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**The consortium for Japan International Asset Management Center
Promotion (JIAM):**

Why Japanese Hedge Funds?
An Introduction to the 2021 Japanese Hedge Fund Survey
and Other Observations on the Industry

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14 April 2021
Confidential



Japanese Hedge Funds



Japanese Hedge Funds: The State of the Industry

The Japanese hedge fund industry remains under-reported on for its potential and significance, and is relatively hard to gather information on.

- ❖ The AlphaWeek and Sussex Partners Japan Hedge Fund Industry Survey was originally conceived in 2019 to address the patchy and unreliable coverage of the Japanese hedge fund industry, problems which remain unchanged in 2021.
- ❖ According to Sussex Partners' research, there are between 80 and 120 Japanese funds, of which 22 were surveyed last year.
- ❖ EurekaHedge's figure of around \$16.9bn in total assets for Japanese hedge funds includes a number of long only managers, as well as Asian fund of funds so Sussex believes the figure to be even smaller in reality.



Japanese Hedge Funds: An Alpha market

Japanese markets are Alpha markets.

- ❖ Unlike the US and Europe, Japanese markets are heavily underinvested by the region's hedge fund industry.

	Europe	Japan	U.S.
Region's Market Capitalisation	\$5.5tr	\$5.3tr	\$30.4tr
Regional Hedge Fund Industry Estimated AUM	\$463bn	\$16.9bn	\$1.5tr
HF: Market Cap Ratio	8.3%	0.3%	4.8%

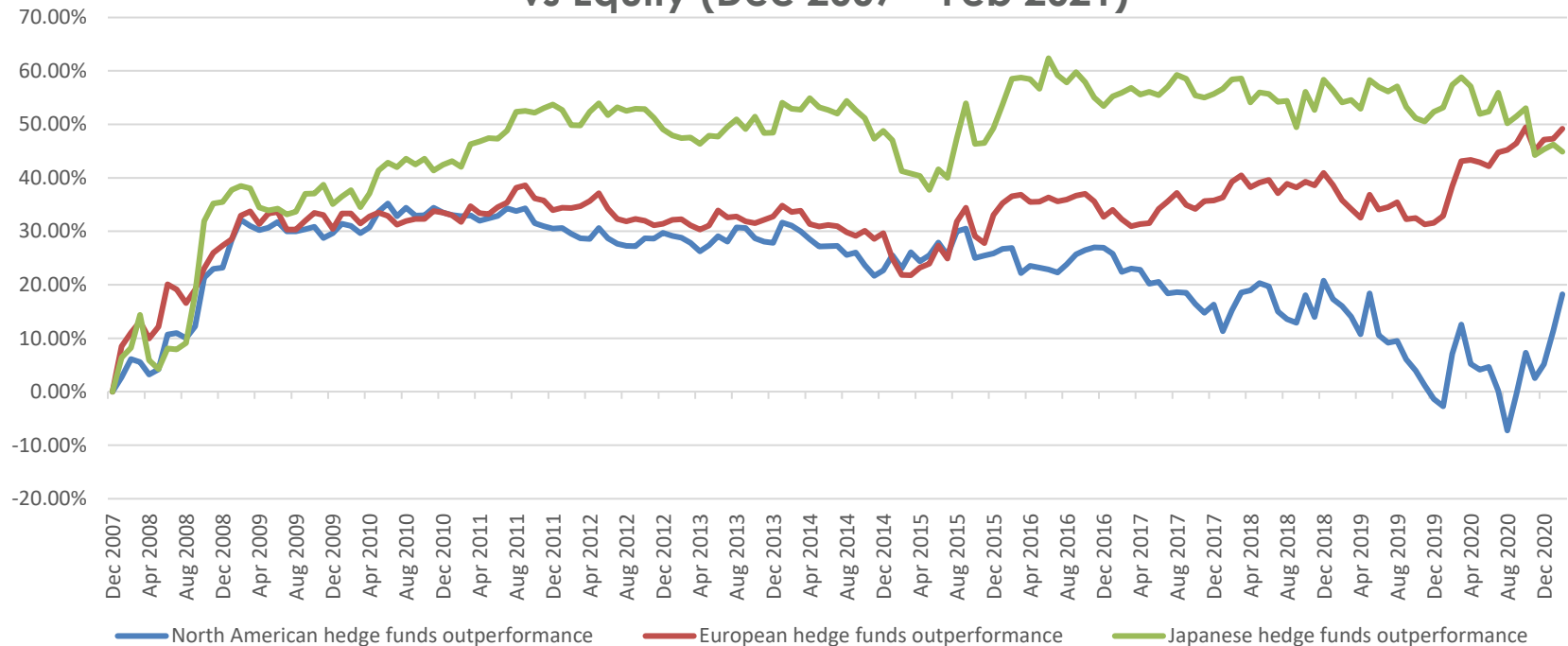
- ❖ Approximately 70% of the 3,729 listed companies in Japan are not properly covered by analysts, who are heavily focused on the largest 30% of stocks by market capitalisation.
- ❖ This has allowed Japanese hedge funds to outperform their equity markets* by a greater margin than their peers in Europe and the U.S., as the graphs on the following slides demonstrate.

