

# JAPAN'S MTICCC TAKES CENTER STAGE

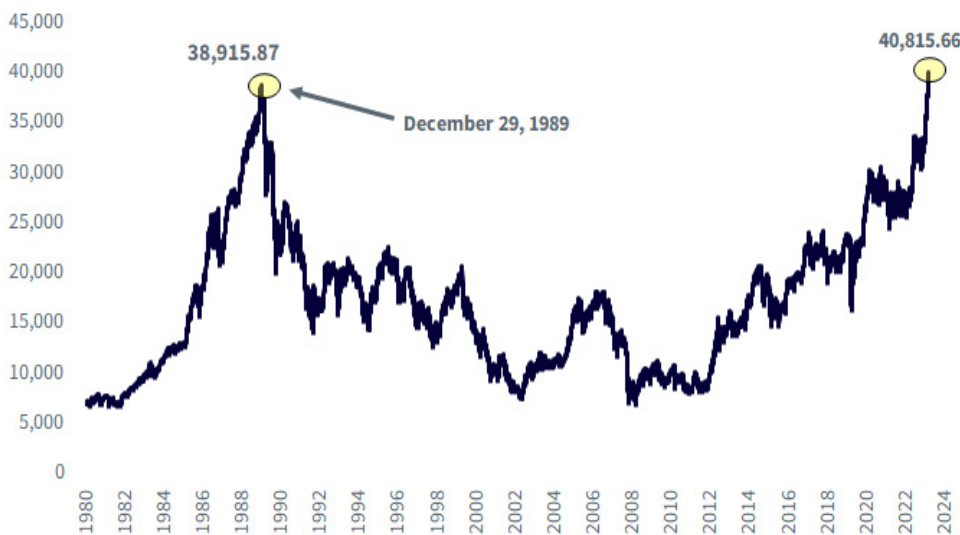
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Who would have thought that such a benign phrase as *"Management That Is Conscious of Cost of Capital"* (MTICCC from here on) could be a driver of bullish spirits in a stock market?

Though the artificial intelligence (AI) frenzy deserves a hat tip for the Japanese stock market's recent vertical run, MTICCC is probably a bigger driver. The Nikkei has taken out both the long-standing 1989 high and also the psychologically critical 40,000 level.

**Figure 1: Nikkei 225**

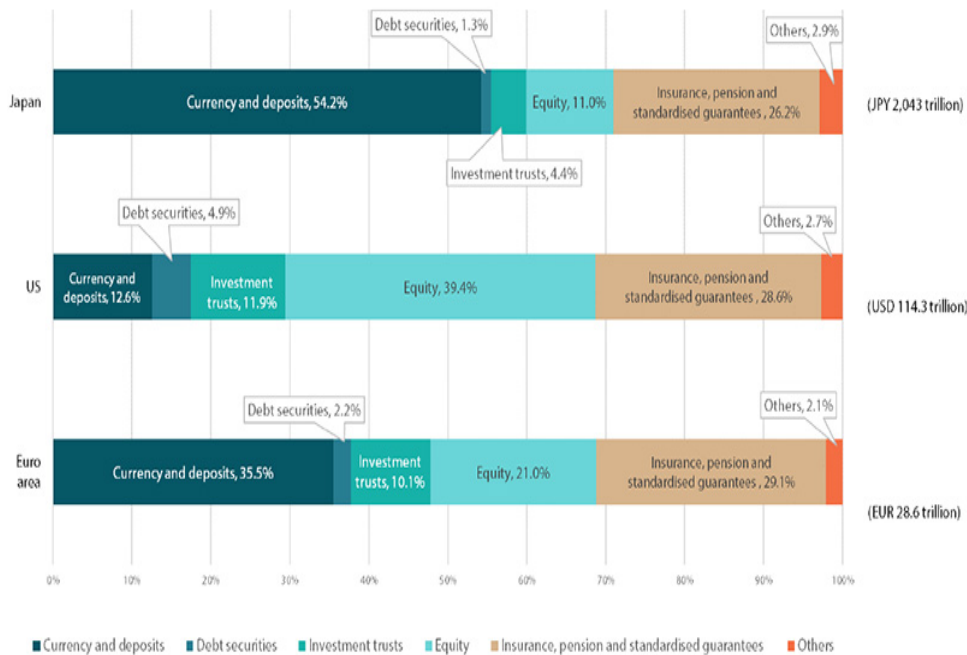


Source: Refinitiv, as of 3/21/24.

