

NISA Landscape Report: Year-End 2025

NISA reforms seek to improve accessibility and broaden investor appeal.

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Daisuke Motori

Director, Manager Research, Japan

+81 3 4510-5492

daisuke.motori@morningstar.com

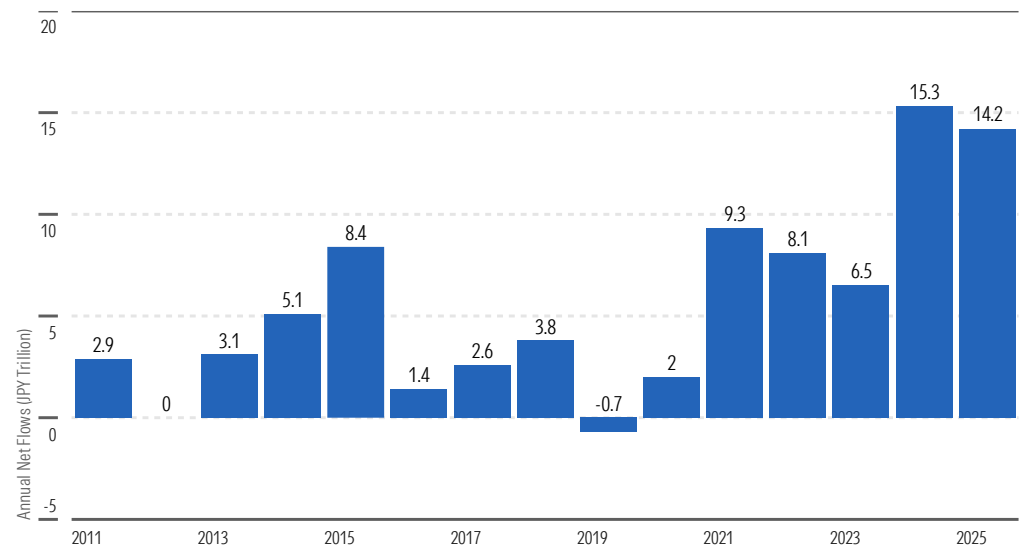
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Overview

The year 2025 marked the second year since the major overhaul of the Nippon Individual Savings Account, with the program continuing to gain traction among Japanese investors. NISA-eligible funds remained the primary driver of the market, with total annual net inflows—including both NISA-eligible and other funds—reaching approximately JPY 14.2 trillion (approximately USD 95.2 billion). While low-cost equity index funds continued to attract the majority of capital, investor behavior began to shift: Interest in specific investment themes that were popular in 2024 declined, while allocation funds and gold-related strategies gained momentum, indicating the early stages of broader portfolio diversification. This report analyzes the fund flow trends of 2025 and explores the upcoming NISA expansion, including the introduction of "Children's NISA."

Exhibit 1 Revamped NISA Fuels Rapid Growth in Annual Fund Flows



Source: Morningstar Direct.

Key Takeaways

- ▶ **Launch of “Children’s NISA” in 2027:** Beginning January 2027, “Children’s NISA” will be available for minors aged 0 to 17, with an annual investment limit of JPY 600,000. Designed not only for funding future education costs but also as a foundation for ultra-long-term asset formation, the program recognizes that investment horizons will differ by household. As equity-only portfolios may not suit all investors, financial institutions are expected to enhance comparison tools to support informed decision-making tailored to individual goals.
- ▶ **Expansion of NISA-eligible funds in the Tsumitate Quota:** To better serve investors with lower risk appetites, the Tsumitate Quota will be expanded to include fixed-income funds. However, as of December 2025, only 11 retail-distributed active fixed-income funds meet the strict eligibility criteria, making a significant increase in new active fixed-income funds within the Tsumitate Quota unlikely in the near term.
- ▶ **Signs of diversification:** Total net inflows reached JPY 14.2 trillion in 2025. While low-cost world and US equity passive funds continued to dominate, five allocation funds and three gold-related funds ranked among the top 30 for net inflows, signaling a shift toward more diversified asset allocation.
- ▶ **A shift toward long-term, disciplined investing:** Investment in specific sector or country equity funds, such as semiconductors and India equity, declined in 2025. Additionally, despite record highs in the Japanese equity market, the typical “contrarian” selling behavior was subdued. This indicates that investors are increasingly favoring disciplined, long-term investment strategies over short-term trading.

NOTE: Statistics on NISA subscription amounts are not included in this report, as the Financial Services Agency has not released updated data since the previous report.

NISA Reform

In December 2025, Japan's ruling coalition unveiled its tax reform outline, introducing a series of measures designed to enhance the NISA program. The most significant change is the expansion of eligible investment products. While the current NISA framework primarily supports asset accumulation among the working-age population, the proposed reforms mark a strategic shift—positioning NISA as a long-term asset-formation vehicle for investors of all ages, including both younger individuals and retirees.

The reform package focuses on two key developments. First, to promote early engagement with long-term investing, the government plans to eliminate the minimum age requirement—currently set at 18—for eligibility under the tax-exempt accumulation (Tsumitate) investment quota. Second, authorities aim to broaden the range of eligible funds within the Tsumitate Quota, moving beyond the current, relatively limited selection of qualifying funds. These changes are expected to make NISA more accessible and appealing to a wider range of investors.