*Measured using the region's Eurekahedge Hedge Fund Index and MSCI Equity Index respectively



Japanese Hedge Funds: An Alpha market

Historical Cumulative Outperformance of Global Equity Hedge Funds vs Equity (Dec 2007 – Feb 2021)



Source: Sussex Partners

Data: The North American hedge funds outperformance is calculated as the excess return of the Eurekahedge North America Long Short Equities Hedge Fund Index over the MSCI North America Index (USD). The European hedge funds outperformance is calculated as the excess return of the Eurekahedge Europe Long Short Equities Hedge Fund Index over the MSCI Europe Index (EUR). The Japanese hedge funds outperformance is calculated as the excess return of the Eurekahedge Japan Long Short Equities Hedge Fund Index over the MSCI Japan Index (JPY).



Japanese Hedge Funds: An Alpha market

Historical Cumulative Performance of Japanese Equity Hedge Funds Relative to Equity (Dec 2007 – Feb 2021)

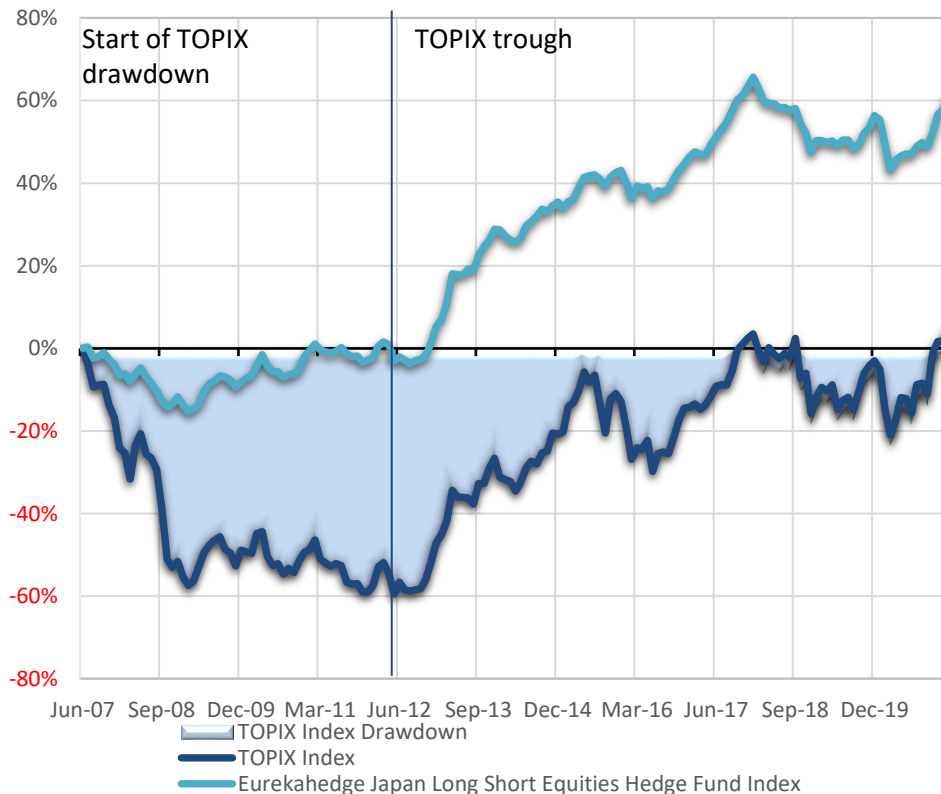


Source: Sussex Partners



Japanese Hedge Funds: An Alpha market

Historical Cumulative Returns (June 2007 – February 2021)



	TOPIX Index	Eurekahedge Japan L/S Equities HF Index
Depth	-59.46%	-15.57%
# Months Underwater	124	42
Peak	Jul-07	Aug-07
Valley	Oct-17	Jan-11



Japanese Hedge Funds: De-Correlation between Managers

Japanese markets are generally relatively uncorrelated

- ❖ The alpha opportunity set available in the less well covered, less efficient Japanese markets allows for returns to be generated in a more idiosyncratic fashion, resulting in a relatively low correlation to the equity indices.
- ❖ There is also much less crowding into the same trades by managers operating in the same space as each other.
- ❖ This has the effect of reducing correlation, not just between managers and their indices, but also between managers operating similar strategies in the Japanese markets, as different funds are able to identify and capitalise on different ideas depending on their specific skill set and areas of expertise.
- ❖ As a result, diversification by manager is more likely (with careful selection still imperative) to produce true diversification in underlying holdings, whereas European or U.S. fund portfolios may, on close inspection, overlap more significantly with their peers. This means Japan also lends itself to a portfolio of managers approach.