For months, the catch-all MTICCC has been used time and again by the Tokyo Stock Exchange (TSE) in its profitability push. Every time the TSE put out a memo, MTICCC has been there in spades. The message is essentially, "Start investing in projects that make economic sense, buy back stock, listen to activists, maybe replace the board of directors. If you don't, your company's name is going on our 'Name and Shame' List."

Beyond MTICCC, there is also a push to change Japan's cash-hoarding culture. Prime Minister Fumio Kishida has made it his mission. The typical Japanese household keeps 54% of its assets in currency and deposits. For context, the figure in the U.S. is 12.6%.

**Figure 2: Household Asset Proportions**

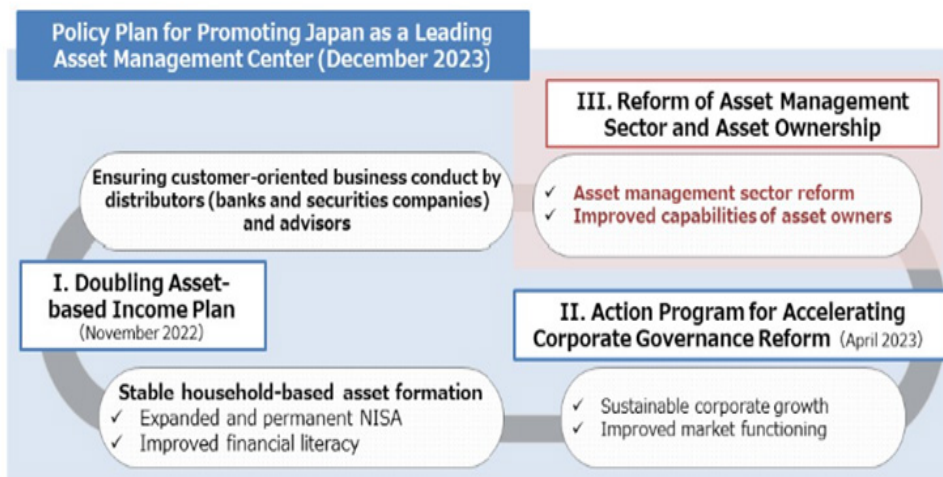


Source: Bank of Japan, as of 12/31/23. Image by Nikko Asset Management.

Enter Prime Minister Fumio Kishida's "Doubling Asset-Based Income Plan," one of a handful of forces that are driving bullishness for the Japanese market. His goal is to increase the number of Nippon Individual Savings Accounts, or NISAs, which I think of as Japan's "Traditional IRA." Because the equity society isn't accomplished if people open NISAs but put everything in cash, there is a big push for allocations to go into Tokyo-listed corporations.

Figure 3 shows the general outline from Japan's Financial Services Agency (FSA). The only part that is new to me is in the lower left: "improved financial literacy." I am not sure what the FSA is referring to, because I hadn't seen anything along those lines until coming across this exhibit.

**Figure 3: The Plan**



Source: Japan Financial Services Agency, *Policy Plan for Promoting Japan as a Leading Asset Management Center*, 1/24/24.

Until December 31, there were three kinds of NISA accounts:

1. The Tsumitate NISA, for savings
2. The General NISA (like a Traditional IRA)
3. The Junior NISA, for minors

Effective January 1, 2024, they simplified the program, made it more tax-friendly and allowed bigger contributions.

