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Structure Before Strategy: Japan's Private Markets Model

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Japanese institutional investors have been steadily increasing their allocations to private equity, private credit, infrastructure and other private markets strategies. Japan Post Bank's private equity exposure, for example, has grown from negligible levels to over US\$50 billion between 2016 and 2025 - a reallocation that would have seemed improbable not long ago.

The macro drivers are familiar. Persistently low yields, the return of inflation, governance reform and the need for diversification have all played their part. More recently, changes in regulatory capital treatment (particularly under updated FSA guidelines) have altered the relative efficiency of certain asset classes, making private credit, in particular, more competitive against traditional holdings such as Japanese government bonds.

Less discussed are the structural mechanisms enabling this shift.

The choice between a limited partnership and a unit trust structure has never been binary. It typically turns on investor requirements, regulatory considerations and the guidance of Japanese tax counsel and accountants. In many contexts - particularly where look-through treatment is required, where alignment with co-investors is paramount, or where a broad international investor base is anticipated - a Cayman Islands exempted limited partnership remains entirely appropriate.

However, since 2015, a closed-ended private equity-type unit trust model has been refined to allow certain Japanese institutions to access global private markets strategies through a trust-

based structure aligned with domestic governance, accounting and regulatory frameworks. In specific institutional contexts, this format has increasingly been preferred.

What Is a PE-Type Unit Trust?

The PE-type unit trust is a hybrid vehicle: essentially a traditional Cayman Islands (or in some cases Irish) unit trust - the structure with which Japanese investors are most familiar - that incorporates certain characteristics of a private equity fund, including capital call. Where a conventional unit trust requires investors to subscribe for units in full at the outset, the PE-type variant permits drawdown-based funding aligned with the pace of underlying private equity deployment.

Why Structure Matters

Japanese life insurers, banks and pension funds operate within tightly defined governance and balance-sheet parameters. Legal form affects accounting presentation, capital recognition and internal approval processes.

Most global private equity and credit strategies are organised as limited partnerships. For many Japanese institutions, however, there remains a strong preference for investing via a unit trust format - one that sits more naturally within established operational systems.

The PE-type unit trust bridges these two worlds. It replicates the economic exposure of a limited partnership while maintaining a structure capable of aligning with institutional accounting treatment and, where appropriate,

Securities Investment Trust classification. In practice, compatibility with accounting and tax frameworks is often a precondition for allocation.

The structure also offers practical benefits around currency hedging. In a limited partnership, gains and losses are typically not recognised until realised - which may be years after the initial investment - making it difficult to hedge non-yen exposure on a current basis. The PE-type unit trust produces a current net asset value that reflects both realised and unrealised gains. This allows Japanese institutional investors to measure exposure, hedge currency risk, and account for their position more easily compared with the more realisation-driven waterfall of a limited partnership.

Institutional Adoption

Over the past decade, the use of the PE-type unit trust in Japanese institutional mandates has steadily increased. A defining feature has been repeat use. Once a structure has passed internal scrutiny - accounting, tax, regulatory and operational - subsequent allocations frequently utilise the same architectural foundation. That repetition reduces execution friction and shortens approval timelines over time.

Implications for Global Managers

For global managers targeting Japanese institutional capital, structural alignment at the outset can materially influence execution dynamics. Investment committees may be persuaded by strategy and performance; implementation teams require familiarity and compatibility. In Japan, structure often precedes scale.

As private markets allocations continue to expand - particularly in private credit, where regulatory and capital considerations have shifted relative economics - the importance of appropriately aligned investment vehicles is likely to increase. For managers seeking meaningful access to Japanese institutional capital, the structural conversation can prove as consequential as the underlying strategy itself.

Further Assistance

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