Japanese Hedge Funds: De-Correlation between Managers

Static correlation matrix over common track record for each strategy pair – Fundamental Japan Equity long short index constituents (as of Feb 2021)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
1	1.00	0.86	0.92	0.08	0.91	0.74	0.92	0.34	0.13	0.80	0.17	0.34	-0.40	0.92	0.58	0.42	0.38	0.32	0.28	-0.60	0.81	0.43	0.75
2	0.86	1.00	0.80	0.00	0.92	0.78	0.88	0.27	0.25	0.85	0.28	0.39	-0.44	0.94	0.61	0.51	0.40	0.38	0.16	-0.82	0.81	0.33	0.76
3	0.92	0.80	1.00	0.15	0.88	0.56	0.87	0.45	0.08	0.67	0.22	0.31	-0.17	0.87	0.40	0.41	0.28	0.33	0.33	-0.67	0.78	0.65	0.65
4	0.08	0.00	0.15	1.00	0.05	0.13	0.09	0.19	0.04	0.01	0.16	-0.08	-0.10	0.11	0.07	0.23	0.01	-0.03	0.11	0.00	0.10	0.29	0.06
5	0.91	0.92	0.88	0.05	1.00	0.75	0.91	0.26	0.20	0.81	0.17	0.36	-0.44	0.97	0.70	0.45	0.39	0.33	0.27	-0.77	0.83	-0.01	0.73
6	0.74	0.78	0.56	0.13	0.75	1.00	0.55	0.23	0.14	0.80	0.43	0.38	-0.13	0.68	0.68	0.48	0.39	0.33	0.11	0.00	0.50	0.26	0.69
7	0.92	0.88	0.87	0.09	0.91	0.55	1.00	0.45	0.12	0.77	0.12	0.27	-0.33	0.94	0.61	0.40	0.31	0.40	0.30	-0.60	0.84	0.43	0.75
8	0.34	0.27	0.45	0.19	0.26	0.23	0.45	1.00	0.02	0.16	0.14	0.17	0.01	0.39	0.49	0.21	0.08	0.11	0.17	-0.19	0.40	0.72	0.17
9	0.13	0.25	0.08	0.04	0.20	0.14	0.12	0.02	1.00	0.20	0.14	0.26	-0.11	0.20	-0.05	0.16	0.31	0.13	0.04	0.70	0.17	-0.12	0.11
10	0.80	0.85	0.67	0.01	0.81	0.80	0.77	0.16	0.20	1.00	0.05	0.12	-0.64	0.81	0.62	0.45	0.29	0.29	0.06	-0.46	0.75	0.21	0.75
11	0.17	0.28	0.22	0.16	0.17	0.43	0.12	0.14	0.14	0.05	1.00	0.35	0.03	0.33	0.26	0.47	0.35	0.13	0.14	0.60	0.16	0.28	0.11
12	0.34	0.39	0.31	-0.08	0.36	0.38	0.27	0.17	0.26	0.12	0.35	1.00	0.09	0.37	-0.01	0.33	0.49	0.20	0.11	0.17	0.33	-0.07	0.16
13	-0.40	-0.44	-0.17	-0.10	-0.44	-0.13	-0.33	0.01	-0.11	-0.64	0.03	0.09	1.00	-0.28	-0.73	-0.19	-0.10	-0.12	0.01	0.48	-0.23	-0.25	-0.59
14	0.92	0.94	0.87	0.11	0.97	0.68	0.94	0.39	0.20	0.81	0.33	0.37	-0.28	1.00	0.64	0.42	0.41	0.39	0.33	0.00	0.84	-0.05	0.75
15	0.58	0.61	0.40	0.07	0.70	0.68	0.61	0.49	-0.05	0.62	0.26	-0.01	-0.73	0.64	1.00	-0.01	-0.36	0.49	-0.23	0.00	0.71	-0.22	0.60
16	0.42	0.51	0.41	0.23	0.45	0.48	0.40	0.21	0.16	0.45	0.47	0.33	-0.19	0.42	-0.01	1.00	0.38	0.13	0.21	-0.06	0.34	0.25	0.40
17	0.38	0.40	0.28	0.01	0.39	0.39	0.31	0.08	0.31	0.29	0.35	0.49	-0.10	0.41	-0.36	0.38	1.00	0.19	0.10	-0.43	0.33	-0.01	0.25
18	0.32	0.38	0.33	-0.03	0.33	0.33	0.40	0.11	0.13	0.29	0.13	0.20	-0.12	0.39	0.49	0.13	0.19	1.00	0.10	-0.61	0.41	0.26	0.28
19	0.28	0.16	0.33	0.11	0.27	0.11	0.30	0.17	0.04	0.06	0.14	0.11	0.01	0.33	-0.23	0.21	0.10	0.10	1.00	-0.08	0.32	-0.09	0.20
20	-0.60	-0.82	-0.67	0.00	-0.77	0.00	-0.60	-0.19	0.70	-0.46	0.60	0.17	0.48	0.00	0.00	-0.06	-0.43	-0.61	-0.08	1.00	-0.43	0.30	-0.48
21	0.81	0.81	0.78	0.10	0.83	0.50	0.84	0.40	0.17	0.75	0.16	0.33	-0.23	0.84	0.71	0.34	0.33	0.41	0.32	-0.43	1.00	0.33	0.67
22	0.43	0.33	0.65	0.29	-0.01	0.26	0.43	0.72	-0.12	0.21	0.28	-0.07	-0.25	-0.05	-0.22	0.25	-0.01	0.26	-0.09	0.30	0.33	1.00	0.18
23	0.75	0.76	0.65	0.06	0.73	0.69	0.75	0.17	0.11	0.75	0.11	0.16	-0.59	0.75	0.60	0.40	0.25	0.28	0.20	-0.48	0.67	0.18	1.00



Japanese Hedge Funds: De-Correlation between Managers

Static correlation matrix over common track record for each strategy pair – Equity Market Neutral Japan index constituents (as of Feb 2021)

	1	2	3	4	5	6	7	8	9
1	1.00	0.06	0.02	-0.23	0.13	0.15	-0.20	0.08	0.13
2	0.06	1.00	0.34	0.14	0.25	0.10	0.03	0.04	0.33
3	0.02	0.34	1.00	0.22	0.38	0.22	0.08	0.18	0.14
4	-0.23	0.14	0.22	1.00	0.07	0.39	0.90	0.51	0.24
5	0.13	0.25	0.38	0.07	1.00	0.27	0.08	-0.22	0.17
6	0.15	0.10	0.22	0.39	0.27	1.00	0.32	0.21	0.20
7	-0.20	0.03	0.08	0.90	0.08	0.32	1.00	0.43	0.35
8	0.08	0.04	0.18	0.51	-0.22	0.21	0.43	1.00	0.27
9	0.13	0.33	0.14	0.24	0.17	0.20	0.35	0.27	1.00



