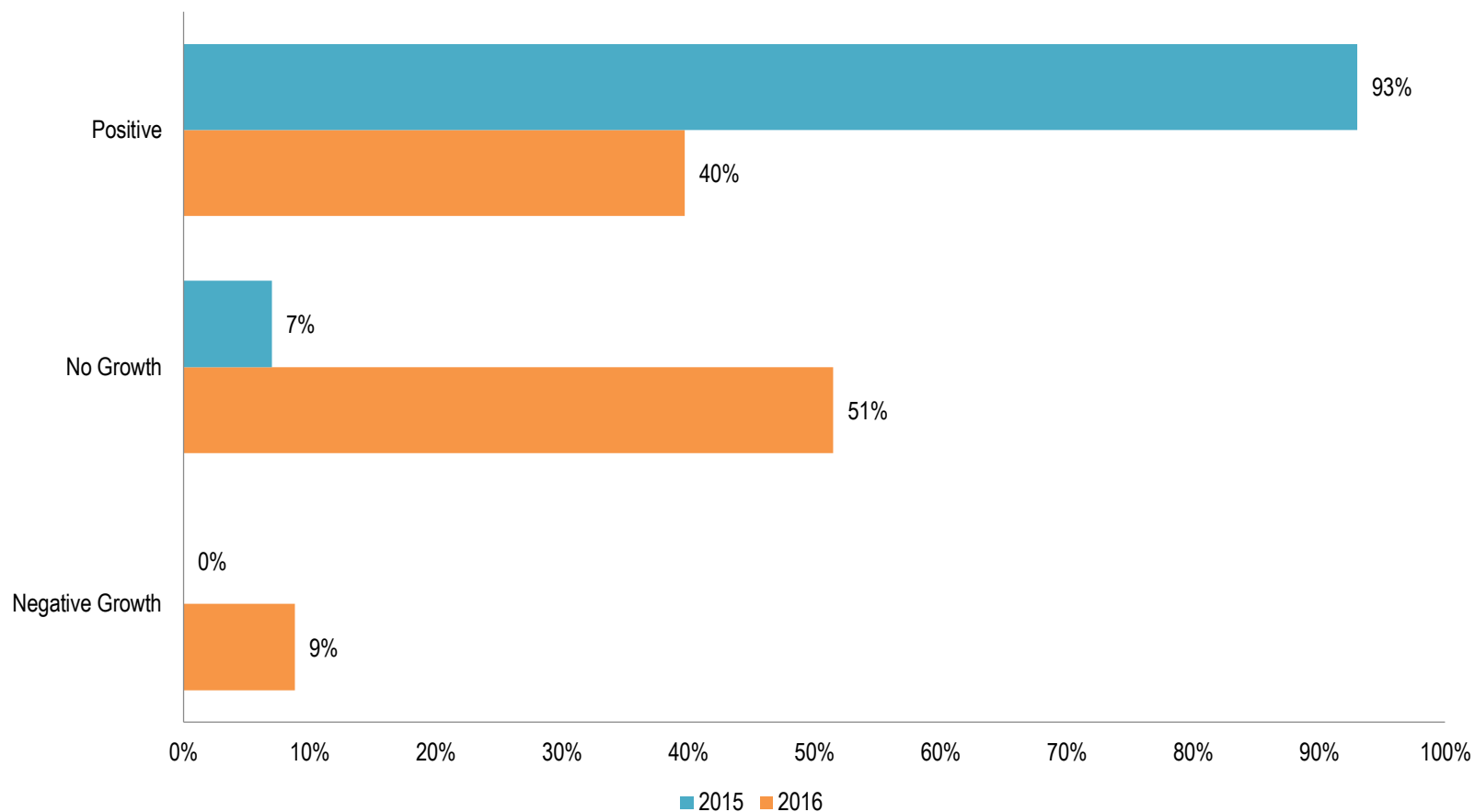
## MARKET OUTLOOK (FUTURE EXPECTATIONS ON ABENOMICS)

2016



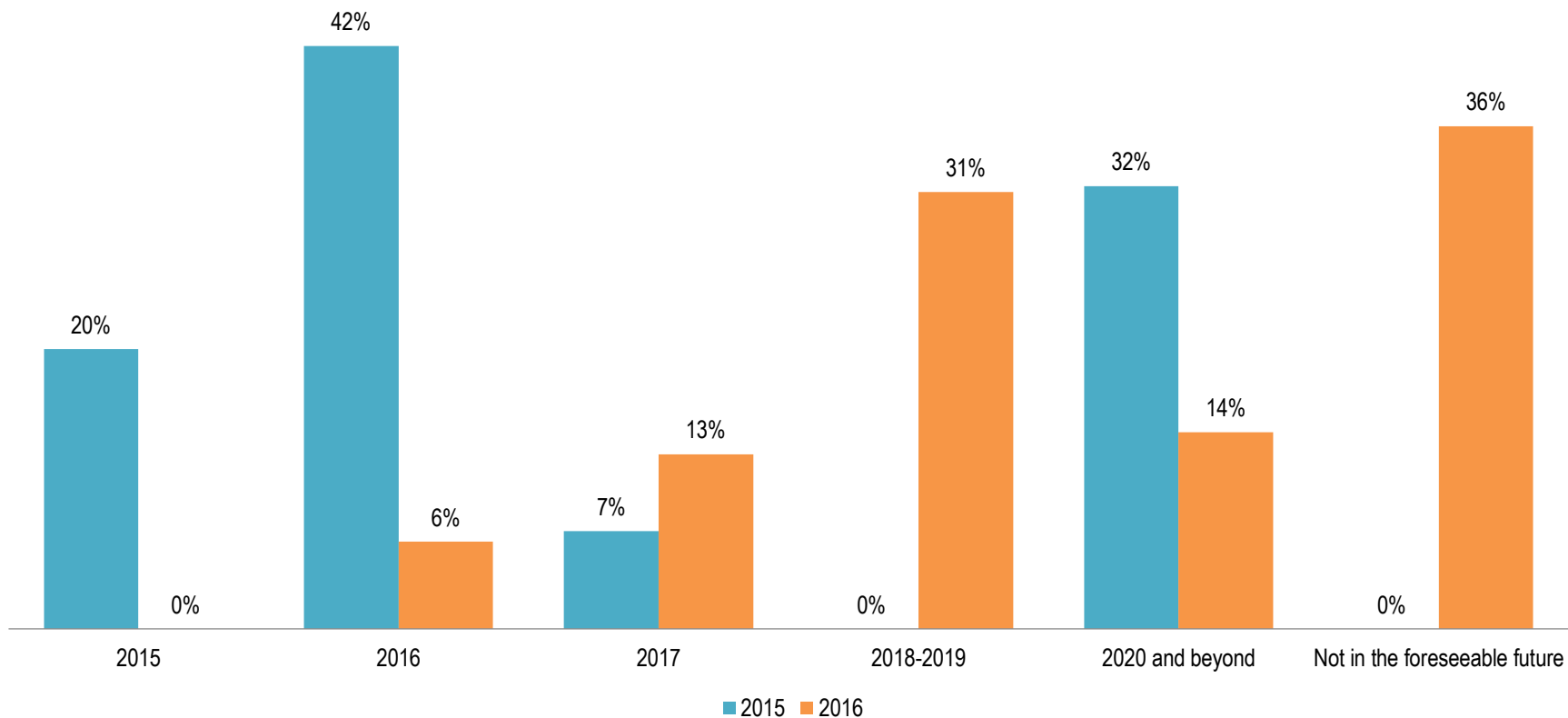
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## MARKET OUTLOOK (JAPANESE ECONOMY IN 2016)



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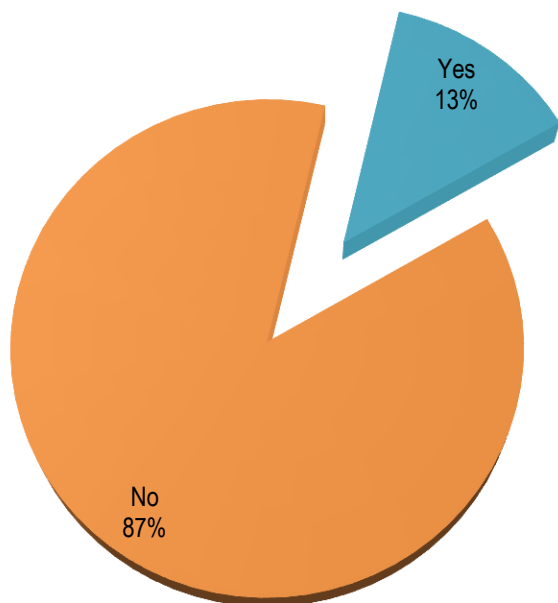
## MARKET OUTLOOK (FUTURE GROWTH OF JAPANESE ECONOMY)



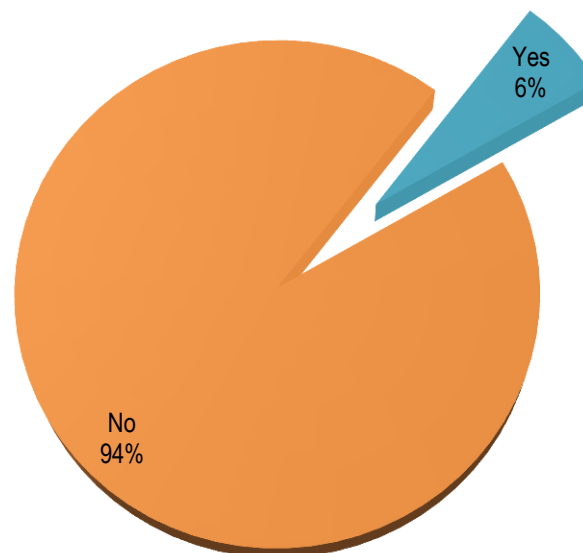
(Due to rounding, numbers presented in the charts may not add up to 100%)