The one for savings, the Tsumitate NISA, now has an annual contribution limit of ¥1.2 million (\$8,000), a tripling from last year's ¥400,000 (\$2,666).

The General NISA is now called the Long-Term Investment NISA. The contribution limit doubled from ¥1.2 million (\$8,000) to ¥2.4 million (\$16,000). Junior NISAs were eliminated.

**Figure 4: NISA System**

**Current NISA System**

	Tsumitate NISA	General NISA
Eligible investments	Mutual funds suitable for long-term investment	Stocks and mutual funds
Eligible persons	Adults + Junior NISA for individual under 20 years old	
Tax exemption period	20 years	5 years
Annual limit	¥400,000	¥1.2 million
Total investment limit	¥8 million	¥6 million

**New NISA System (starting in 2024)**

	Tsumitate Framework	Long-term Investment
Eligible investments	Mutual funds suitable for long-term investment	Stocks and mutual funds
Launch of system	January 2024	
Persons eligible	Individuals 18 or older (Junior NISA abolished)	
Tax exemption period	Unlimited	
Annual limit	¥1.2 million	¥2.4 million
Total investment limit	¥18 million	

Source: Nippon, *Changes to NISA Aim to Encourage More Investment*, 1/5/2024.

Importantly, until a few weeks ago, the tax exemption timeframe was either 5 or 20 years, depending on the account type. Now the tax exemption period is indefinite, though account size caps apply.

As that money gets invested, the hope is that it will be invested in companies that took to heart the push for MTICCC. Figure 5 is the opening slide of the Japan Exchange Group's January memo.

**Figure 5: There's That Phrase**



The Japan Exchange Group, which runs the TSE, also created an index that owns a bunch of companies that exemplify the ideal MTICCC corporation. A futures market on the JPX Prime 150 Index commenced March 18; an ETF launched in

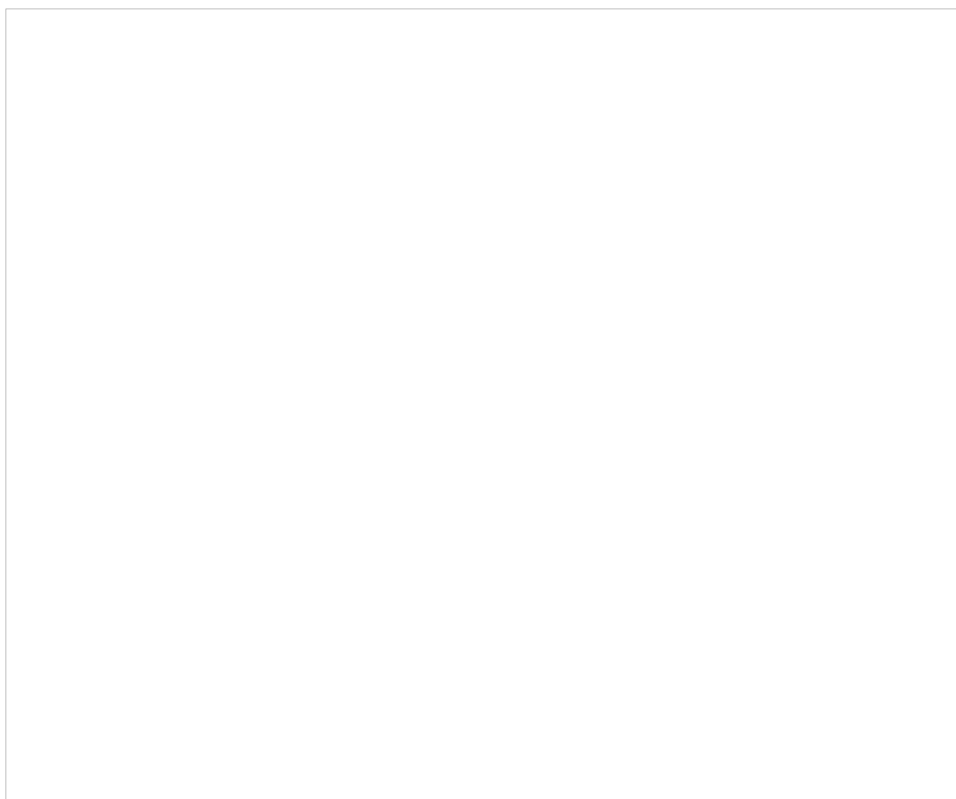
Tokyo that same day. This is from the JPX's home page (figure 6).