Japanese Hedge Funds: De-Correlation between Managers

- ❖ Industry returns have also been well diversified across strategies, not relying on a 1-2 investment styles to consistently buoy the whole hedge fund index

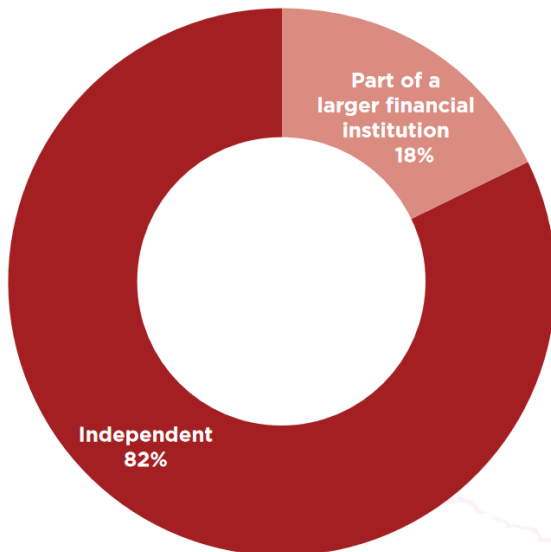
2020	2019	2018	2017	2016
Eurekahedge Japan Multi-Strategy Hedge Fund Index; 13.82%	Trading Oriented Japan Index (JPY); 12.17%	Trading Oriented Japan Index (JPY); 0.72%	Fundamental Japan Equity Long Short Index (JPY); 16.55%	Fundamental Japan Equity Long Short Index (JPY); 1.70%
Trading Oriented Japan Index (JPY); 6.39%	Fundamental Japan Equity Long Short Index (JPY); 6.09%	Equity Market Neutral Japan Index (JPY); -0.91%	Eurekahedge Japan Long Short Equities Hedge Fund Index; 12.87%	Equity Market Neutral Japan Index (JPY); 1.55%
Equity Market Neutral Japan Index (JPY); 5.87%	Equity Market Neutral Japan Index (JPY); 5.18%	Eurekahedge Japan Multi-Strategy Hedge Fund Index; -4.84%	Trading Oriented Japan Index (JPY); 8.17%	Eurekahedge Japan Long Short Equities Hedge Fund Index; 1.05%
Eurekahedge Japan Long Short Equities Hedge Fund Index; -5.13%	Eurekahedge Japan Long Short Equities Hedge Fund Index; 5.14%	Eurekahedge Japan Long Short Equities Hedge Fund Index; -9.58%	Equity Market Neutral Japan Index (JPY); 7.93%	Trading Oriented Japan Index (JPY); -1.15%
Fundamental Japan Equity Long Short Index (JPY); -5.19%	Eurekahedge Japan Multi-Strategy Hedge Fund Index; 2.12%	Fundamental Japan Equity Long Short Index (JPY); -13.18%	Eurekahedge Japan Multi-Strategy Hedge Fund Index; 3.37%	Eurekahedge Japan Multi-Strategy Hedge Fund Index; -1.34%



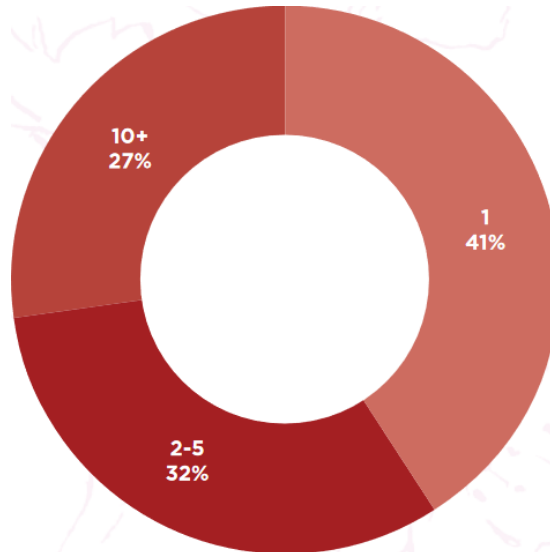
Survey Results

Survey Results: Firm Information

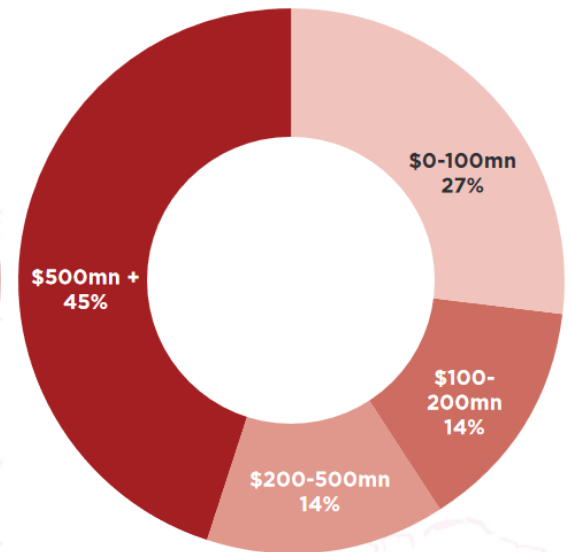
Is Your Firm Part Of A Larger Financial Institution Or Is It Independent?