## MARKET OUTLOOK (BOJ INFLATION TARGET)

2015

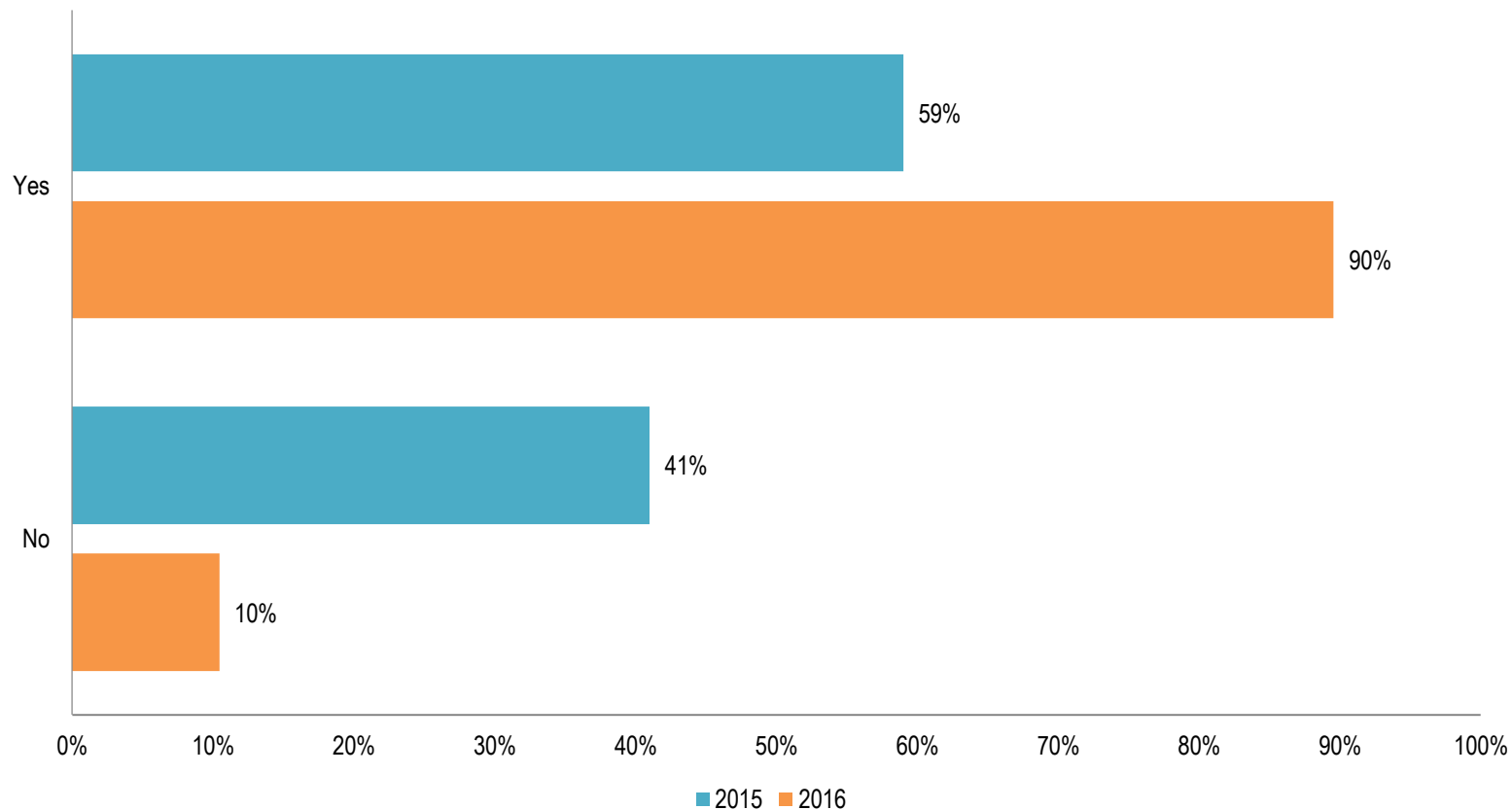


2016



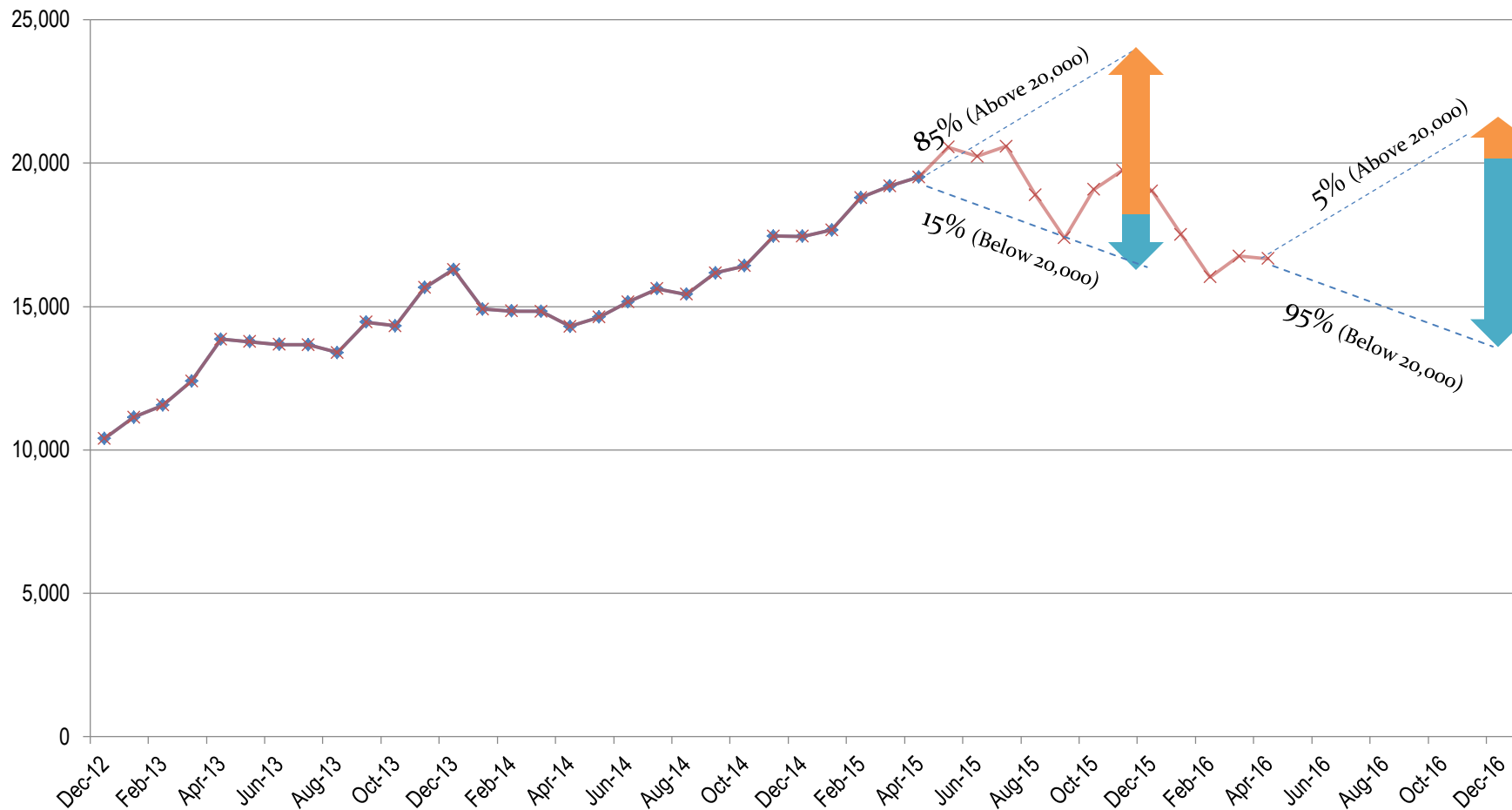
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## MARKET OUTLOOK (ADDITIONAL QE EXPECTATIONS)



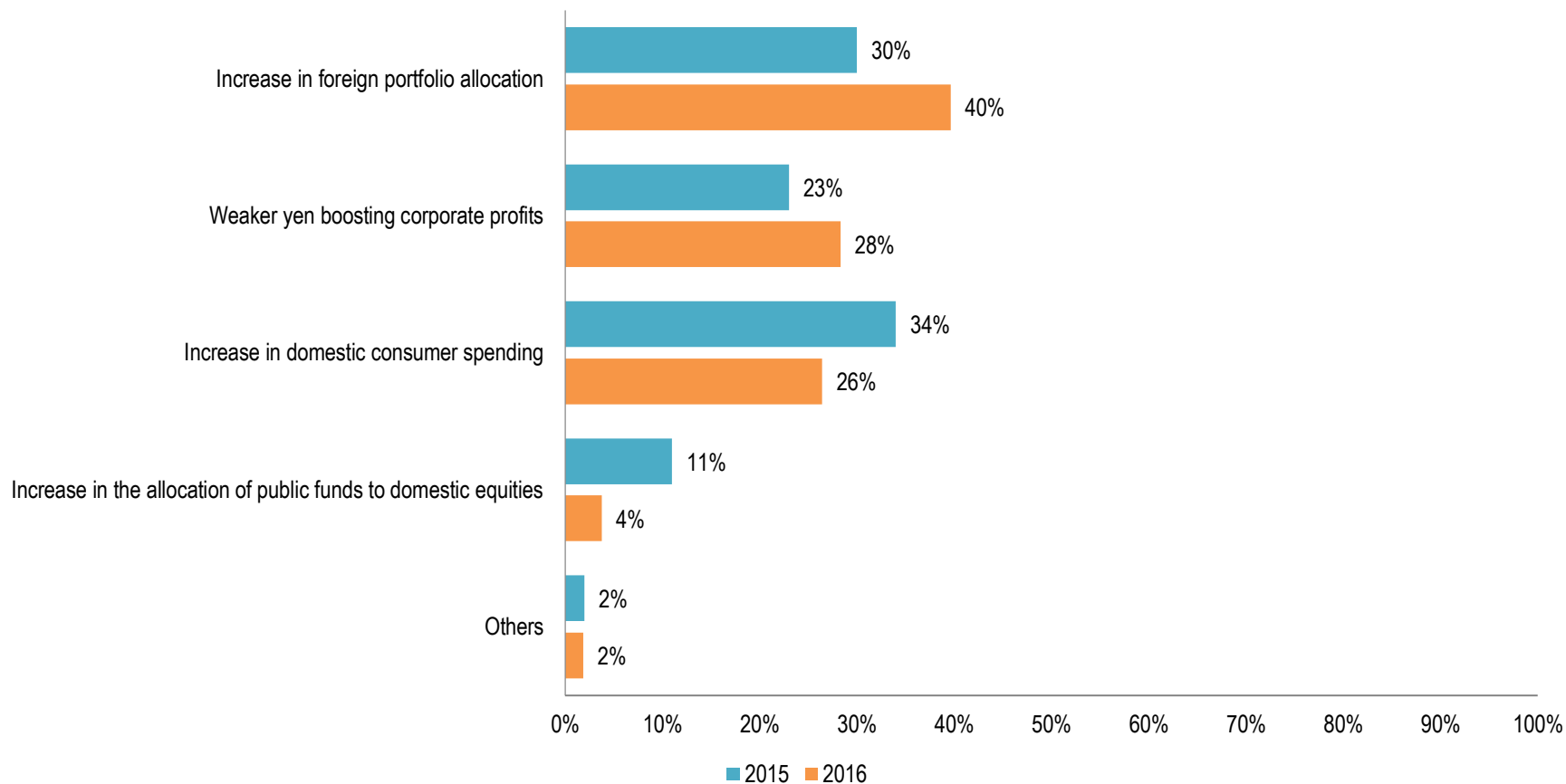
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## MARKET OUTLOOK (NIKKEI 225 INDEX AT END-2016)