**Figure 6: JPX Prime 150 Futures and Funds Are Coming**



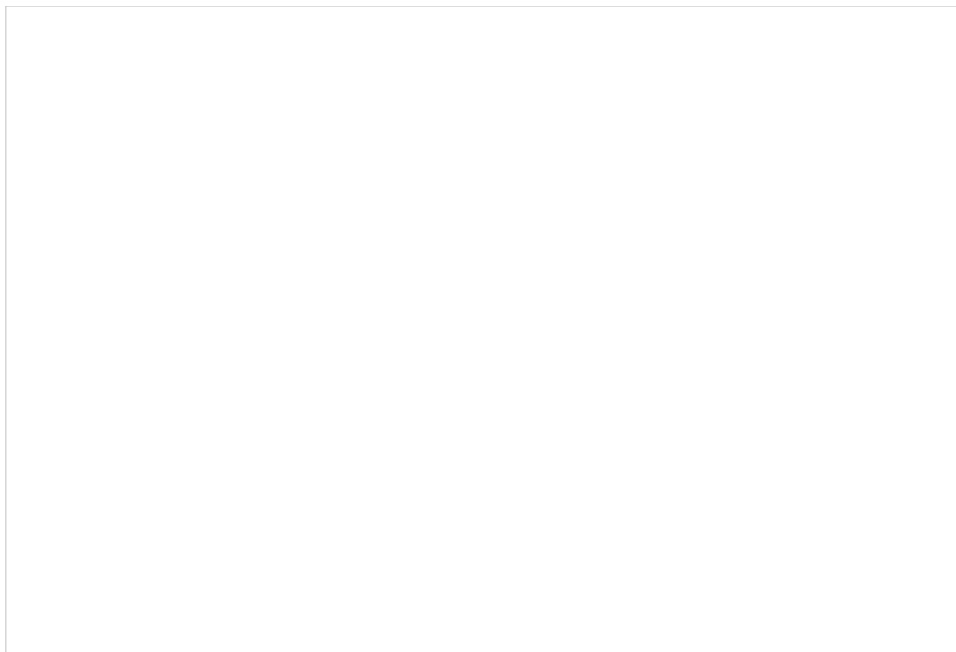
Finally, Japan is pushing asset management industry reform. Money managers were told to submit a plan that shows how they are committed to bettering their Japanese operations. There are also other plans such as “special zones” for nurturing venture capital expertise (figure 7).

**Figure 7: A Portion of the FSA’s Policy Plan**



Finally, investors are encouraged that the Name and Shame initiative is forcing companies to do right by shareholders. As of December 31, about half of Prime Market companies (the big ones) and 19% of Standard Market (small) companies have disclosed their “Action to Implement MTICCC.” The theory goes that the passage of time will witness more companies fall in line, ostensibly boosting valuations.

**Figure 8: Rising Consciousness**



We have three Japan Funds:

- [\*\*DXJ:\*\* WisdomTree Japan Hedged Equity Fund](#)
- [\*\*DXJS:\*\* WisdomTree Japan Hedged SmallCap Equity Fund](#)
- [\*\*DFJ:\*\* WisdomTree Japan SmallCap Dividend Fund](#)

I also went through our broad Developed Market Funds. The ones that are heaviest in Japan are DLS and DDLS, each with 28% in the country:

- [\*\*DLS:\*\* WisdomTree International SmallCap Dividend Fund](#)
- [\*\*DDLS:\*\* WisdomTree Dynamic Currency Hedged International SmallCap Equity Fund](#)

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