How Many Funds / Products Does Your Firm Offer?



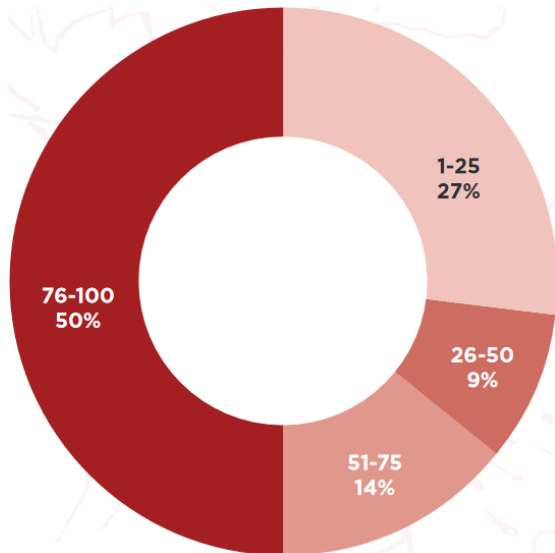
What Is The Total AUM Managed By Your Firm In USD?



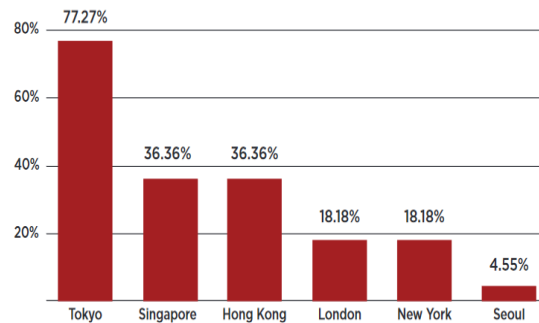


Survey Results: Firm Information

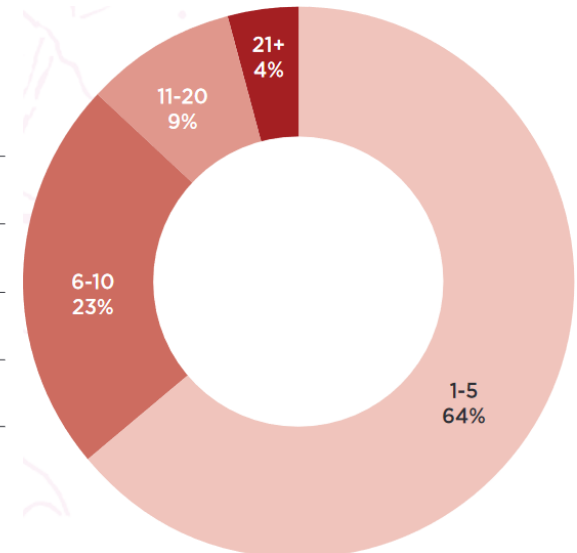
What % Of Your Total AUM Comes From Investors Based Outside Japan?



Which Of The Following Locations Do You Have Offices In?



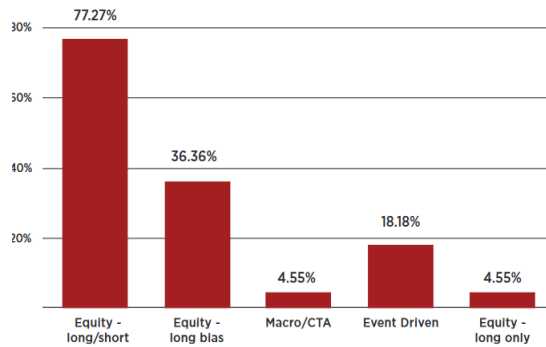
How Many Investment Professionals Do You Employ Who Are Solely Focused On Your Hedge Funds?



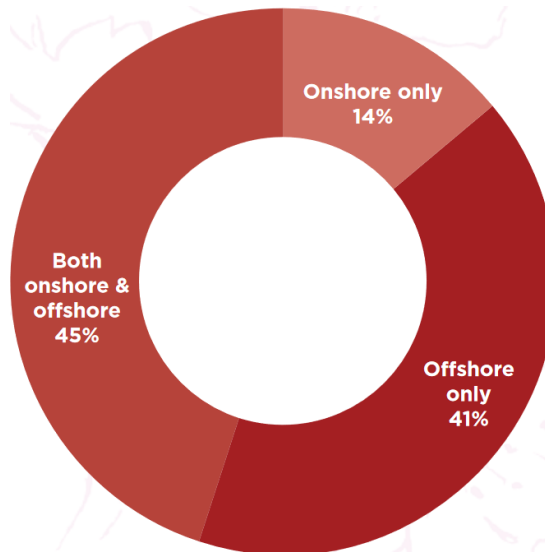


Survey Results: Fund Information

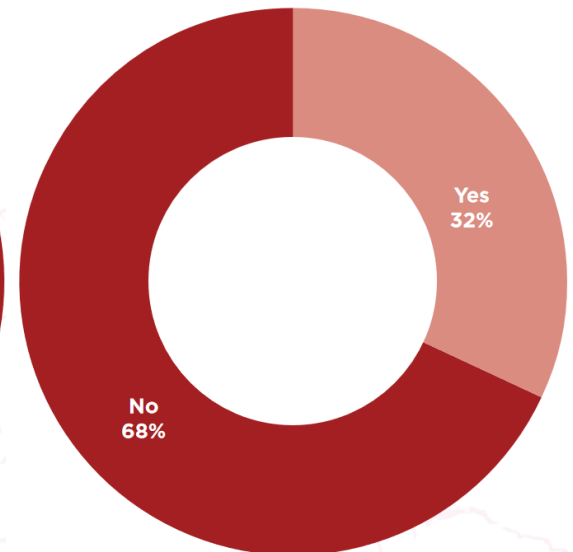
Which Strategies Do You Run?