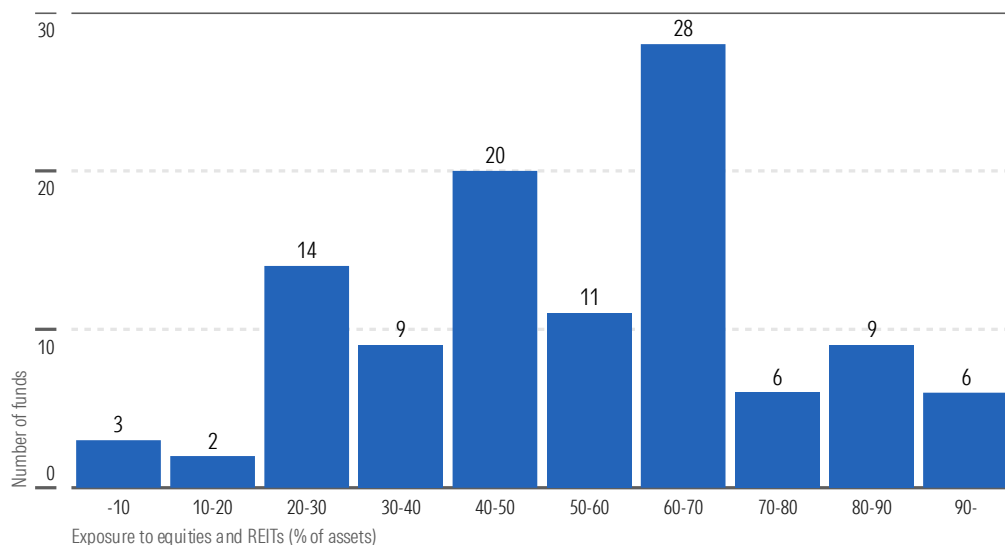
Removal of the Age Restriction for the Tsumitate Quota

Effective January 2027, eligibility for the Tsumitate Quota will be extended to individuals below the age of 18, introducing what is commonly referred to as “Children’s NISA.” The eligible funds under this quota will continue to adhere to the same criteria as the existing Tsumitate Quota, thereby maintaining current product standards. However, the annual contribution limit will be set at JPY 600,000—half the allowance available under the standard framework—and the lifetime tax-exempt holding limit will be capped at JPY 6 million. As a general rule, withdrawals from Children’s NISA accounts will not be permitted. An exception will apply if the funds are demonstrably used for the benefit of the child—such as for education-related expenses—and with the child’s consent; in these cases, withdrawals will be allowed from age 12 onward. Upon reaching age 18, accounts will automatically transition into the standard Tsumitate Quota.

Currently, many investors use the Tsumitate Quota with a long-term perspective, which has driven a strong preference for low-cost equity index funds. In contrast, Children’s NISA is likely to be associated with a broader range of investment objectives and time horizons. For example, households that begin contributing at a child’s birth and plan to continue investing beyond age 18 may find low-cost equity index funds particularly suitable. Conversely, if participation begins when a child is around 10 years old, and contributions are intended to fund university expenses at age 18, the effective investment horizon may be less than a decade. In such cases, allocating the entire portfolio to equity-focused strategies may not be the most appropriate approach.

As of December 2025, 345 Japan-domiciled funds were eligible for inclusion under the Tsumitate Quota. Equity funds comprised the majority, totaling 197¹, while the remaining 148 were classified as allocation funds. Among these, 40 were target-date funds, which are designed to gradually shift asset allocations toward more conservative profiles as the target-date approaches. In this context, selecting a target-date fund aligned with the year a Children’s NISA beneficiary turns 18 could offer investors a practical, structured, and time-appropriate investment pathway.

¹ Funds that invest exclusively in equities and/or REITs by tracking multiple underlying indexes are classified as equity funds.

Exhibit 2 Equity and REIT Allocations Among Tsumitate-Eligible Allocation Funds

Source: Morningstar Direct. Equity and REIT allocations are derived from each fund's stated strategic asset allocation.

Outside of target-date funds, the remaining allocation funds display a wide range of risk profiles, with significant variation in their exposure to equities and REITs. Analysis of their strategic asset allocations² reveals an average allocation to equities and REITs of approximately 55%. However, there is considerable dispersion: Some funds allocate less than 10% to these assets, while others exceed 90%, reflecting substantially different risk and return characteristics (Exhibit 2).

Because Children's NISA investments are made through the Tsumitate Quota, front-end sales charges are not permitted. Consequently, opportunities for investors to receive detailed, in-person guidance from branch-based sales staff or advisors may be limited. This places greater responsibility on investors to select funds that align with their investment horizon and risk tolerance. As the launch of Children's NISA approaches in 2027, we believe there is a growing need for enhanced comparison tools, improved disclosures, and robust educational resources to support informed decision-making among Children's NISA investors.

Expansion of Eligible Funds Under the Tsumitate Quota

The planned expansion of eligible products under the Tsumitate Quota marks a significant broadening of the framework's scope. Currently, eligibility is largely restricted to equity-focused funds. Under the revised rules, eligibility will be extended to include fixed-income funds, with the aim of offering lower-risk investment products—particularly for investors with shorter time horizons or those looking for stable income potential.

As a result of this reform, fixed-income funds may become eligible for inclusion under the Tsumitate Quota. However, for funds that do not track designated indexes, no changes have been announced to the existing eligibility criteria. Active fixed-income funds will therefore continue to be subject to a series of requirements, including a capped trust fee (expense ratio)³, minimum net assets of JPY 5 billion, at least five years since inception, and net inflows in at least two-thirds of the fund's track record.

² Strategic asset allocation is determined based on disclosures in each fund's prospectus or equivalent documents. For funds that do not provide a stated strategic allocation, asset-allocation figures are updated annually using information from annual reports or monthly factsheets.

³ The maximum allowable fee is 1.0% for funds that invest exclusively in domestic assets, and 1.5% for funds that include any overseas exposure.

