

JAPAN REAL ESTATE IN FOCUS AFTER LARGE CAPITAL RAISE

Jeremy Schwartz — Global Chief Investment Officer

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Some of this post is relevant to institutional investors interested in trading exchange-traded funds (ETFs) in significant volume. Individual investors do not always have access to liquidity providers to trade ETFs as referenced below. WisdomTree recently launched a series of [Japan hedged sector exchange-traded Funds \(ETFs\)](#) to give investors with specific views about Japan's equity markets and economy more precise ways of participating in Japanese local equities. Japanese real estate stocks are one segment in focus recently. For starters, [real estate investment trusts \(REITs\)](#) are one of three baskets of securities the Bank of Japan (BOJ) is purchasing in its asset-purchase program referred to as quantitative and qualitative monetary easing "QQE", along with bonds and exchange-traded funds of equities.¹ Partly as a result of the BOJ's purchases, the real estate sector performed quite well in 2013—up about 70% based on the [TOPIX Real Estate Index](#).² As the BOJ has not expanded its monetary easing program further than what was announced on April 4, 2013, the real estate sector sold off in 2014 and was down much more than the broad Japanese market through May 31.³ One of Japan's largest property developers, Mitsui Fudosan Co. Ltd.,⁴ recently announced that it had closed a [secondary](#) for 100 million shares⁵—or a capital raise of more than US\$3 billion. In these secondary offerings, because large amounts are being raised, discounts are usually offered to investors into the stock, meaning that to entice buyers, the shares typically are offered at a lower price than what the stock is trading at in the market. According to a Reuters article⁶, the discount on Mitsui Fudosan was at the lowest end of the range—only 3%, when it could have been as much as 5%. This small discount likely serves as a testament to strong demand the company saw for its shares. The share sale was the first in more than three decades for Mitsui Fudosan, and many see this as an encouraging sign that there are more growth opportunities to put capital to work in redevelopment projects. Part of [Abenomics](#) growth strategies is the creation of special economic zones that may lead to government investment in development projects that could benefit property developers like Mitsui Fudosan. Institutional investors, who seem to have received fewer shares than they desired in the public offering, appear to be looking for ways to get involved in this sector. [The WisdomTree Japan Hedged Real Estate Fund \(DXJR\)](#), which has its largest allocation, at nearly 10%, in Mitsui Fudosan, is an ETF that provides broad exposure to

Company Name	Weight %
Mitsui Fudosan Co Ltd	9.94%
Mitsubishi Estate Co Ltd	9.53%
Sumitomo Realty & Development	6.74%
Daiwa House Industry Co Ltd	4.41%
Daito Trust Construction Co Lt	3.40%
Sekisui House Ltd	3.25%
Nippon Building Fund Inc	3.22%
Japan Real Estate Investment Corp	2.75%
JS Group Corp	2.64%
Taisei Corp	2.43%
Total Weight in Top 10	48.32%

this market segment. **DXJR Top 10 Holdings** Source: WisdomTree, as of 5/31/14. Subject to change. For current holdings of DXJR, [click here](#). The week the share sale was announced, DXJR, which had \$2.5 million in assets from its original seed capital, saw 630,000 shares trade on June 17 and corresponding inflows to the Fund of \$15 million that week.⁷ There are a few lessons with this trading activity. Investors could have looked at the \$2.5 million in assets under management and small daily trading volume and decided that they could not get involved in this ETF without impacting its [relative price](#). Japan is also a market where purchasing in the U.S. adds another element to the pricing equation because Japan's markets are closed—so the ETF also serves as a price-discovery vehicle for Japan's markets. In other words, market

participants involved in the U.S. ETF market, through the combination of their activities regarding ETFs of Japanese equities, influence prices such that the behavior of the ETFs functions to predict where Japanese markets will open on their next trading day. Even though the Japanese equity market is closed, [market makers](#) can still create [liquidity](#) in this Fund. A lot of other Japanese equity trading vehicles are active during U.S. hours, including Japanese index [futures](#), other Japanese ETFs and even Japanese [American Depositary Receipts \(ADRs\)](#). Market makers would buy or sell DXJR to a customer and hedge themselves with something of similar exposure that has more volume. To demonstrate the depths of liquidity a trader can access, let's look at one example from each of the two time zones. • If the market maker is looking to access liquidity during the U.S. trading day, one [Nikkei 225 \(NKY\)](#) futures contract trades on average \$1.2 billion a day.⁷ • If a market maker were to access liquidity during Japanese hours, the underlying basket of equities that make up DXJR trades about \$2.5 billion a day.⁹ Bottom line: We believe enough liquidity can be had at any time. As testament to that, if you look at the Bloomberg screen shot below, in the highlighted yellow box you can see that four blocks of trades went off at 12:36:36: • 490,291 shares of DXJR traded at \$25.94. • 5,135 shares of DXJR traded at \$25.94. • 8,990 shares of DXJR traded at \$25.94. • 35,655 shares of DXJR traded at \$25.94. In total, these trades aggregated to 540,071 shares trading at \$25.94. If you look farther down the page, in the highlighted blue box, you can see that the market was \$25.90 [bid](#) at \$25.94 offer right before the trades took place. A customer bought \$14.0 million worth of DXJR on the [offer](#) while the Japanese market was closed. This is quite a demonstration of competitive liquidity that can be created in ETFs by the market makers.