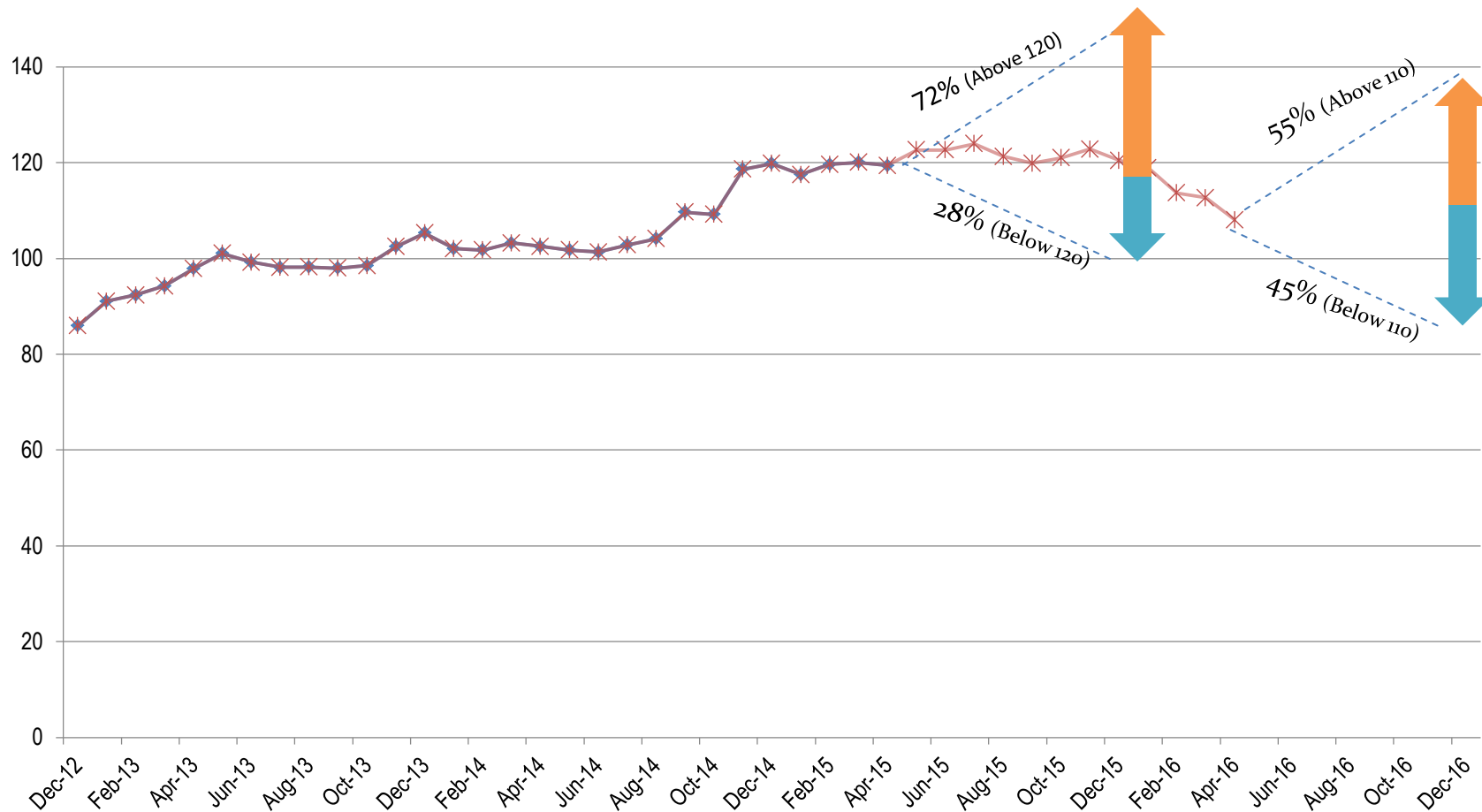
(Due to rounding, numbers presented in the charts may not add up to 100%)

## MARKET OUTLOOK (IMPORTANT FACTORS SUPPORTING JAPANESE EQUITY VALUATIONS)



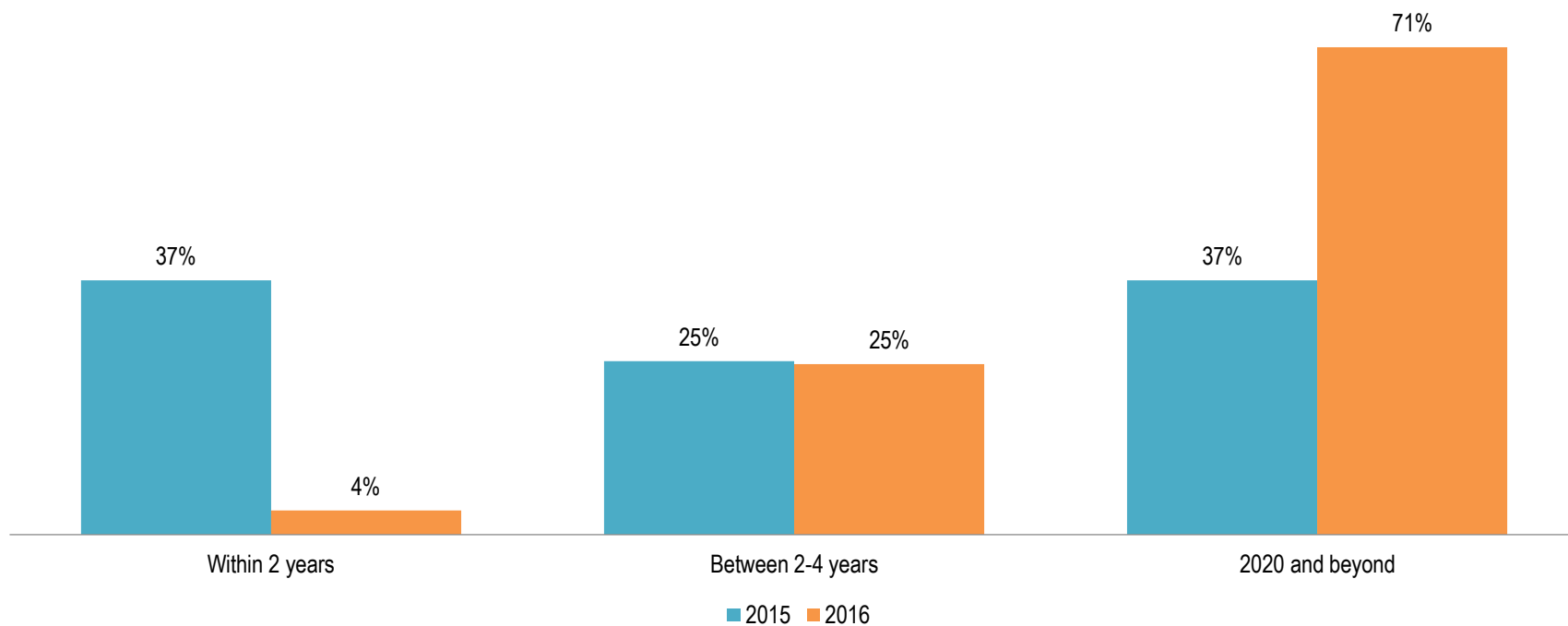
(Due to rounding, numbers presented in the charts may not add up to 100%)



MARKET OUTLOOK  
 (USD/JPY AT END-2016)


(Due to rounding, numbers presented in the charts may not add up to 100%)