While fund companies can adjust trust fees, other requirements—such as assets under management and sustained net inflows—are less easily influenced. As of December 2025, 47 actively managed fixed-income funds met the criteria for assets under management, years since inception, and net inflows. Of these, 36 were vehicles designed exclusively for defined contribution pension plans or separately managed account/fund wrap accounts⁴, leaving only 11 retail-accessible active fixed-income funds that currently satisfy these requirements. In our view, this suggests that the reform is unlikely, at least initially, to result in a substantial increase in the number of active fixed-income funds eligible for the Tsumitate Quota.

Additionally, authorities plan to introduce two new designated indexes: the Yomiuri Stock Price Index (Yomiuri 333) and the JPX Prime 150 Index, both of which are Japan-equity indexes. However, current adoption remains limited. As of December 2025, only four funds and exchange-traded funds tracking the JPX Prime 150 Index were available, with combined assets of JPY 27.1 billion, while three products tracking the Yomiuri Stock Price Index had combined assets of just JPY 2.5 billion. Given this context, questions remain as to whether these indexes can currently be considered well-established within the investment ecosystem. While their designation as Tsumitate Quota indexes may encourage broader adoption over time, we believe that providing greater transparency and clarity around the criteria and process for index selection would strengthen confidence in, and the legitimacy of, any future additions or changes to the list of designated indexes.

⁴ This includes funds that are available exclusively through SMA or fundwrap platforms, even if they are not officially designated as platform-exclusive at the registration level.

Fund Flows

Overall

In the fourth quarter of 2025, net inflows into Japan-domiciled open-end funds totaled JPY 4.17 trillion, a sharp increase from the JPY 2.62 trillion recorded in the same period a year earlier (Exhibit 3). Net inflows surpassed JPY 1 trillion in each month of the quarter, highlighting sustained investor demand through year-end. For the full year, net inflows reached JPY 14.24 trillion, slightly below the JPY 15.33 trillion recorded in 2024. Although the market experienced a record-high quarterly inflow of over JPY 5 trillion in the first quarter, momentum slowed in the following months (Exhibit 4). Heightened uncertainty in global equity markets—partly due to concerns over US tariff policies under the Trump administration—contributed to a deceleration in inflows through midyear, ultimately resulting in a lower year-on-year total.

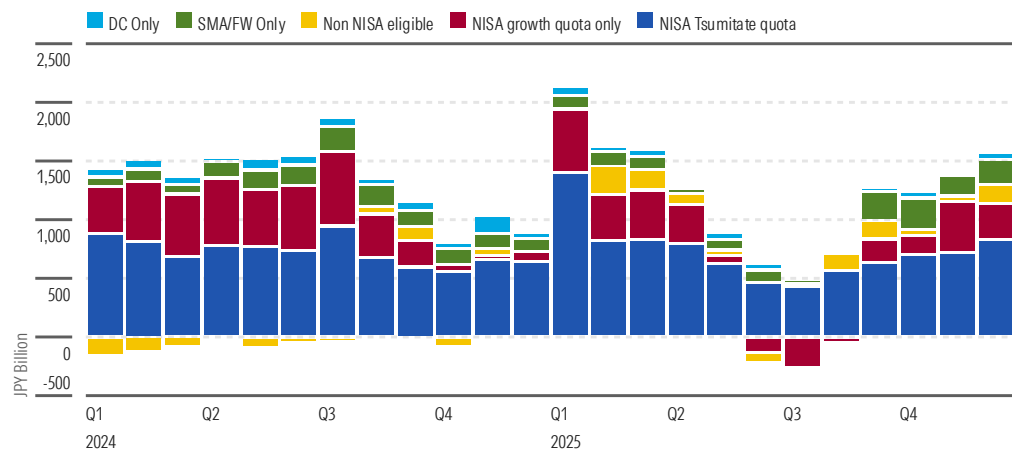
Focusing on retail-distributed open-end funds (approximately 4,200 funds)⁵, net inflows in the fourth quarter amounted to JPY 3.37 trillion, with full-year net inflows totaling JPY 12.18 trillion. NISA-eligible funds accounted for JPY 3.11 trillion of net inflows in the fourth quarter and JPY 11.10 trillion for the full year, continuing to serve as the primary destination for retail investor money. However, non-NISA-eligible funds also attracted nearly JPY 1 trillion in net inflows during 2025. Consequently, the previously pronounced concentration of retail flows into NISA-eligible products showed signs of moderation, indicating a somewhat broader dispersion of investor money across the fund universe.

Exhibit 3 Net Flows by NISA Universe in 2025 and Q4 2025 (JPY Billion)

Universe	2025 Total	2024 Total	Q4 2025	Q4 2024
All funds	14,235.6	15,329.2	4,170.2	2,618.5
NISA-eligible funds	11,349.4	13,238.1	3,199.6	2,053.6
All retail-distributed funds	12,184.7	12,770.0	3,374.8	1,985.6
NISA eligible funds	11,101.9	13,025.1	3,111.7	1,993.6

Source: Morningstar Direct. Actual net flows are used throughout the report, except for December 2025, where estimated net flows are used.

