

greater competition for the management of investments¹⁰, the expectation would be for Japanese investors to adjust their Canadian portfolio share to be more in line with benchmark levels suggested by global investment houses.

JAPANESE SHARE OF NON-RESIDENT HOLDINGS OF CANADIAN BONDS

As of the end of the first quarter of 1996, Statistics Canada reports that total non-resident holdings of all Canadian bonds totalled some \$326.6 billion¹¹. Using Statistics Canada's numbers only, the proportion of all Canadian bonds held by Japanese investors would appear to be about 12.4%. This is down from the 15.8% share held by Japanese investors at the end of the first quarter of 1995.

Although last year's Survey report noted that early indicators in 1995 suggested that Japanese holdings might increase, both Statistics Canada figures and our Survey results indicate that there has been a gradual decline in Japanese holdings over the past year. Coupled with the increase in global holdings of Canadian bonds, the result has been a decline in the Japanese share of the total. Nonetheless, Japanese investors remain important investors in Canadian bonds and continue to be the second largest holders of Canadian debt assets after the U.S.

INVESTOR STRATEGIES

Although Japanese portfolio investment abroad did improve significantly in fiscal year 1994, the continuing non-performing loan problems of the Japanese financial sector and ongoing stock market and exchange rate volatility appears to have dampened Japanese investor enthusiasm and outward portfolio investment in fiscal year 1995 was lower than in 1994¹². Indeed, despite some hope that Japanese institutional investors would increase their foreign portfolio investments in fiscal year 1995, actual performance appears to have been quite mixed. According to various published reports, only a few of the larger insurance firms¹³ and some investment trust management companies increased their foreign portfolios, in most cases after

¹⁰ Following the conclusion of a Financial Services agreement between Japan and the U.S., the management of Japanese pension funds is now open to greater international competition. In addition, changes included as part of the new Japanese Insurance Law require greater segregation of various pension and investment funds. This should result in greater transparency in the management of these investment funds and greater competition.

¹¹ Statistics Canada, Canada's International Transactions in Securities, April 1996, Tables 19 and 20, pages 40-41.

¹² Bank of Japan, Balance of Payments Monthly, March 1996, Summary Table.

¹³ Jiyu Keizai Sha, International Finance, March 22 and April 2, 1996 editions.