## MARKET OUTLOOK (EXPECTATIONS ON 10-YEAR JGB TO BE ABOVE 1.5%)

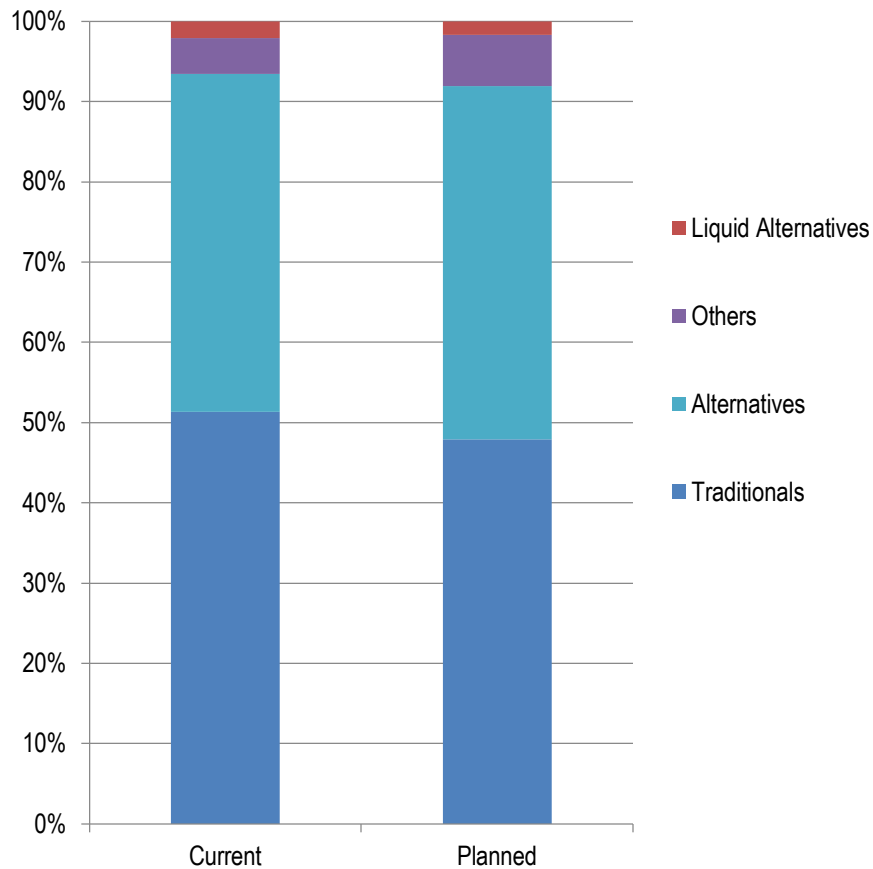


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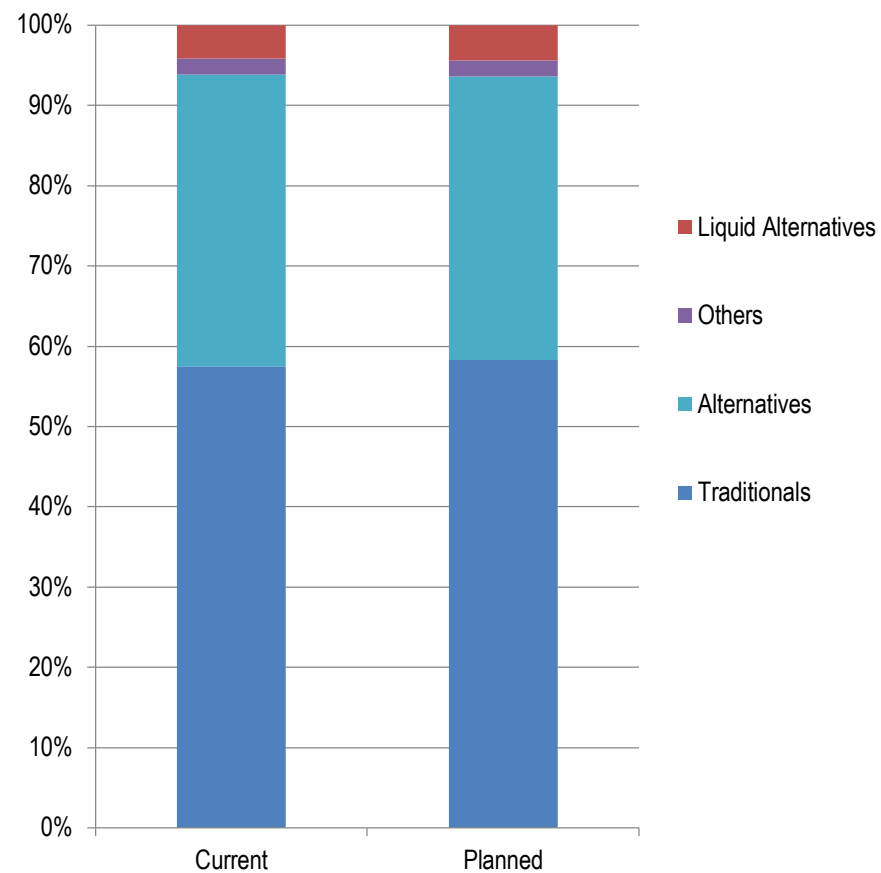
## SECTION III: INVESTMENT TRENDS

## INVESTMENT TRENDS (OVERALL ASSET ALLOCATION)

### Equal-weighted



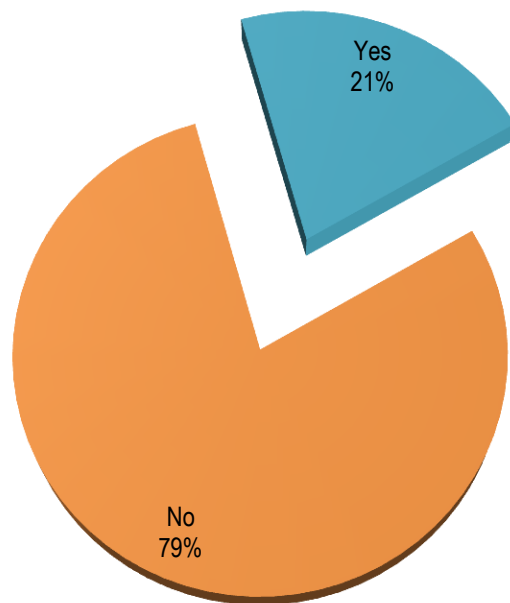
### Asset-weighted



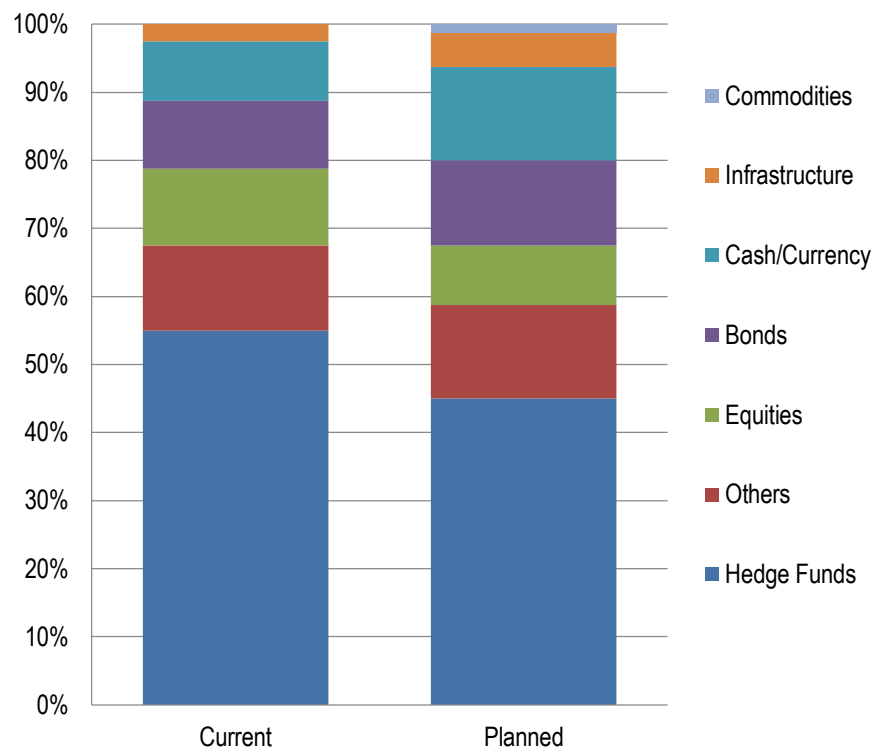
(Due to rounding, numbers presented in the charts may not add up to 100%)

## INVESTMENT TRENDS (EXPECTED CHANGES IN ASSET MIX)

Do you intend to change your portfolio allocation in the next year?



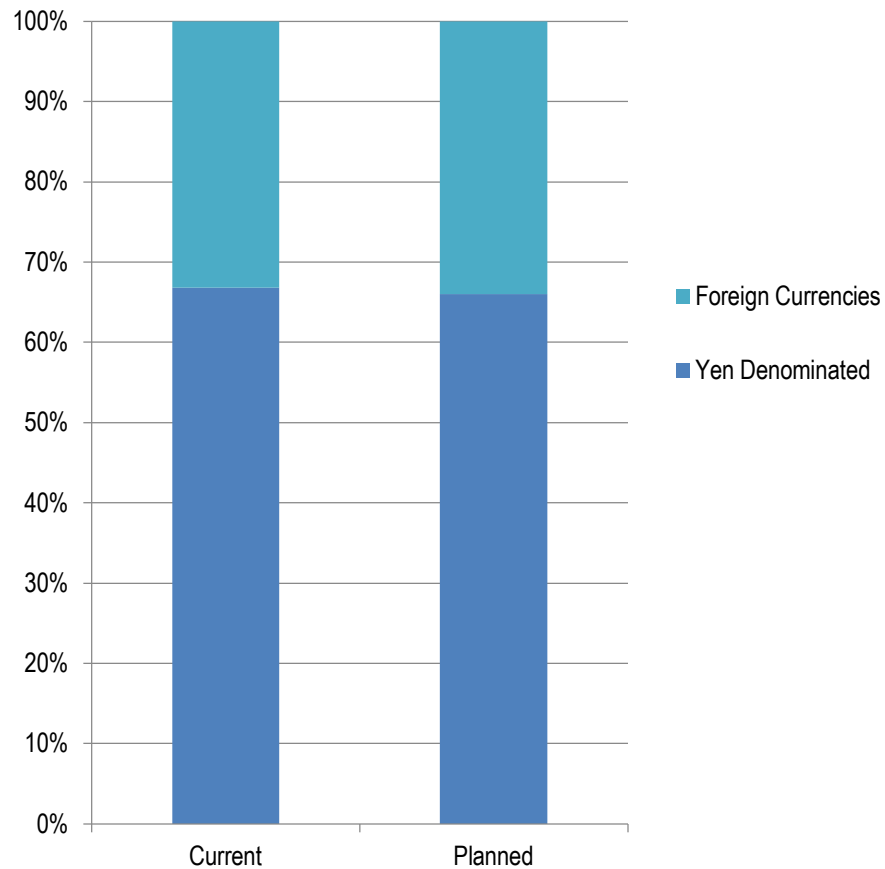
Asset-Weighted  
(for those who indicated a change)



