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Japan's Nomura AM targets Chinese institutions hedging against US tensions

Fund firm has expanded coverage of the Chinese market, promoting diversification to undervalued Japanese stocks, but consultants have yet to note substantive flows

By Lisa Kim | May 3, 2023

Japan's Nomura Asset Management is targeting institutional investors in mainland China that are considering increasing exposure to Japanese markets to hedge against the ongoing geopolitical tensions between the world's two largest economies.

The Japanese market has traditionally been relatively low on Chinese investors' ranking of geographical allocations, and consultants say there has been little evidence so far of Chinese institutions turning to Japan as an alternative to the U.S. market.

Yuichi Murao, Nomura AM's Tokyo-based Japan equity chief investment officer, said the main concern among many Chinese institutional investors is their high exposure to the U.S. and that they are looking for diversification.

"Japan is certainly a market where they can diversify their asset allocation," Murao told *Ignites Asia* in Hong Kong last month after meeting institutional clients during his first trip to Beijing.

China's capital was the last leg of a trip that spanned the U.K., France, Germany, the Middle East and North America, as Murao aimed to promote Japanese equities.

"We think there are some misunderstandings about the investment opportunities in Japan that need to be clarified by somebody like ourselves," Murao said, referring to factors that had caused the undervaluation of Japanese equities.

To expand its China sales, Nomura AM created the position of Greater China institutional business out of Hong Kong, hiring Shuai Shao in February.

Following Murao's trip to Beijing, the fund firm has fielded more enquiries from Chinese investors about the relative appeal of Japanese equities compared with the U.S. stock market, and what asset allocation strategy would work best.

Nomura's Shao said geopolitical tensions have led Chinese investors to mull expanding their exposure to Japan by separating it from their developed markets allocations.

Chinese investors have "started to understand the importance of having a local Japanese asset manager work on their local single country allocation instead of having global asset managers invest in Japan equity", she said.

Nomura AM has also won a Japanese equities mandate last year from a client in the Greater China region, which includes Hong Kong, the company said, without elaborating.

Since entering China in 2011, Nomura AM has been focused on the private fund business, with a qualified foreign limited partnership, private fund management and qualified domestic limited partnership licences.

The company established a joint venture with Shenzhen Hua Xia Ren He Capital Management in 2014 to manage QFLP funds in Shenzhen, three years after opening an office in Shanghai.

The company has around US$1 billion in assets in China, including funds and segregated mandates, that mainly invest in Japanese equities.

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But Chinese institutions' allocation to the Japanese market has traditionally been small and investment consultants say there is little evidence this year of money moving in that direction.

Although the possibility of Chinese investors considering increasing their exposure to Japan has been heard of in the market following the U.S.-China trade spat, it has not been reflected in fund flows, according to one China-based source with a consultancy.

"According to public information, I haven't seen a huge increase in mainland institutional investors investing in Japanese equities," the source said.

Jean de Kock, strategic research director for Asia Pacific, Middle East and Africa at Mercer, said geopolitical conflict has instead driven Chinese investors – who have quotas to invest in offshore assets – to Hong Kong equities and China dollar-denominated bonds issued in the territory from global or U.S. equities.

In 2021 and 2022, there was "a bit of nervousness about whether that [exposure to the U.S.] would be an avenue that remained open to them as China-based investors. So we did see a fair shift", he said.

Still, global fund managers have recently touted the increased attractiveness of Japan's equities market after factors that had caused undervaluation for decades such as the strong yen, weak corporate governance and lower wages cleared up.

Last month, billionaire investor Warren Buffett said he had increased stakes in five Japanese trading houses and suggested he could make more Japanese stock investments, spotlighting opportunities in that market.

Foreign institutional investors net sold Japanese stocks worth ¥2.22 trillion (US$16.26 billion) from the Tokyo Stock Exchange in March following the global banking crisis, according to exchange data. They net purchased ¥166.24 billion in February and ¥539.73 billion in January.

The benchmark Topix index rose 7.2% in the first quarter after finishing last year down 6.8%, according to Japan Exchange Group.

“In the first half of the quarter, the Japanese equity market went up. This is because concern over excessive monetary tightening by central banks abated as inflation rates had peaked, and expectation of an economic boost rose given the lifting of China’s zero-covid policy,” said Cédric Le Berre, senior analyst at UBP.

“In the middle of March, the equity market and interest rates plummeted as the BoJ left its monetary policy unchanged and risk-off sentiment, driven by bankruptcies of U.S. banks, worsened. However, the market then rebounded as fears over a financial crisis faded due to swift actions by the Fed and central banks in Europe,” he added.

Additional reporting by Karen Lai