Do You Offer Only Onshore Funds, Only Offshore Funds, Or Both?

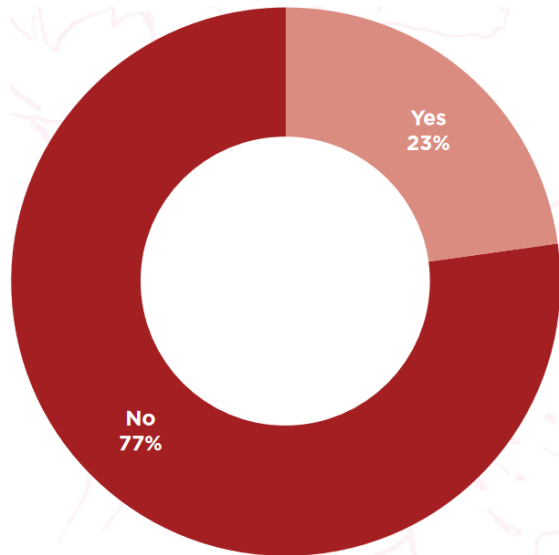


Do You Offer Any UCITS-Compliant Funds?

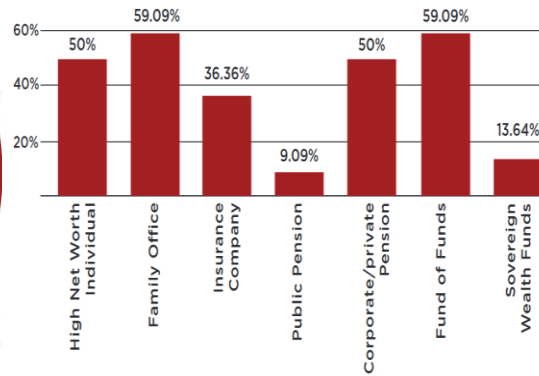


Survey Results: Fund Information

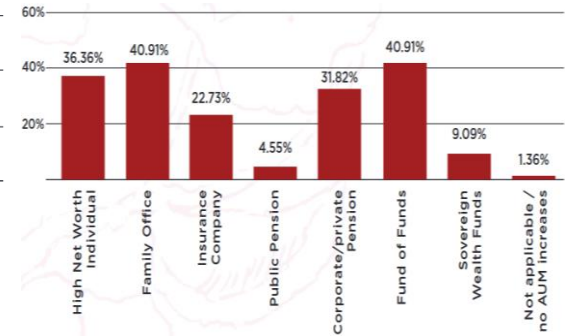
Are You Planning On Launching Any UCITS-Compliant Funds?



Which Investor Types Do You Currently Receive Allocations From?

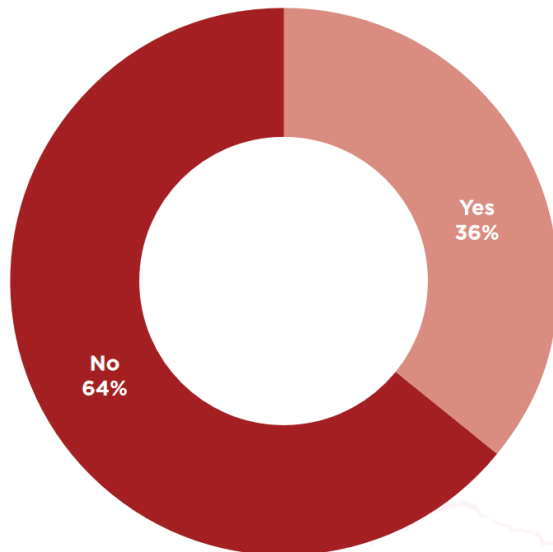


Which Investor Types Have Accounted For Any AUM Increases In The Past Year?