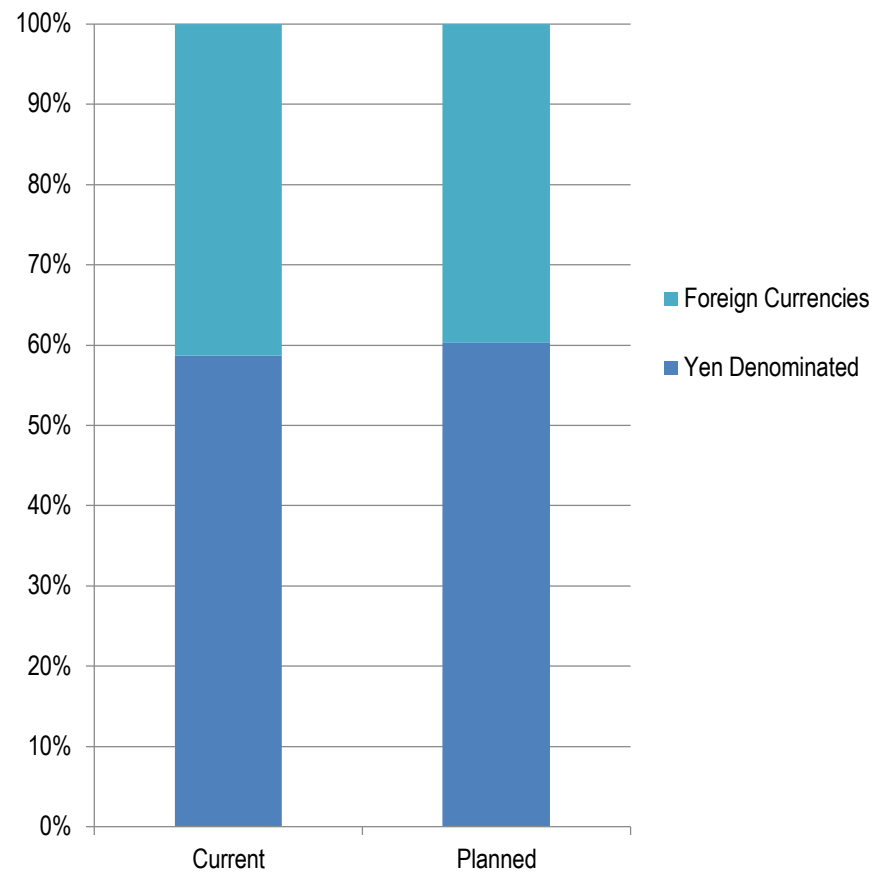
(Due to rounding, numbers presented in the charts may not add up to 100%)

## INVESTMENT TRENDS (CURRENCY DENOMINATION)

### Equal-weighted



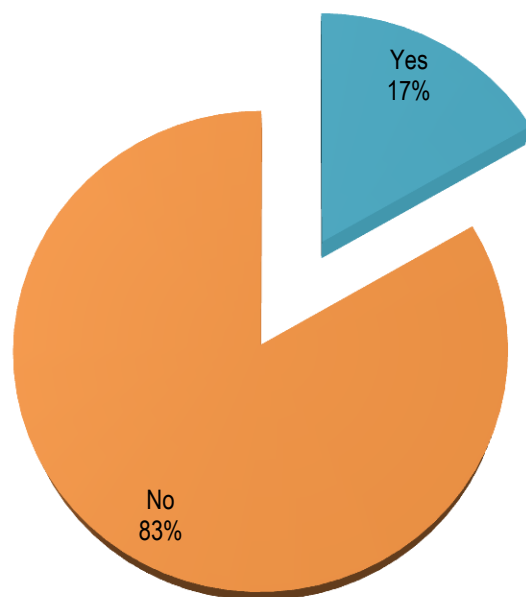
### Asset-weighted



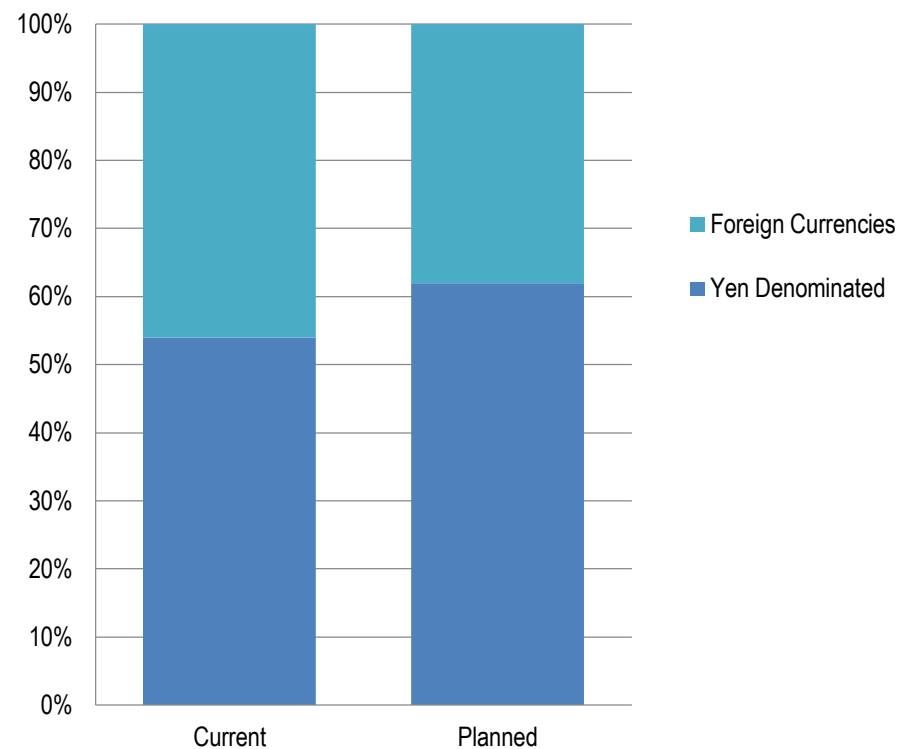
(Due to rounding, numbers presented in the charts may not add up to 100%)

## INVESTMENT TRENDS (CHANGED TO CURRENCY DENOMINATION)

Do you intend to change the ratio next year?



Asset-Weighted  
(for those who indicated a change)

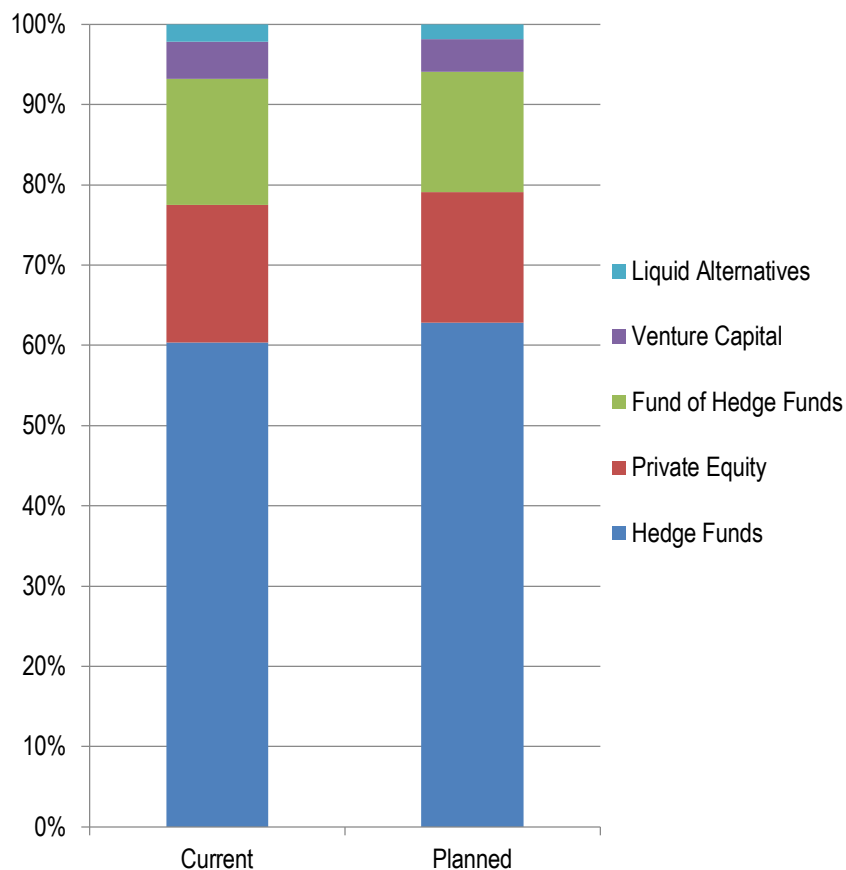


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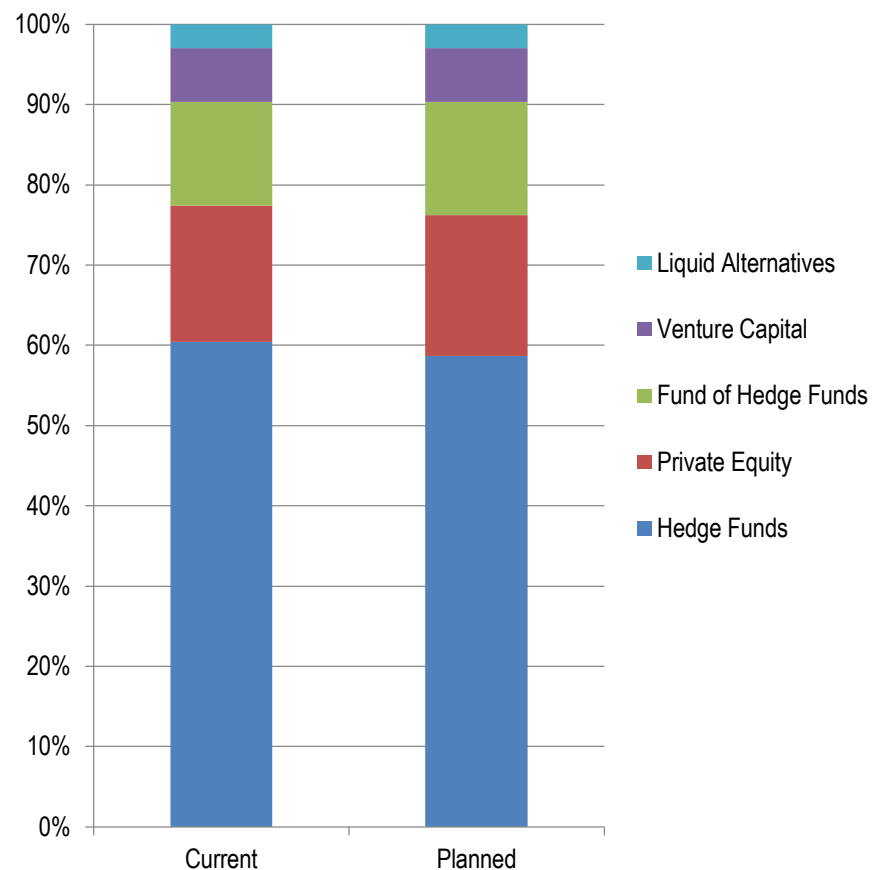
# INVESTMENT TRENDS

