KEYNOTE INTERVIEW

The evolution of Japan's LP landscape



Japanese institutional investors are expanding their PE portfolios in the mid-market, as well as co-investment and secondaries, say Neuberger's Jonathan Shofet, Yoshi Yagisawa and Hiro Fukuda

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Q What trends are you noticing among the Japanese institutional investor community in terms of their appetite for private equity?

Yoshi Yagisawa: Sophisticated Japanese investors, such as large financial institutions, have a long history of investing in private equity funds on a direct basis, but they have historically focused their attention on the larger end of the GP spectrum.

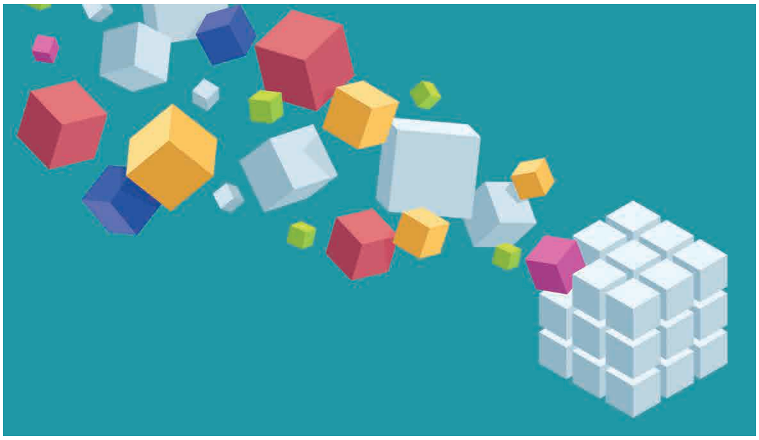
Over the last five to six years, however, these investors have increasingly been allocating capital – often in partnership with established global platforms such as Neuberger – to a combination of high-quality, hard-to-access US mid-market funds, as well as European and Asian regional and country-specific funds. At the same time, GPs globally are visiting Japan more frequently in their fundraising efforts, and at Neuberger we are increasingly engaging in discussions with them about the structure of the Japanese LP community and the fundraising landscape in Japan.

Jonathan Shofet: In addition to this, the other major evolution over the past few years has been the introduction of co-investments and secondaries to augment primary-focused private markets portfolios. Japan LPs are increasingly looking for a combination of co-investments and secondaries to enhance overall returns, improve capital efficiency, reduce all-in fees and increase diversification. Importantly, many Japan LPs believe that co-investments and secondaries can provide an additional tool to better understand and diligence GPs, which may strengthen their GP relationships and provide greater diligence insights when making primary commitments. This trend among Japan investors is consistent with what we have seen globally as well.

Q How much appetite do Japanese investors have for their domestic private equity market, and how are they looking to access these opportunities?

Hiro Fukuda: Japanese investors are getting more comfortable with increasing their exposure to the domestic Japan market within broad-based private markets portfolios, alongside their US and European allocations. In particular, we are seeing increased interest in customised SMA programmes focused on Japanese GPs.

Japanese investors already have access to domestic managers but we believe that they value the ability to gain additional perspective from private markets platforms such as Neuberger that are analysing funds on a global basis. Underwriting and benchmarking by a provider with one global standard can also provide additional confidence as Japanese investors increasingly see Japanese private equity as an investment exposure that can drive alpha in their overall portfolios.



Q How would you describe Japanese investor interest in emerging managers, and how is this evolving?

YY: In general, when Japanese institutions invest directly in funds, obtaining internal approval for emerging managers' funds tends to be relatively challenging. However, if they pass on these opportunities, waiting for the manager to launch fund three or fund four may be too late. High quality funds may be heavily oversubscribed by that point.

Institutions such as Neuberger can alleviate this structural challenge for Japanese institutions by helping to create diversified portfolios that include attractive first or second-time funds, allowing Japanese investors to gain indirect exposure and start to build relationships with these emerging managers earlier in their lifecycle.

Q Japan is said to be one of the harder markets for international players to penetrate. How have you approached relationship building and what benefits do you think a global presence provides?

YY: Neuberger has a distinctive, integrated coverage model across our Tokyo and New York offices. We have over 100 professionals based in Japan and a dedicated "Japan Desk" within our New York private markets investment team. The New York Japan Desk was founded in 2014, and is currently comprised of seven people, including myself.