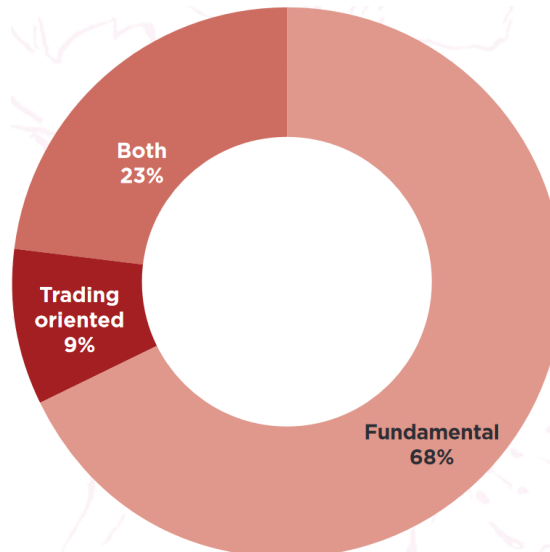


Survey Results: Characteristics Of Japanese Hedge Fund Managers

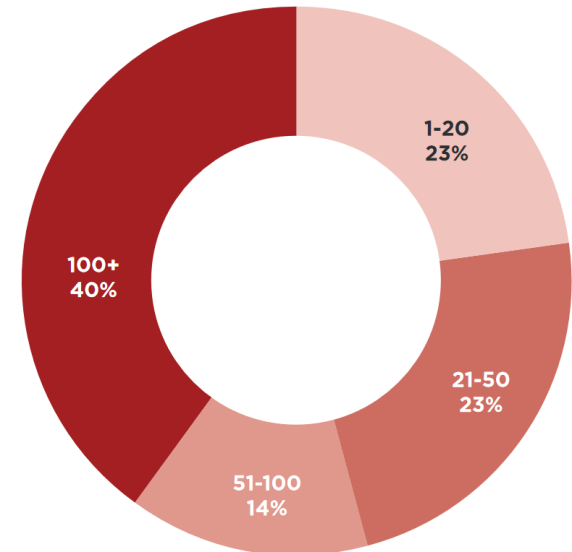
Do You Engage In Activism Or Company Management Engagement?



What Type Of Manager Do You Consider Yourself To Be?

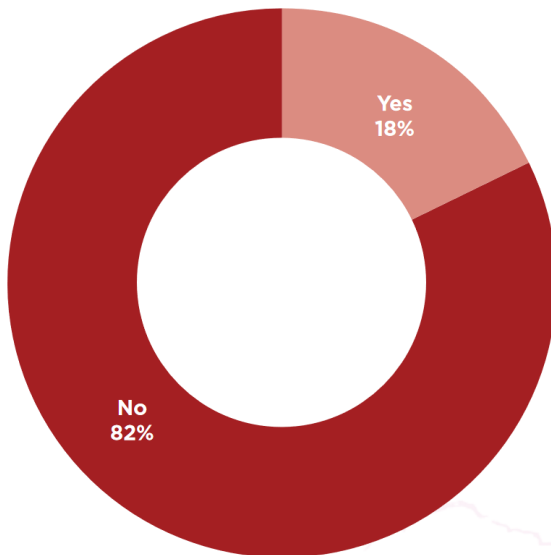


How Many Positions Do You Hold At Any One Time?

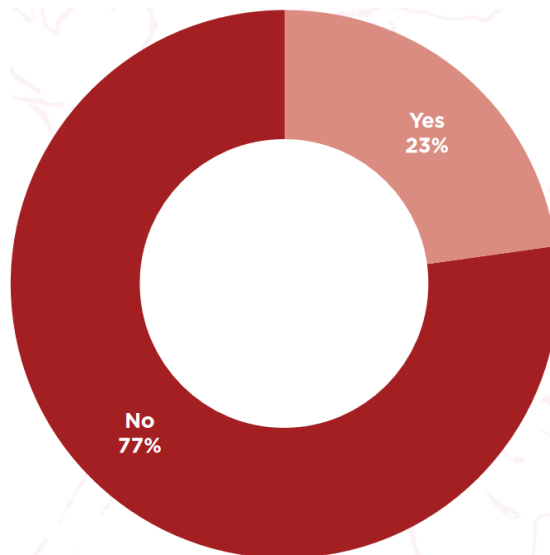


Survey Results: The Views Of Japanese Hedge Fund Managers

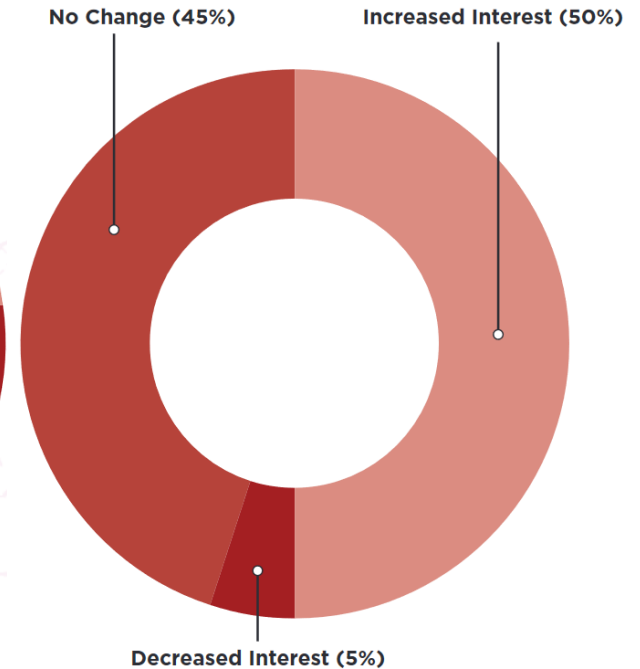
Do You Think That Foreign Investors Pay Enough Attention To Domestic Japanese Hedge Funds?



Do You Think Domestic Investors Pay Enough Attention To Domestic Japanese Hedge Fund Managers?

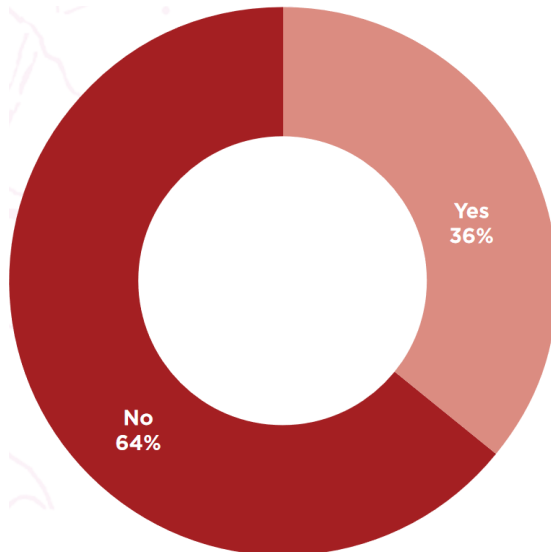


Have You Seen Increased Or Decreased Interest In Your Fund In The Past 12 Months?