## (DISTRIBUTION OF ASSETS WITHIN ALTERNATIVE INVESTMENTS)

### Equal-weighted



### Asset-weighted

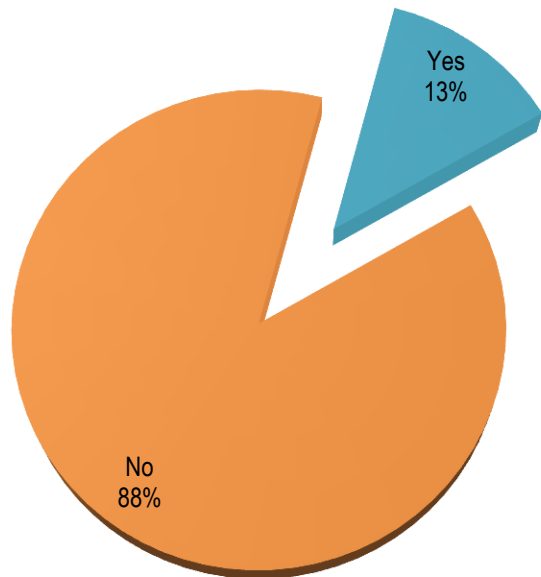


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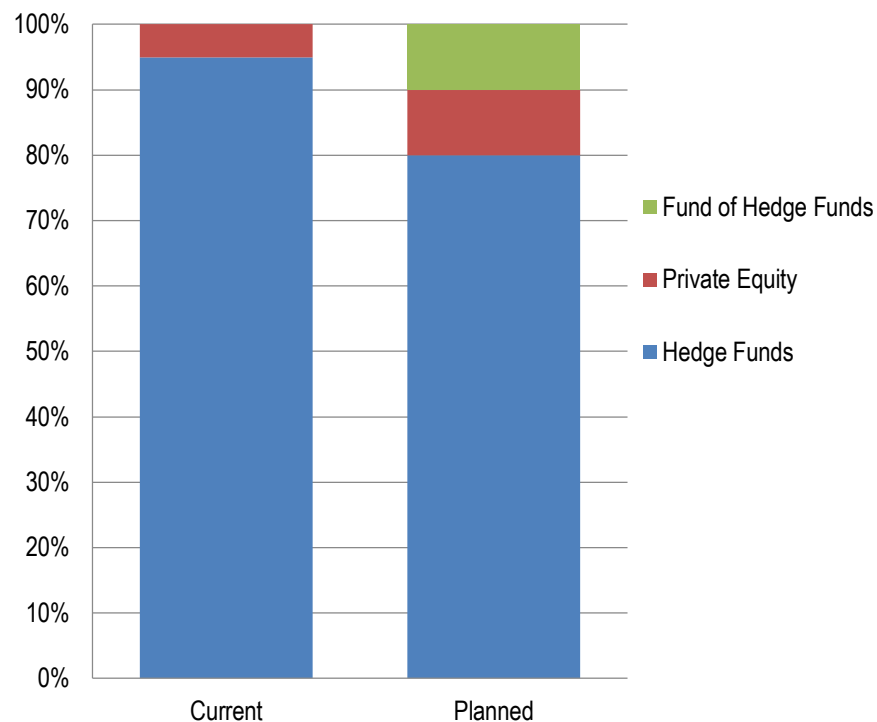


## INVESTMENT TRENDS (DISTRIBUTION OF ASSETS WITHIN ALTERNATIVE INVESTMENTS)

Do you intend to change the ratio next year?



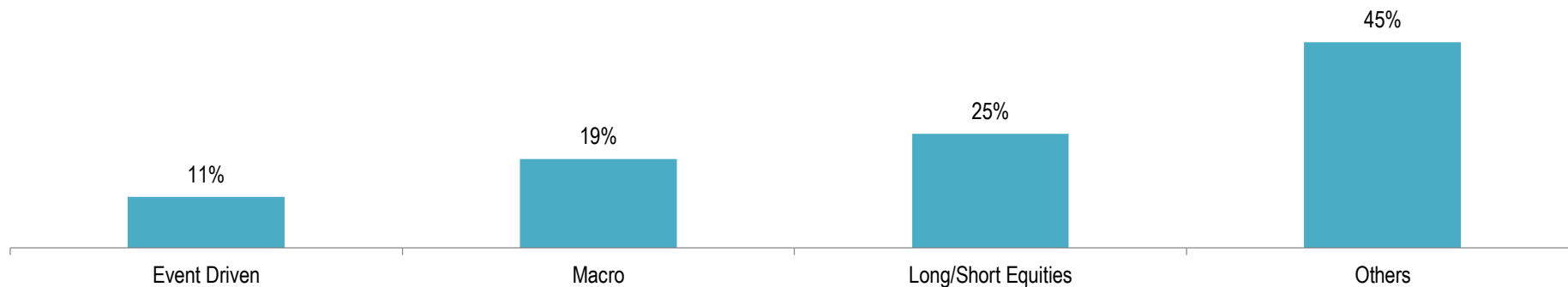
Asset-Weighted  
(for those who indicated a change)



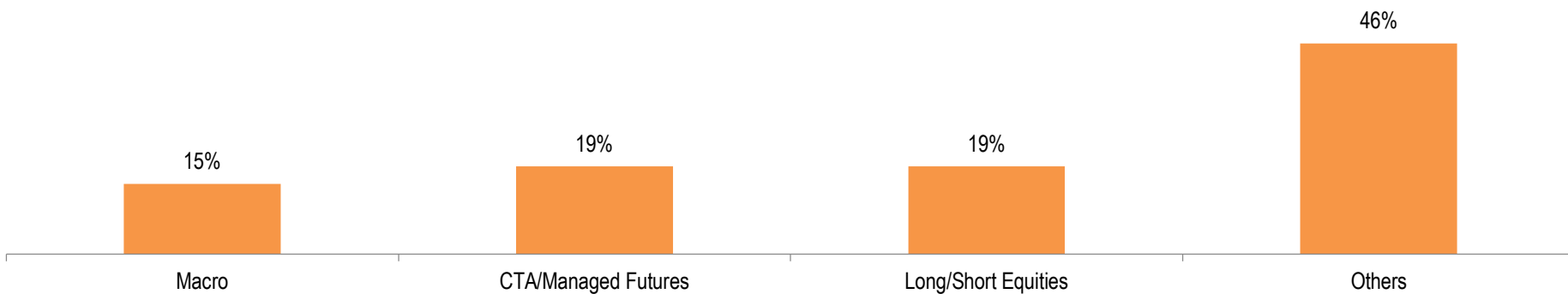
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## INVESTMENT TRENDS (ALLOCATION TO HEDGE FUND STRATEGIES)

2015



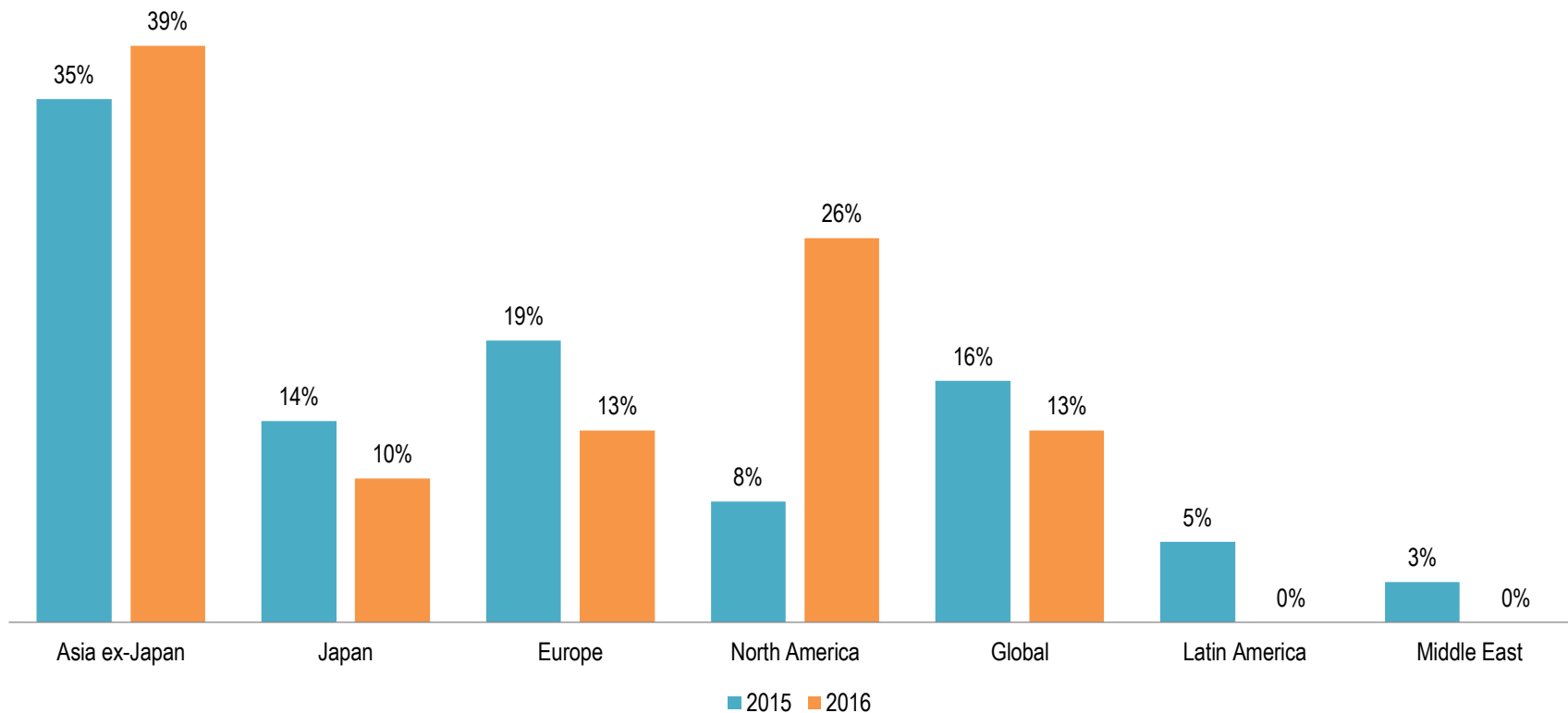
2016



Others include: Arbitrage, Distressed Debt, Fixed Income, Relative Value, etc.

