

FROM OUR JAPAN STRATEGIST ROUNDTABLE: A DISCUSSION OF ABE'S THIRD ARROW

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WisdomTree has compiled a [Japan Strategist roundtable](#)—a compilation of views from three of the most widely followed Japan investment strategists. In separate one-on-one interviews, we asked these strategists to share their views on Japan's equity markets, the economy, government initiatives and the currency. Prime Minister Abe has been a central reason why many people have become bullish on Japan. Yet many are frustrated by the lack of progress on Abe's so-called third arrow growth strategy for Japan. There will be more to come from Abe's agenda on this growth strategy this coming June. Our strategists discussed what they see as prime focal points both for the growth strategies already in place and those to come.

Kamiyama-san, you are encouraged by new tax policies that you think encourage business consolidation. Talk about this. Naoki Kamiyama: There is a new tax incentive program to encourage mergers of subsidiaries of companies that are generating losses. It is a bit of a technical accounting issue, but the new incentive structure will help encourage the reduction of oversupply in certain industries. For many years, large companies complained that taxation discouraged mergers of these consolidated enterprises. This is a big issue for technology companies in Japan.

One of your research pieces discussed the governments in both the U.S. and Japan were shocked by the decision of Applied Materials¹ and Tokyo Electron² to register their combined holding company in the Netherlands. How is tax policy apt to change? Naoki Kamiyama: Overall corporate taxes are quite high in Japan and in the United States. In the Netherlands, it is quite lower. Japan needs to make its taxes lower so it becomes more of an industrial location choice. This merger shows that tax policy discourages formation of companies in Japan. This is a competitiveness issue—for encouraging companies to set up factories or headquarters. Lowering corporate taxes is a fiscal issue, and the Ministry of Finance (MOF) doesn't like lowering tax revenue. This year, Mr. Abe would like to lower corporate taxes. The ideal tax would be more similar to Korea's or the Netherlands' at 25%. But I think a political compromise is most likely, and I expect 30%–33% is a short-term target for Mr. Abe.

One of the reasons Jesper Koll remains so bullish on the markets is his belief that Abenomics is going to stay pro-business. Jesper, what areas are you focused on? Jesper Koll: The big headline is going to be the whole corporate tax debate. Abe himself has made it very clear. He will present the next concrete growth strategy and corporate taxes are going to be a big part of the plan in June 2014. The second part is deregulation or the government getting out of the way, creating investment opportunities for the private sector. Energy policy is one of them, where the independent power providers can now feed into the grid. Corporations like Toyota³ having applied for and received licenses to become for-profit power generators. In agriculture, corporations will be allowed to actually purchase or lease large plots of land to actually increase the size of farms and get productivity of farmland going. Then healthcare is the third sector where deregulation is going to be a big help. Further, privatization is the one area—if you ask me, "Where could Abenomics surprise in 2014?" that would be one area. Whether it is some of the dormitories for civil servants being sold off and privatized, toll roads and, believe it or not, airports. This will create investment opportunities for private capital to be put to work.

Naoki Kamiyama was one of the first strategists who published a discussion of potential new initiatives designed to spur investment into tax-deferred accounts beyond the NISA accounts, which have been a focus of many this year. Kamiyama-san, please discuss these new initiatives. Naoki Kamiyama: Abenomics has three arrows: money easing, fiscal expansion and third, we say "growth strategy," but mostly deregulation and taxation reform. One thing from the growth strategy perspective—the government would like money to shift into risky assets to support higher [velocity of money](#)—it is related to the first arrow of money easing. NISA, which started January 1st, was a starting point. I expect more. For instance, with individual savings accounts in the UK, the money can be directed to all types of assets, even cash reserves. In Japan, NISA is only for [risk assets](#). NISA is for anyone above 20 years of age. The amount per

person is quite small. The Ministry of Finance does not want too much in tax-exempt accounts. But I believe Mr. Abe does not think this is enough to support risk assets and he would like to add a bit more to this part of the growth strategy. The establishment of a type of [IRA](#) retirement account would be in addition to the NISA accounts from a retirement perspective. It is being supported by the FSA, the Financial Services Agency, but it has not actually been decided on yet. The MOF Tax Office does not approve of this IRA yet. As long as Abe has strong leadership, I think he can add it to the second agenda for the growth strategy. ***What type of yen figures are we talking about as a result of these accounts going into risky assets?*** Naoki Kamiyama: The NISA has potential to get ¥4–5 trillion and may gather a total of ¥20 trillion over time. The IRA would be designed for older people, and they have more money in a sense, but they may be more conservative in their allocations. So the total money moving to equities and risky assets may be similar or less to that ¥20 trillion. A lot of the flows will depend on the market environment. ***Are there other topics related to Abenomics you want to discuss?*** Naoki Kamiyama: Quite many investors might be interested in the casino issue. Gambling is quite regulated, but we expect exemptions to be put in place, like the Atlantic City, New Jersey, area. This is quite likely for this year to see reduced restrictions on gambling, creating more opportunities for gambling companies and also real estate, construction companies, gaming companies. This is representative of the deregulation of the government. **We thank all the strategists for their participation in our Japan roundtable. To read more from these analysts, please see the full discussion [here](#).** ¹Applied Materials: As of 12/31/2013, Applied Materials was a 0.00% holding in DXJ, DXJS as well as DFJ. For a full list of current holdings of the WisdomTree ETFs, please visit wisdomtree.com. ²Tokyo Electron: As of 12/31/2013, Tokyo Electron was a 0.27% holding in DXJ, a 0.00% holding in DXJS and a 0.00% holding in DFJ. For a full list of current holdings of the WisdomTree ETFs, please visit wisdomtree.com. ³Toyota: As of 12/31/2013, Toyota was a 4.78% holding in DXJ, 0.00% in DXJS and 0.00% in DFJ. For a full list of current holdings of the WisdomTree ETFs, please visit wisdomtree.com.

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DEFINITIONS

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.

NISA : Nippon Individual Savings Account. Nippon is the Japanese word for Japan.

Velocity of money : Measure of the frequency that money changes hands within a broader economy. Higher levels indicate the potential for greater levels of economic activity.

Riskier assets : Assets not backed by the full faith and credit of a government entity.

IRA : Individual retirement account.