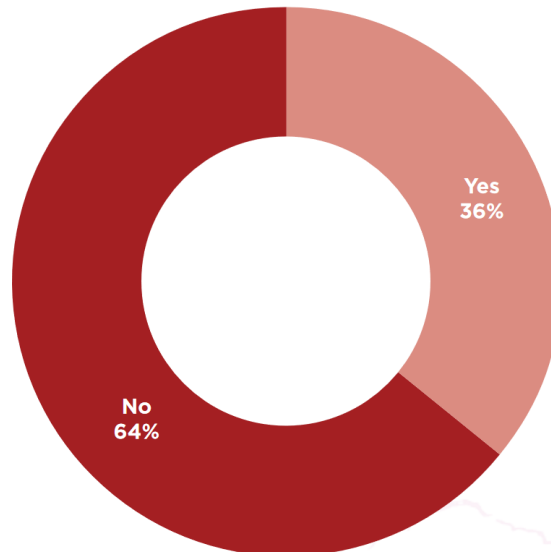


Survey Results: The Views Of Japanese Hedge Fund Managers

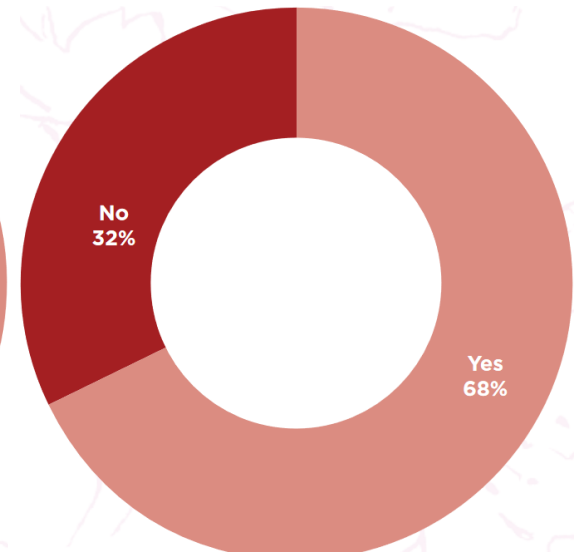
Do You Feel That Japanese Hedge Funds Are Under Fee Pressure From Their Investors?



Do You Think That It's Getting Easier For New Hedge Funds To Become Registered In Japan?

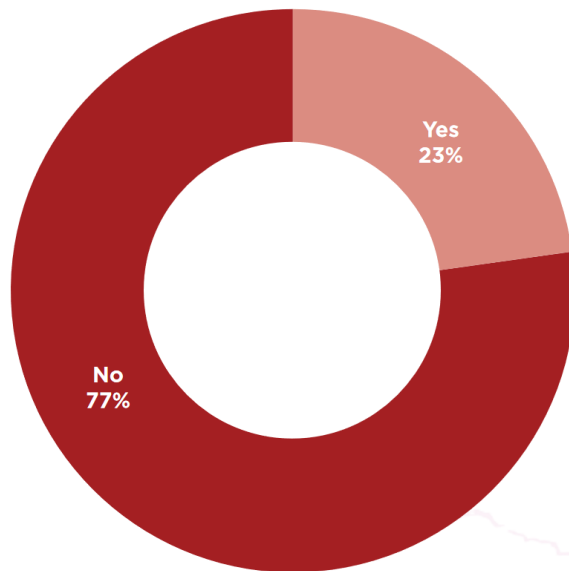


Has The Japanese Stewardship Code Been A Benefit So Far?

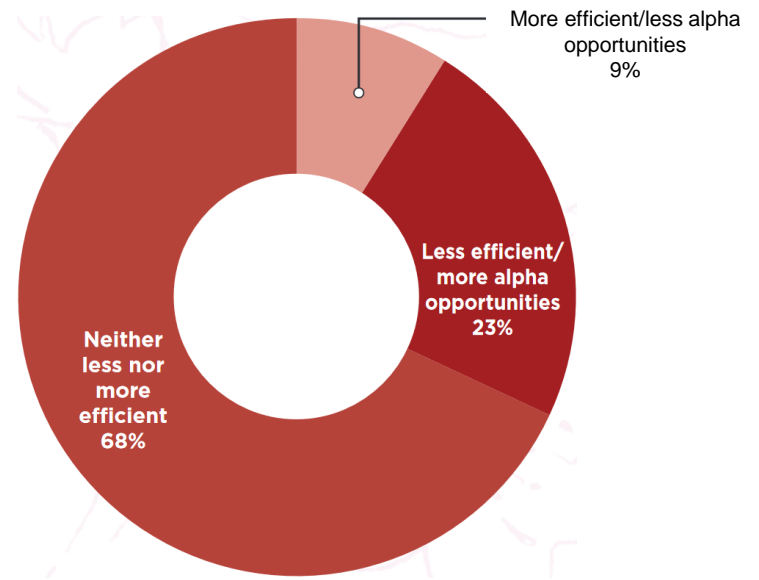


Survey Results: The Views Of Japanese Hedge Fund Managers

Do You Think The Regulatory Environment In Japan Hinders Hedge Funds' Ability To Generate Alpha?



Do You Feel That The Japanese Market Has Become More Or Less Efficient Over The Past 12 Months?





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