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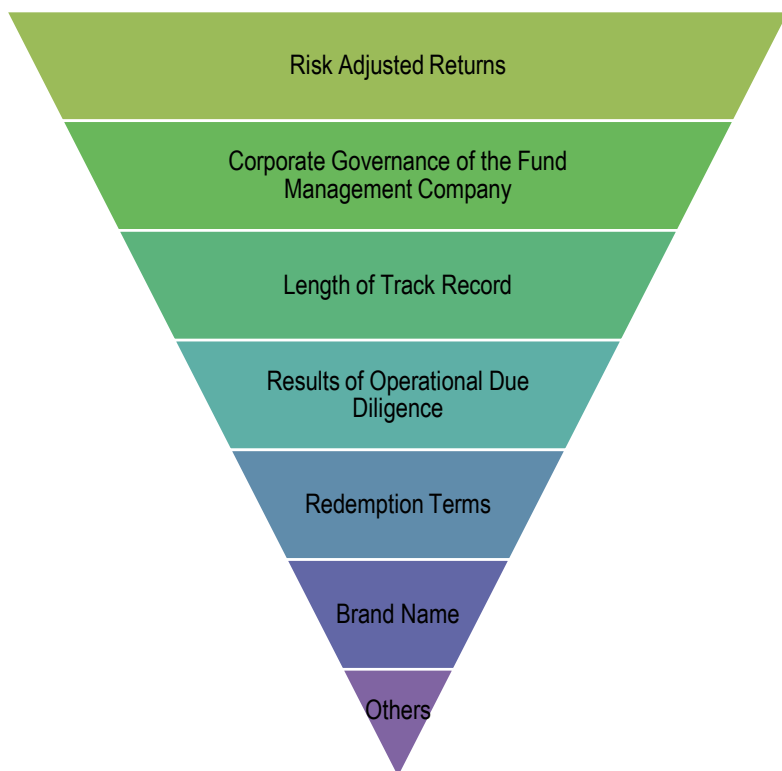
## INVESTMENT TRENDS (STRATEGIC ALLOCATION BY GEOGRAPHIC MANDATE)



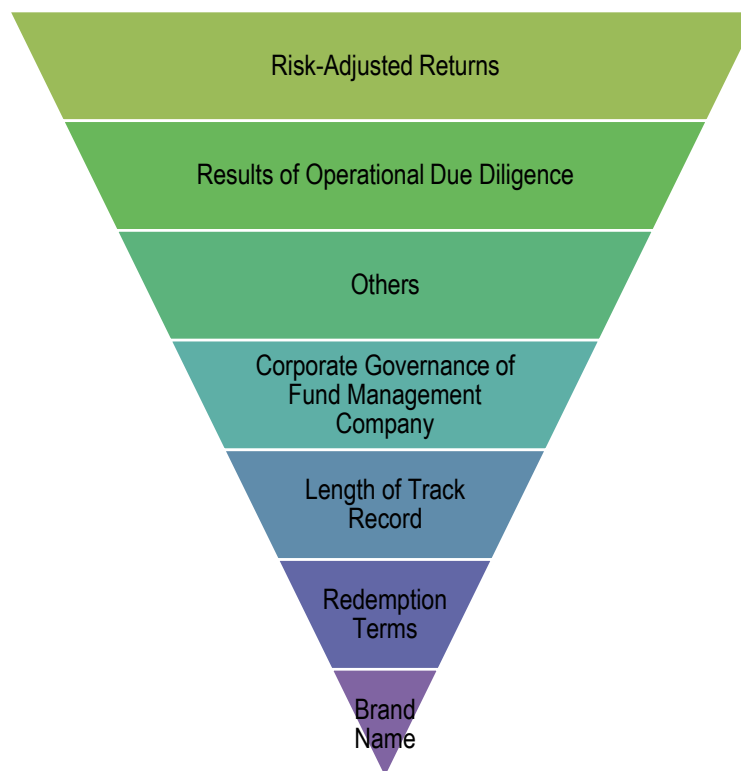
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# INVESTMENT TRENDS (FACTORS THAT AFFECT INVESTMENT DECISION)

2015



2016



**Most Important**

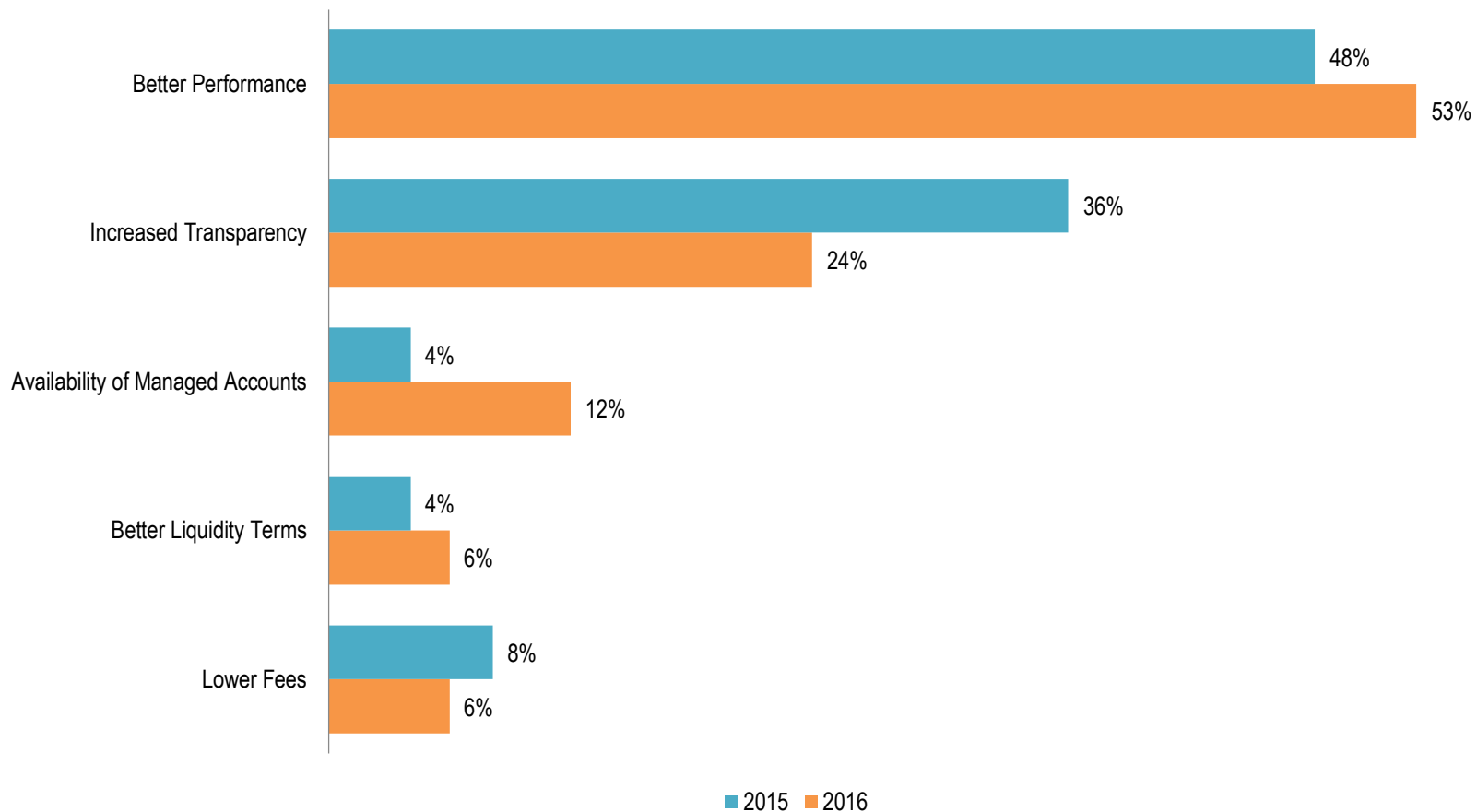
**Least Important**



\*Others include: Transparency, In-house due diligence

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## INVESTMENT TRENDS (MOST LIKELY ELEMENT TO INCREASE ALLOCATION?)