The Japan Desk is responsible for a wide range of activities related to customised SMA programmes for Japanese investors. Our work begins with sourcing and winning new mandates in collaboration with the Tokyo-based client coverage team. Once a mandate is awarded, we work closely with internal partners such as the legal and finance teams to onboard the programme and then engage with the investment team and the client to build the portfolio through ongoing discussions around the investment pipeline. We are also involved, in close co-ordination with the Tokyo team, in various aspects of client service associated with managing these portfolios. Depending on the mandate, we are often involved in negotiating side letters with underlying fund managers to address specific requirements and regulatory considerations unique to Japanese investors.

In addition, the Japan Desk also plans and manages training programmes for investment professionals at Japanese financial institutions. Japan Desk members maintain direct, ongoing communication with Japanese clients through regular video conferences and periodic business trips to Japan, ensuring close engagement across time zones. In recent years, some major Japanese financial institutions have been expanding their private markets research teams in New York. As a result, there are increasing situations in which the Japan Desk engages directly with clients during New York business hours.

HF: I would add that we also have an investment capability in Tokyo where we cover domestic primary fund investments, co-investments and secondaries – in fact, the funds advised by Neuberger led Japan's first ever GP-led secondaries transaction in the buyout space alongside J-STAR in 2023. With respect to co-investments, we have strong relationships with local Japanese GPs, and we also work with global GPs that are typically investing out of pan-Asian funds.

Q What are Japanese investors that have mature portfolios focused on?

JS: Similar to global investors, Japanese investors with mature portfolios are focused on increased liquidity from the asset class. For the 10 years prior to 2022, the industry grew accustomed to frequent and robust liquidity events. On average, 20 percent to 30 percent-plus of NAV would exit LP portfolios each year from sales, dividend recaps and IPOs. Liquidity then slowed down materially due to a number of headwinds that spanned from inflation and rising interest rates to tariffs, geopolitical events and the ongoing overhang of AI disruption.

In combination, this has slowed both new buyout activity but moreover exits over the past three to four years. The net result is that GPs are under material pressure to create greater liquidity for their LPs. For institutions such as Neuberger, this dynamic continues to create an attractive opportunity to be a liquidity provider to our GP partners. Mid-life co-investments (also known as minority equity investments), preferred equity investments and continuation vehicles, for example, are investment solutions that GPs utilise to create liquidity events and liquidity options for their LPs.

Notably, at the same time, these solutions often enable GPs to not only provide liquidity but allow them to hold onto their highest quality assets for longer. We see continued strength in our investment pipelines for these types of transactions for the remainder of 2026 and over the next few years.

Q How is AI changing the investment environment?

JS: AI is already having a broad and material impact on the investment environment – both in terms of first- and second-order opportunities and risks, and even in how the business of investing itself gets done.

Starting with direct investments, at the base of the stack you have the multi-trillion-dollar infrastructure build-out required to support AI at scale – data centres, power generation, grid upgrades and specialised real estate. Infrastructure, energy and real-asset GPs, on both the equity and credit side, are intensely focused on this segment of the market.

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>
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Moving up the stack, foundational model companies have collectively raised very large amounts of private capital and continue to grow at unprecedented rates. These businesses are attracting private capital from across the alternatives ecosystem – venture, growth, buyout, hedge funds and large asset managers – many positioning ahead of what they expect could eventually be very large public companies.

Then above that are the application and agentic AI layers, which have the potential to be highly impactful for both incumbents and start-ups. These technologies can create new companies, but they can also either challenge or strengthen the durability of existing business models across software, professional services, media, financial services and healthcare.

So, in that sense, AI is a double-edged sword from an investment standpoint. It can create enormous opportunity while simultaneously forcing investors to reassess risk across large parts of the economy.

What we're seeing from many large LPs is a growing appetite to have exposure to AI-related investments – both because they see attractive standalone opportunities, but also increasingly because they view it as a hedge against disruption elsewhere in their portfolios.

The investment environment is therefore as dynamic as we've seen in quite some time. Our approach is to remain disciplined – building well-diversified portfolios with world-class GPs and attractive direct investments, including those that are likely to be net beneficiaries of AI.

A key component is ensuring that the GPs we back have the right resources and mindset to navigate this increasingly complex landscape and are thoughtfully incorporating AI into both their investment processes and their portfolio companies. Ultimately, our goal is straightforward: to partner with the most talented GPs globally and deliver to our clients what they want most – attractive and well-diversified returns over time. ■

Jonathan Shofet is global head of private investment portfolios and co-investments at Neuberger, Yoshi Yagisawa is head of the New York Japan Desk, and Hiro Fukuda is a principal at the firm's Tokyo office