GRAB

DXJR US Equity | Actions | Settings | Page 1 Trade/Quote Recap

Trade Recap | Quote Recap

From	To	Time	BMMKR	E	Bid/Trd/Ask	E	Size*	AMMKR	Cond
06/17/14	06/17/14	12:15:00					High 26.00		
06/17/14	06/17/14	12:45:00					Low 25.89		
12:43:51			P		25.91/25.95	P	10x10		
12:43:50			P		25.91/25.95	P	5x10		
12:43:46			P		25.90/25.95	P	10x10		
12:43:46			P		25.90/25.94	P	10x5		
12:43:01			P		25.90/25.94	P	10x10		
12:43:01			P		25.91/25.94	P	5x5		
12:40:50			D		25.942		2.71		N
12:40:05			P		25.91/25.95	P	10x10		
12:40:05			P		25.91/25.94	P	5x5		
12:36:36			D		25.94		356.55		T
12:36:36			D		25.94		51.35		T
12:36:36			D		25.94		89.90		T
12:36:36			D		25.94		4902.91		T
12:34:19			D		25.94		1		T
12:34:19			D		25.94		1.07		T
12:34:19			D		25.94		1		T
12:34:18			D		25.917		9		T
12:34:18			D		25.94		1		T
12:29:34			P		25.90/25.94	P	10x9		
12:29:34			P		25.90/25.94	P	5x9		

Price: White: Best qt Amber: MM qt Gray: Prev qt *Size scaled by 100 Zoom 100%

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2577 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2014 Bloomberg Finance L.P. SN 834399 H356-5435-3 20-Jun-14 10:09:34 EDT GMT-4:00

Source: Bloomberg; data, as of 6/20/14.

Conclusion

WisdomTree created a suite of Japan hedged sector ETFs for this specific type of exposure in demand for Japanese real estate companies. The largest holding in DXJR, Mitsui Fudosan, through its capital raise, has brought renewed focus on this segment of the market. For those looking at ways to get exposure to these types of companies, we believe DXJR represents a broad basket of real estate companies. Investors should look at the trades that occurred above as an example of the ample liquidity that is available.

¹Source: "Introduction of the 'Quantitative and Qualitative Monetary Easing,'" Bank of Japan, 4/4/13. ²Source: Bloomberg, for period 12/31/12 to 12/31/13. ³Source: Bloomberg, for period 12/31/13 to 5/31/14; refers to the TOPIX for the broad Japanese market and the TOPIX Real Estate Index for the real estate sector. ⁴Mitsui Fudosan Co. Ltd. was a 9.94% holding in the WisdomTree Japan Hedged Real Estate Fund (DXJR), a 0.76% holding in the WisdomTree Global ex-US Real Estate Fund (DRW) and a 0.06% holding in the WisdomTree DEFA Fund (DWM) as of 5/31/14. ⁵The public offering was for 100 million shares. On July 22 a potential 10 million more shares may be issued to the underwriters in connection with over-allotments. See <http://www.4-traders.com/MITSUI-FUDOSAN-CO-LTD-6491315/news/Mitsui-Fudosan--Notice-regarding-Determination-of-Number-of-New-Shares-to-Be-Issued143KB-18613338/>. ⁶Junko Fujita, "Mitsui Fudosan Gives Smallest Discount in \$3.4 Bln Share Sale," Reuters, 6/16/14. ⁷Sources: WisdomTree, Bloomberg, with data as of 6/20/14. ⁸Source: Bloomberg, as of 5/31/14. ⁹Source: Bloomberg, as of 5/31/14.

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You cannot invest directly in an index.

DEFINITIONS

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

Tokyo Stock Price Index (TOPIX) : A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

Secondary : Refers to a “secondary offering” of stock, in which a firm increases its number of shares outstanding.

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan’s economic growth.

Relative price : Refers to the share price of the ETF. A large demand for shares, all other things being equal, would be assumed to increase this price.

Market maker : Someone who quotes a buy and a sell price in a financial instrument.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset’s price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Futures/Futures Contract : Reflects the expected future value of a commodity, currency or Treasury security.

ADRs : American Depositary Receipts, shares of a firm incorporated outside the U.S. but issued by a global bank and traded in the U.S., denominated in U.S. dollars.

Nikkei 225 Stock Average Index : A price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

Bids : What investors are willing to pay.

Offer : The price at which investors are willing to sell.