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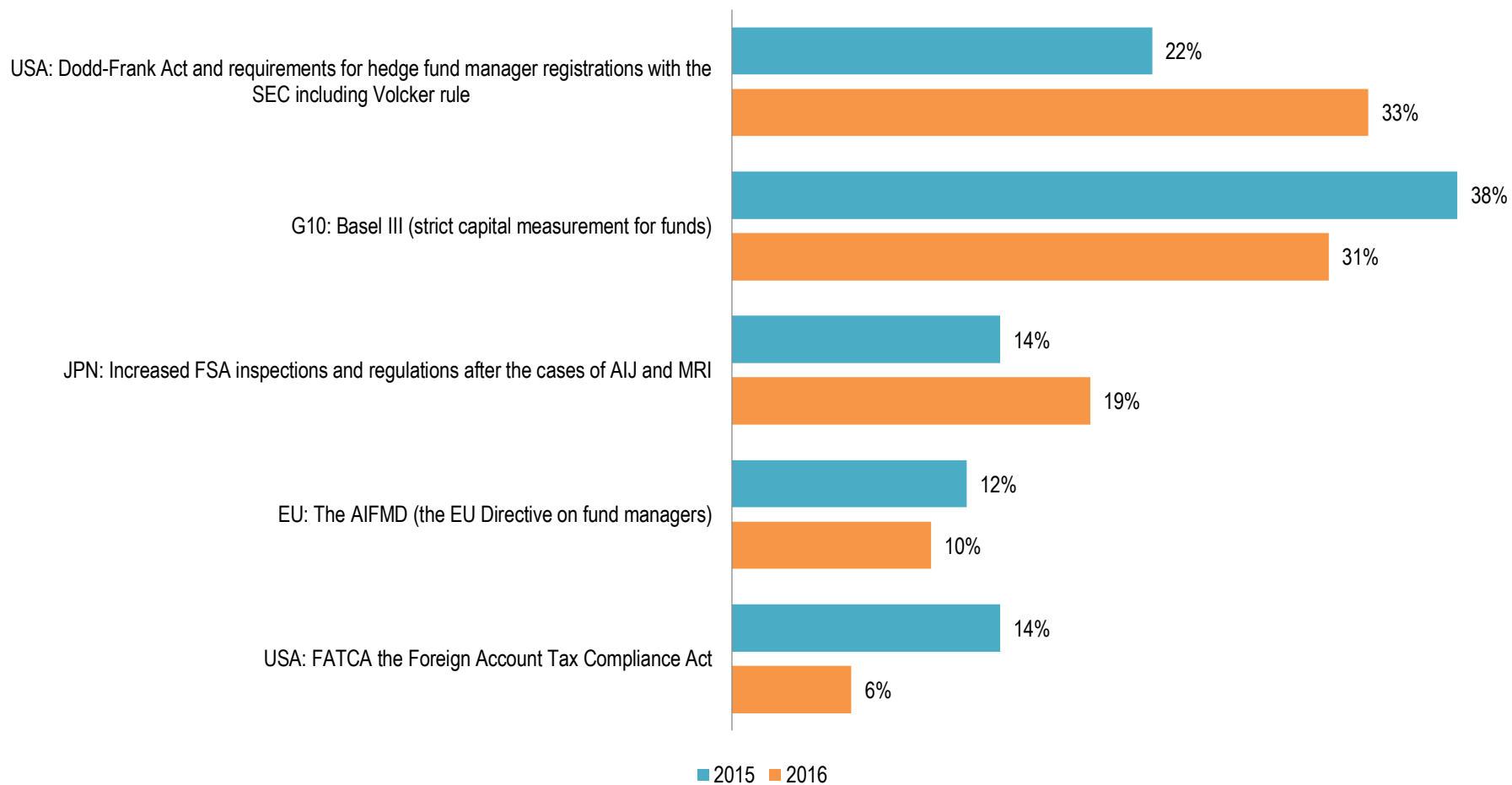


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## SECTION IV: CHALLENGES

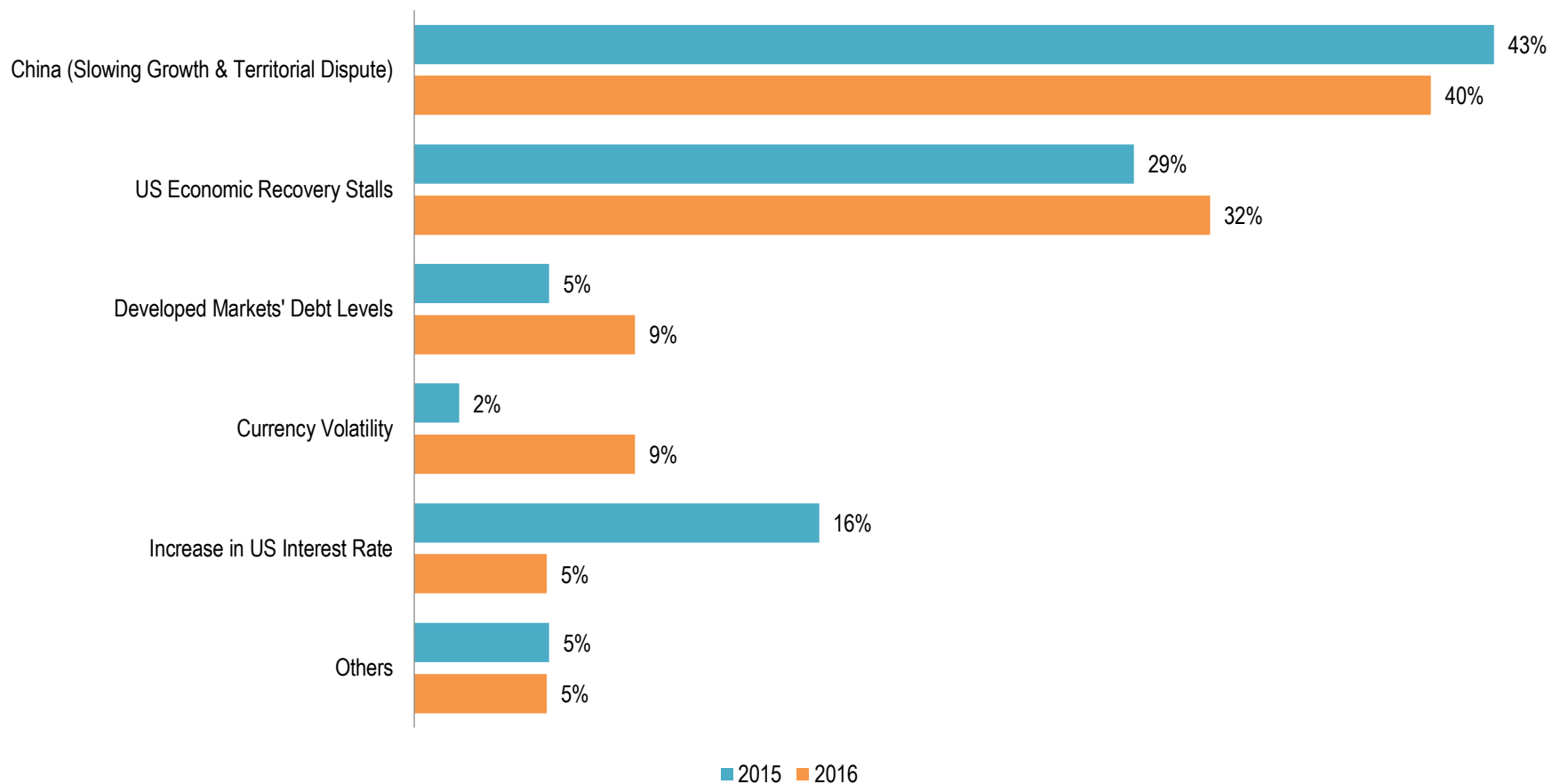
# CHALLENGES

## (WHAT IS YOUR GREATEST REGULATORY CHALLENGE ?)



(Due to rounding, numbers presented in the charts may not add up to 100%)

## CHALLENGES (YOUR GREATEST WORRY FOR 2016 AND BEYOND)

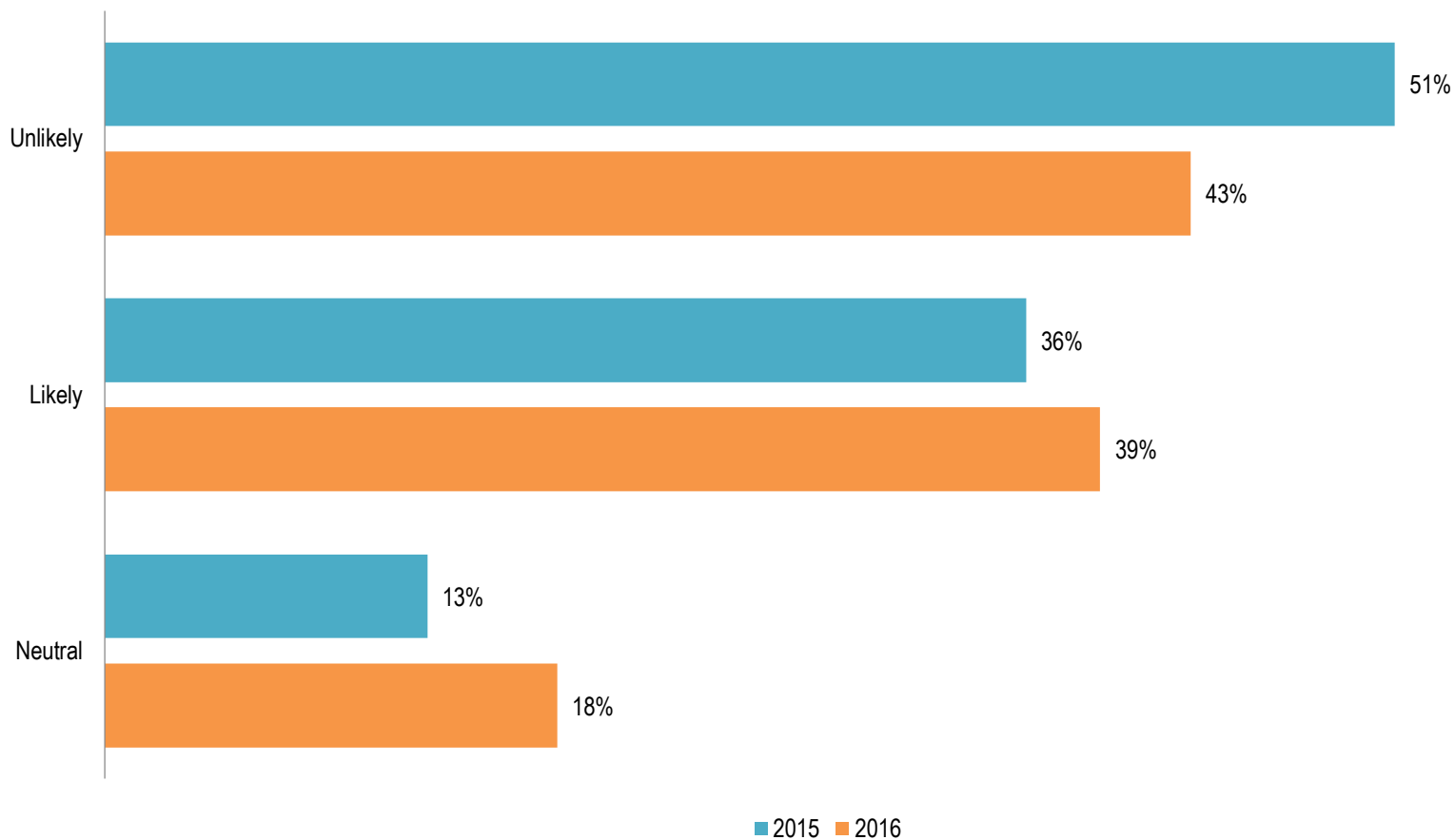


Others include: Middle East (ISIS), High Yield/Junk Bond Crisis, Energy Prices, etc .

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## CHALLENGES (LIKELIHOOD OF A FINANCIAL CRISIS IN 2016)



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