Exhibit 4 Monthly Net Flows (JPY Billion)

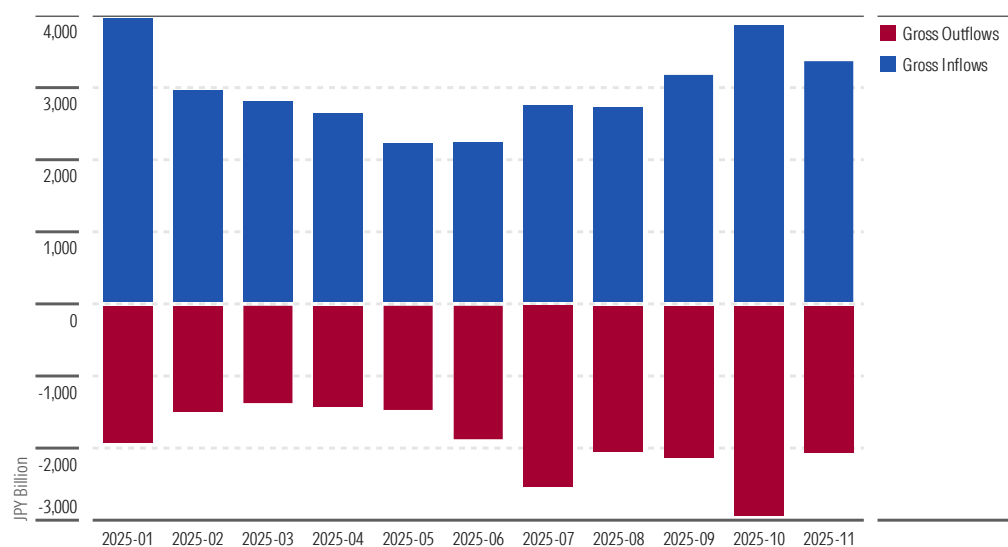


Source: Morningstar Direct.

⁵ To more accurately reflect fund-flow trends driven by individual investor decisions, this analysis excludes funds dedicated to defined-contribution pension plans, as well as funds available exclusively through SMA or fund-wrap platforms.

During the January–November⁶ 2025 period, gross inflows across the retail-distributed funds universe totaled JPY 32.71 trillion. Of this amount, JPY 25.59 trillion was allocated to NISA-eligible funds, while JPY 7.12 trillion flowed into non-NISA-eligible funds. Consistent with previous years, non-NISA products represented approximately 20% of total gross inflows. A review of monthly trends (Exhibit 5) reveals periods of fluctuating investor sentiment. Amid heightened market uncertainty, investors adopted a more cautious approach, with gross inflows declining to the low JPY 2 trillion range between May and June. Subsequently, inflows recovered, stabilizing in the JPY 3 trillion range from September through November. Periods of equity market strength coincided with increased outflows. Notably, gross outflows rose during June and July as equity markets rebounded, and again in October when equity indexes reached new highs, such as the Nikkei 225 surpassing 50,000 yen. This pattern suggests that some investors capitalized on favorable market conditions to realize gains, partially offsetting gross inflows during these periods.

Exhibit 5 Monthly Gross Inflows and Outflows of Retail-Distributed Funds



Source: Morningstar Direct.

Top Net Flows Funds

The composition of the top-ranking funds by net inflows in the fourth quarter of 2025 (Exhibit 6) remained largely consistent with the previous quarters. **MUAM eMAXIS Slim All World Equity All Country** and **MUAM eMAXIS Slim US Equity S&P 500**, both low-cost equity index funds, ranked first and second, respectively. Together, these two funds attracted over JPY 1 trillion in net inflows during the quarter, underscoring the continued dominance of broad, low-cost global and US equity exposures among retail investors. **Invesco Global Select Equity Open (Unhedged/MD)** followed, recording net inflows exceeding JPY 400 billion. Notably, two newly launched funds entered the top-10 ranking in the fourth quarter: **T. Rowe Price Capital Appreciation Fund B UnHedged** and **Nomura Japan Value Selected Investment**. Their inclusion highlights selective investor interest in differentiated active strategies, even as passive equity products continue to lead overall fund-flow rankings.

⁶ As of this writing, gross inflow and outflow data have not yet been released; therefore, the analysis is based on data available through November 2025.

Exhibit 6 Top 10 Funds With Largest Net Flows for the Fourth-Quarter 2025

Fund Name	Morningstar Category	Branding Name	Index Fund	NISA Eligible	Net Flows (JPY Billion)
1 MUAM eMAXIS Slim All Wld Eq All Country	World Equity	MUFG	Yes	Yes	691.7
2 MUAM eMAXIS Slim US Equity S&P 500	US Equity	MUFG	Yes	Yes	436.1
3 Invesco Global Select Eq Op (Unhdg/MD)	World Equity	Invesco	No	No	416.2
4 Fidelity Growth Opp Fund D D1M EDO UnHdg	World ex-Japan Equity	Fidelity International	No	No	297.6
5 T. Rowe Price Capital Apprec Fd B UnHdg	Moderately Aggressive Allocation	T. Rowe Price	No	Yes	226.7
6 Pictet Gold UnHedged	Commodity	Pictet	Yes	Yes	173.1
7 Nomura Japan Value Selected Investment	Japan Large-Cap Value Equity	Nomura	No	Yes	149.7
8 Daiwa iFreeNEXT FANG+ Index	World Specialty Equity	Daiwa	Yes	Yes	139.6
9 SMDS Newton Power Innovation Fund UnHdg	World Specialty Equity	Sumitomo Mitsui FG	No	Yes	137.3
10 Fidelity Growth Opp Fund B UnHdg	World ex-Japan Equity	Fidelity International	No	Yes	114.8

Source: Morningstar Direct. Rows highlighted in color represent funds launched during the fourth quarter.

Looking at the full-year results, 14 of the top 30 funds by net inflows in 2025 (Exhibit 7) were index funds, up from 12 in the previous year. Among these 14 index funds, three were gold-related strategies. This data reinforces the persistent investor preference for low-cost index funds, consistent with trends observed in prior years. Notably, **MUAM eMAXIS Slim All World Equity All Country** and **MUAM eMAXIS Slim US Equity S&P 500** together attracted over JPY 4.4 trillion in net inflows during the year, slightly surpassing their combined net inflows in 2024. Their continued dominance underscores the sustained appeal of broad, market-capitalization-weighted equity exposure offered through ultra-low-cost vehicles.

