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Japan's pension industry faces the critical situation of low investment returns amid an aging society and the Bank of Japan's QQE. Pension money is believed to be of long duration and might thus be appropriate to invest in illiquid assets, including private equities which are unlisted firms perhaps in the start-up stage or even distressed.

Pension funds in Europe and the US already invest certain amounts in private equities and enjoy higher returns from them compared to public equities. This paper discusses the possibility and expansion of private equity investments by corporate pension funds in Japan. Private equities are expected to be good investment tools for pension funds seeking higher returns, a good fund raising method for unlisted enterprises, and also good for the overall economy to realize medium-term economic growth.

Private equity is a well-recognized asset class for US and European institutional investors, but still not common among Japanese investors. One obstacle keeping Japanese institutional investors away from private equity is its uniqueness. This article discusses the basics of private equity and how to establish investment programs.

This study investigates market volatility risk premia (VRP) in the Japanese and US stock markets using excess returns in three kinds of volatility investing. Our result indicates that negative VRP exists in both markets and compensation for bearing volatility risk is economically large. We also show that excess returns are predictable. Furthermore, we argue that the high level of negative VRP is potentially due to preference bias caused by ambiguity aversion and probability weighting.