In contrast, some themes that were prominent in 2024—such as semiconductor equity funds and India equity funds—did not place a single product within the top 30 rankings in 2025. The 2025 top-30 list featured relatively few thematic funds, with only three funds classified as thematic or sector-specific. Additionally, alongside the three gold-related funds, five allocation funds ranked within the top 30, marking a notable increase from the prior year, when only two allocation funds appeared in the top-30 list. In 2025, eight of the top 30 funds were nonequity-focused, indicating a growing investor interest in portfolio diversification beyond pure equity exposure.

A comparison of total return and investor return for the top-30 funds of 2025 shows that only two funds recorded investor returns that lagged their respective total returns. This suggests that performance-chasing behavior—often driven by theme- or narrative-focused promotion—was limited in 2025, and that investors generally avoided aggressively pursuing short-term performance.

Exhibit 7 Top 30 Funds With Largest Net Flows for 2025

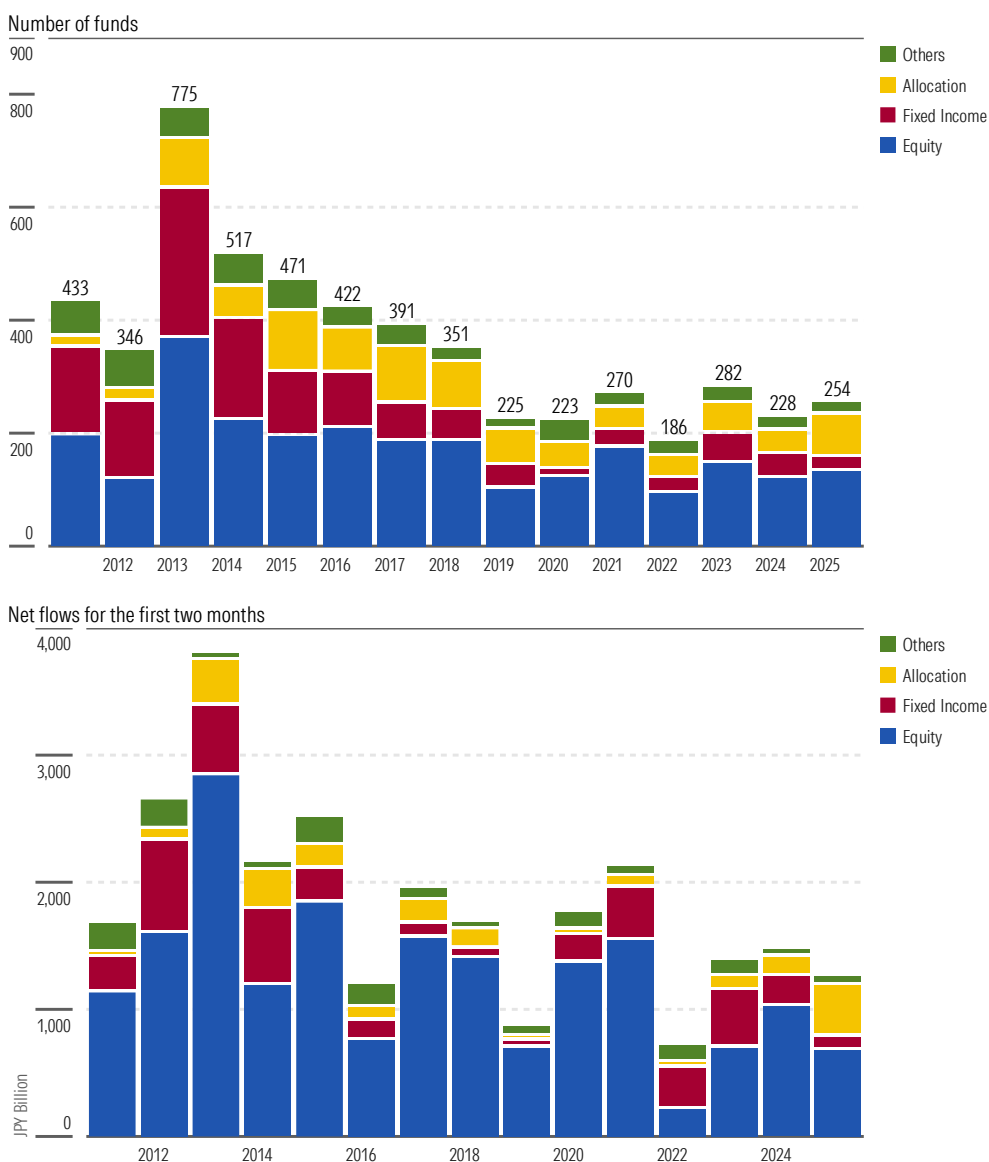
Fund Name	Morningstar Category	Branding Name	Index Fund	NISA Eligible	Net Flows (JPY Billion)	Total Return% 2025	Investor Return% 2025	Gap%
1 MUAM eMAXIS Slim All Wld Eq All Country	World Equity	MUFG	Yes	Yes	2,454.2	20.51	23.34	2.83
2 MUAM eMAXIS Slim US Equity S&P 500	US Equity	MUFG	Yes	Yes	1,943.2	15.66	18.03	2.37
3 Invesco Global Select Eq Op (Unhdg/MD)	World Equity	Invesco	No	No	1,418.8	16.39	18.06	1.67
4 Fidelity Growth Opp Fund D D1M EDO UnHdg	World ex-Japan Equity	Fidelity International	No	No	626.0	17.51	26.46	8.96
5 Daiwa iFreeNEXT FANG+ Index	World Specialty Equity	Daiwa	Yes	Yes	450.9	16.64	20.41	3.77
6 Pictet Gold UnHedged	Commodity	Pictet	Yes	Yes	443.5	62.02	70.59	8.57
7 AllianceBernstein US Gr Eq D D1M UnHdg	US Equity	AllianceBernstein	No	No	324.7	6.60	6.97	0.37
8 Rakuten Plus S&P500 Index Fund	US Equity	Rakuten	Yes	Yes	308.0	15.63	20.58	4.95
9 Fidelity Growth Opp Fund B UnHdg	World ex-Japan Equity	Fidelity International	No	Yes	262.1	17.61	26.39	8.78
10 MUAM MUFG Fine Gold Fund	Commodity	MUFG	Yes	Yes	257.1	64.64	67.38	2.74
11 Rakuten Plus All Country Equity Index Fd	World Equity	Rakuten	Yes	Yes	233.9	20.41	24.93	4.52
12 T. Rowe Price Capital Apprec Fd B UnHdg	Moderately Aggressive Allocation	T. Rowe Price	No	Yes	226.7	-	-	-
13 SMDS Newton Power Innovation Fund UnHdg	World Specialty Equity	Sumitomo Mitsui FG	No	Yes	216.3	54.25	49.24	-5.01
14 Invesco Global Select Eq Op (Unhdg / AD)	World Equity	Invesco	No	Yes	195.6	16.57	18.86	2.28
15 TMA Space Related Equity Fund UnHedged	Sector Equity Technology	Tokio Marine Asset Management	No	Yes	187.7	45.80	50.43	4.63
16 SBIOkasan ROBOPRO Fund	Aggressive Allocation	SBI Okasan Asset Management	No	Yes	186.3	22.52	27.41	4.89
17 SBI V S&P 500 Index Fund	US Equity	SBI	Yes	Yes	183.4	15.58	16.49	0.92
18 AsahiLife WCM World Gr Eq Sel Fd EDO	World Equity	Asahi Life Asset Management	No	No	178.2	39.77	37.77	-2.00
19 AMOne Tawara No Load DevCountrs Eq	World ex-Japan Equity	AM One	Yes	Yes	161.4	18.97	20.59	1.62
20 Daiwa iFree S&P500 Index	US Equity	Daiwa	Yes	Yes	161.4	15.47	18.91	3.44
21 MUAM eMAXIS Slim All World Eq ex Jpn	World ex-Japan Equity	MUFG	Yes	Yes	151.6	20.31	22.07	1.76
22 Nomura Japan Value Selected Investment	Japan Large-Cap Value Equity	Nomura	No	Yes	149.7	-	-	-
23 SBI iShares Gold Fund UnHedged	Commodity	SBI	Yes	Yes	141.2	62.93	74.84	11.91
24 MUAM eMAXIS Slim Domestic Equity TOPIX	Japan Large-Cap Blend Equity	MUFG	Yes	Yes	120.1	25.28	27.07	1.78
25 Nomura Nomu Wrap Fund Neutral	Moderate Allocation	Nomura	No	Yes	114.0	8.26	9.08	0.83
26 Rakuten Whole US Equity Index Fund	US Equity	Rakuten	Yes	Yes	113.0	14.97	15.66	0.69
27 Nomura Nomu Wrap Fund Aggressive	Moderately Aggressive Allocation	Nomura	No	Yes	109.3	13.50	14.99	1.49
28 Amova Tracers NASDAQ100 Gold Plus	Other Allocation	Amova	No	No	105.9	-	-	-
29 Nomura Macquarie Private Infra Fd	Other Equity	Nomura	No	No	100.4	-	-	-
30 AMOne One/Fidelity BlueChip GrEq Gr	World Equity	AM One	No	Yes	97.3	13.02	25.02	12.00

Source: Morningstar Direct.

New Launches

In 2025, Japan saw the launch of 254 retail-distributed open-end funds (Exhibit 8), slightly exceeding the 228 new funds introduced in the previous year. Since 2019, the number of annual fund launches has generally ranged between 200 and 300, with 2025 remaining within this historical band. Net inflows into these newly launched funds reached JPY 1.26 trillion during their first two months on the market in 2025. While funds launched in December are not directly comparable due to limited data, aggregate net inflows into new launches surpassed JPY 1 trillion for three consecutive years, beginning in 2023. This trend suggests that investor demand for new offerings has remained robust.

Exhibit 8 Number of New Launches and Net Flows for the First Two Months



Source: Morningstar Direct.

Among the top-ranking newly launched funds in 2025 (Exhibit 9), the split between NISA-eligible and non-NISA-eligible funds was evenly balanced. **T. Rowe Price Capital Appreciation Fund B UnHedged** attracted over JPY 200 billion in net inflows, making it one of the most successful new launches. This fund follows the same strategy as the US-domiciled **T. Rowe Price Capital Appreciation**, which holds a

Morningstar Medalist Rating of Gold—the highest distinction under the Morningstar Medalist framework. Similarly, **Nomura Japan Value Selected Investment** garnered more than JPY 100 billion in net inflows. This strategy is managed by the same portfolio manager responsible for **Nomura Strategic Value Open**, which receives an Above Average rating in the Morningstar Medalist Rating People Pillar. These examples suggest that newly launched funds can attract significant investor interest when they are backed by globally recognized investment strategies or by portfolio managers with established track records. Such attributes may serve as important reference points for investors evaluating new offerings with limited performance histories.

Ranked third, **Nomura Macquarie Private Infra** invests in unlisted assets through an offshore fund vehicle. Unlike traditional open-end funds, it maintains a high allocation to illiquid private assets, resulting in subscription and redemption opportunities that are effectively limited to once per month. Given that unlisted assets carry higher liquidity risk than publicly traded securities, investors should fully understand these structural characteristics before making an investment decision.

Exhibit 9 Top 10 New Funds With Largest Net Inflows for the First Two Months in 2025

Fund Name	Morningstar Category	Branding Name	Inception Date	NISA Eligible	Net Inflows for the first two month (JPY Billion)
1 T. Rowe Price Capital Apprec Fd B UnHdg	Moderately Aggressive Allocation	T. Rowe Price	11/14/2025	Yes	226.7
2 Nomura Japan Value Selected Investment	Japan Large-Cap Value Equity	Nomura	10/22/2025	Yes	132.9
3 Nomura Macquarie Private Infra Fd	Other Equity	Nomura	2/21/2025	No	85.1
4 SMDS Capital Efficiency Focus Japan	Japan Large-Cap Blend Equity	Sumitomo Mitsui FG	12/10/2025	No	59.4
5 SMDS Donald Smith Glb Dp Val Strat Eq Fd	World Equity	Sumitomo Mitsui FG	9/11/2025	Yes	49.6
6 Aozora Shin Global Diversified QOE 2510	Conservative Allocation	Aozora	10/31/2025	No	49.2
7 MUAM Morgan Stanley US Eq InstStra UnHdg	World Equity	MUFG	9/2/2025	Yes	48.9
8 Nissay Schroder Hi Yld CB Fd 2509 NH QOE	World Convertible Bond	NAM	9/22/2025	No	33.8
9 Nissay S US Gr Eq Mega 10 Idx Fd No Load	US Equity	NAM	11/4/2025	Yes	33.1
10 Aozora Shin Global Divers Fund QOE 2507	Conservative Allocation	Aozora	7/31/2025	No	31.6

Source: Morningstar Direct

Flows by Asset Class and Category

The overwhelming dominance of equity funds in attracting net inflows persisted in the fourth quarter of 2025. Net inflows into equity funds totaled JPY 2.81 trillion across retail-distributed funds during the quarter (Exhibit 10). Even when focusing solely on NISA-eligible equity funds, net inflows reached JPY 2.06 trillion, pushing full-year inflows above JPY 10.0 trillion. In contrast, fixed-income funds and REIT funds continued to experience net outflows, with fixed-income funds seeing outflows of JPY 228 billion and REIT funds recording outflows of JPY 123 billion during the quarter. Allocation funds, however, attracted renewed investor interest, with fourth-quarter net inflows totaling JPY 567 billion—supported in part by over JPY 200 billion flowing into a newly launched T. Rowe Price fund. For the full year, allocation funds recorded JPY 1.32 trillion in net inflows, including JPY 187.0 billion into Robopro, which utilizes an artificial intelligence-driven investment process. Additionally, the “Others” asset class—which includes a significant number of gold-related funds—posted JPY 803 billion in net inflows for the year. Although inflows into allocation funds and other nonequity asset classes remained roughly one-tenth the size of equity fund inflows for each, a comparison with 2024 suggests the beginnings of a shift away from an equity-only investment approach toward greater diversification.

From a long-term investment perspective, maintaining a relatively high allocation to higher-risk assets such as equities is rational, given the benefits of compounding and economic growth. However, a high

equity allocation may not be suitable for all investors. The emerging trend toward diversification observed in 2025 may continue to gain momentum, supporting the construction of more balanced portfolios that incorporate allocation and fixed-income funds alongside equities, in line with each investor's individual risk tolerance and investment horizon.

Exhibit 10 Net Inflows by Asset Class (JPY Billion)

Q4 2025

Asset Class	Retail-Distributed		NISA eligible	
	Q4 2025	Q4 2024	Q4 2025	Q4 2024
Equity	2,812.8	2,089.5	2,061.3	1,659.9
Fixed Income	-227.7	-188.8	29.8	15.2
REIT	-123.3	-59.3	-15.5	35.9
Allocation	566.7	146.1	640.9	209.7
Others	346.4	-1.9	395.0	72.8

2025 Total

Asset Class	Retail-Distributed		NISA eligible	
	Q4 2025	Q4 2024	Q4 2025	Q4 2024
Equity	10,895.9	12,710.5	8,466.1	11,288.9
Fixed Income	-622.8	-490.4	129.8	278.2
REIT	-208.0	-390.1	26.9	89.7
Allocation	1,317.0	886.1	1,496.9	1,147.1
Others	802.7	53.9	982.2	221.3

Source: Morningstar Direct

By category (Exhibit 11), the fourth quarter of 2025 closely resembled previous periods, with world equity, US equity, and commodities (including gold-related funds) accounting for the largest net inflows. In the thematic (specialty equity) equity category, top inflow rankings were driven not by broad-based demand, but by concentrated inflows into just two specific funds, **Daiwa iFreeNEXT FANG+ Index** and **SMDS Newton Power Innovation Fund UnHedged**. The Japanese equity market performed strongly during the quarter, with the Nikkei 225 surpassing 50,000 yen. Against this backdrop, all three Japan equity large-cap categories recorded net inflows. Historically, the Japan equity large-cap growth category—home to many index funds tracking the Nikkei 225—has tended to see outflows when equity markets are at elevated levels. However, this pattern was not clearly observed in the fourth quarter. This deviation may indicate that investors are beginning to recognize that frequent short-term trading during rising markets does not necessarily yield consistently favorable results. The continued inflows, even as Japanese equities reached new highs, suggest a potentially more patient investment approach among some retail investors.

For the full year (Exhibit 12), the top four categories by net inflows remained unchanged from the fourth quarter. Conversely, categories with notable net outflows included sector equity technology—encompassing semiconductor equity funds that were popular in 2024—and India equity. Funds focused on themes or investment narratives often attract performance-chasing behavior, increasing the risk of investing at cyclical peaks. When considering thematic funds, it is important for investors to be aware of these tendencies and to adopt a long-term perspective, rather than chasing short-term performance.

Exhibit 11 Top and Bottom 10 Categories for Net Flows for the Fourth Quarter of 2025 (JPY Billion)

Morningstar Category	Net Inflows	Morningstar Category	Net Outflows
World Equity	1,332.2	World ex-Japan Bond - JPY Hedged	-119.8
US Equity	664.5	Sector Equity Technology	-111.3
World ex-Japan Equity	560.1	India Equity	-102.2
Commodity	416.6	Sector Equity Healthcare	-69.9
Moderately Aggressive Allocation	362.4	US REIT	-52.6
World Specialty Equity	203.3	Trading – Leveraged/Inverse	-36.5
Japan Large-Cap Value Equity	202.9	Japan Small/Mid-Cap Growth Equity	-35.9
Japan Large-Cap Blend Equity	166.3	World REIT	-30.8
Aggressive Allocation	130.8	US Equity - JPY Hedged	-27.4
Japan Large-Cap Growth Equity	32.8	Japan REIT	-25.3

Source: Morningstar Direct

Exhibit 12 Top and Bottom 10 Categories for Net Flows for 2025 (JPY Billion)

Morningstar Category	Net Inflows	Morningstar Category	Net Outflows
World Equity	5,031.4	Sector Equity Technology	-426.2
US Equity	4,457.4	World ex-Japan Bond - JPY Hedged	-290.7
World ex-Japan Equity	1,587.7	Japan Small/Mid-Cap Growth Equity	-171.9
Commodity	1,078.1	Sector Equity Healthcare	-157.1
Moderately Aggressive Allocation	715.7	Trading – Leveraged/Inverse	-151.0
World Specialty Equity	410.9	India Equity	-130.5
Aggressive Allocation	283.5	US Equity - JPY Hedged	-96.1
Japan Large-Cap Blend Equity	269.8	World Bond - JPY Hedged	-87.2
Japan Large-Cap Value Equity	267.6	World Equity - JPY Hedged	-83.7
Moderate Allocation	166.0	Other Bond	-82.7

Source: Morningstar Direct

Flows by Ratings

We've observed a consistent trend where funds with Morningstar Ratings of 5 and 4 stars have experienced significant net inflows (Exhibit 13). This suggests that investors are increasingly paying more attention to the historical performance when selecting funds, as evidenced by the net outflows from active funds rated with 1 or 2 stars.




However, it is also important to note that there is no guarantee that a fund that has performed well in the past will always perform well. The Morningstar Medalist Rating comprises a qualitative assessment by analysts, as well as a quantitative model—modeled after the analysts' assessment—and serves as the forward-looking assessment to compensate for such limitation. By Morningstar Medalist Rating, there were large inflows into Gold-, Silver-, and Bronze-rated index funds; however, this was not the case for active funds.

Exhibit 13 Net Inflows by Ratings (JPY Billion)⁷

By Morningstar Rating

Morningstar Rating	2025 Total		Q4 2025	
	Actives	Passives	Actives	Passives
★★★★★	448.5	4,717.8	223.9	1,332.1
★★★★	1,708.1	1,665.4	159.2	327.7
★★★	213.9	207.2	-79.1	32.4
★★	-710.2	-44.0	-299.0	-23.1
★	-304.5	-1.6	-96.2	-1.7
Not Rated	1,443.0	2,841.1	857.8	940.8

By Morningstar Medalist Rating

Morningstar Medalist Rating	2025 Total		Q4 2025	
	Actives	Passives	Actives	Actives
 Gold	31.0	2,905.9	3.9	656.1
 Silver	92.1	3,424.1	7.4	1,061.1
 Bronze	192.9	308.1	42.5	60.3
Neutral	641.4	270.9	-99.3	78.1
Negative	1,382.9	-101.7	365.3	-17.4
Not Rated	458.6	2,578.5	446.9	769.9

Source: Morningstar Direct.

Conclusion

Revamped in 2024 to support long-term asset formation for working-age investors, NISA is poised to broaden its role following the fiscal 2026 tax reform outline. The framework will evolve into a system designed to facilitate lifelong asset building across all age groups, including minors. Notably, the introduction of Children's NISA in 2027 is expected to serve not only as a program for education funding but also as a potential starting point for ultra-long-term investing that extends well beyond age 18.

From a fund flows perspective, NISA-eligible funds continued to dominate in 2025, attracting approximately JPY 14.2 trillion in net inflows for the year. Low-cost equity index funds remained the primary destination for investor capital. Meanwhile, flows into semiconductor equity and India equity funds—which were prominent in 2024—declined sharply. In their place, allocation funds and gold-related strategies gained traction, signaling an early shift toward broader portfolio diversification. Notably, even as Japanese equities reached record highs, Japan large-cap equity categories recorded net inflows, in contrast to the contrarian outflows seen in previous cycles. This suggests that investors may be adopting a more disciplined, long-term approach.

As NISA transitions into a framework for all life stages, investors will need to construct portfolios aligned with their individual risk tolerance and life objectives, rather than chasing short-term market trends. In this context, incorporating forward-looking, objective assessments—such as the Morningstar Medalist Rating—alongside historical performance can provide valuable insights into a fund's potential to deliver sustainable outcomes over time. ■■

⁷ In analyzing asset flows by Morningstar Ratings, we based our calculations on the ratings from the preceding month. For asset flows by Morningstar Medalist Ratings, our calculations were derived from the ratings two months prior.

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