

SOFTBANK TOP HOLDING: OUR NEW JAPAN ETF PROVIDES INDIRECT EXPOSURE TO ALIBABA

Jeremy Schwartz — Global Chief Investment Officer
05/19/2014

Alibaba Group Holding Ltd. recently filed with U.S. exchanges¹ for approval to sell shares to the public for the first time, which could amount to one of the largest [initial public offering \(IPO\)](#) in history. Alibaba is an Internet-based e-commerce business, similar to companies like Amazon² and eBay³, but it is even larger than the combination of the two from a revenue perspective. From a business model perspective, it includes online payments, cloud services, online travel, music and video streaming, e-learning and even financial services. A lure among investors is Alibaba's unparalleled access to more than 1.3 billion potential consumers in China and, more importantly, potential access to China's growing middle class. **SoftBank Corp. Has Benefited from Alibaba** One of the beneficiaries, if there were no further dilution of its stake through the IPO⁴, of Alibaba's success is SoftBank Corp., which owns approximately 34.4% of Alibaba. SoftBank⁵ is the largest holdings in the WisdomTree Japan Hedged Tech, Media and Telecom Fund (DXJT). For current holdings of DXJT [click here](#). Since the start of "[Abenomics](#)", SoftBank is up about 150%, approximately three times the [TOPIX](#) return of 53%.⁶ Please keep in mind that high double-digit and/or triple-digit returns are highly unusual and cannot be sustained. Investors should also be aware that these returns were achieved primarily during favorable market conditions. There is no question that the Abenomics policies have helped profitability and equity returns of both SoftBank and broad Japanese equities and many investors are optimistic about Alibaba, but without access to it, they have the opportunity to purchase SoftBank to gain exposure to Alibaba. SoftBank recently announced record earnings for its most recent fiscal year, proudly boasting about generating more than ¥1 trillion of operating profit, a 36% increase year-over-year.⁷ SoftBank also reported that Alibaba Group's net income grew four times year-over-year to more than ¥350 billion. Transaction volume for Alibaba also surged to ¥25 trillion, outpacing eBay's and Amazon's combined ¥16 trillion. SoftBank stated that Alibaba contributed ¥74.4 billion of the ¥586.1 billion, or approximately 13%, of its reported net income. Alibaba's estimated market value ranges from ¥12.5 trillion to ¥20.0 trillion (US\$125 billion to US\$200 billion) based on analyst estimates, so given SoftBank's 34.4% ownership, its stake could potentially be valued at between ¥4.3 trillion and ¥6.9 trillion (US\$43 billion to US\$69 billion). Considering that SoftBank's market value was ¥9.36 trillion (US\$91 billion) at the end of the reporting period⁸, Alibaba's value could represent anywhere from 45% to 75% of SoftBank's market value.⁹ If the projected valuation range for Alibaba is accurate, I find it very interesting that Alibaba represents such a large percentage of SoftBank's market value. Alibaba has reported that SoftBank will continue to own more than 30% of its issued and outstanding ordinary shares after the completion of the initial public offering¹⁰. But it is also important to consider that even without the Alibaba equity ownership, SoftBank was profitable over the reporting period and has other business ventures and pursuits. Last year, SoftBank successfully took control of Sprint¹¹ and is pursuing a deal with T-Mobile¹². Masayoshi Son¹³ has attributed the ultra-low financing that is available in Japan as a key factor in helping spur mergers and acquisitions. Given his longer-term outlook and the cheap financing, it is clear that SoftBank desires to continue growing, and he views Alibaba as a strategic partner for its long-term success. [WisdomTree Japan Hedged Tech, Media and Telecom Fund \(DXJT\)](#) WisdomTree developed five new [Japan sector exchange-traded funds \(ETFs\)](#) designed to be vehicles for investment themes stemming from Abenomics, depending on investors' objectives. DXJT is designed to provide exposure to tech, media and telecom companies in Japan, while at the same time hedging the currency exposure. The Fund has more than 60% weight in the Information Technology sector and approximately 20% in both the Telecommunication Services and Consumer Discretionary sectors. Currently, the Fund's top holding is SoftBank, with a weight of 9.99%¹⁴. With this large allocation to SoftBank and how much of its [market cap](#) is derived from Alibaba,

some may want to look to DXJT as an indirect way to participate in the potential growth of Alibaba. **Abe's Growth Strategies** I believe equity markets will remain supported as Abenomics continues to gain traction and especially as Japanese prime minister Shinzo Abe makes more progress on his growth strategy for Japan [the third arrow of Abenomics](#). Abe is pursuing pro-business issues by arguing for a lower corporate tax rate and urging companies and investors to stay focused on generating profits. Technology companies should also receive a boost from new government initiatives supporting additional capital spending and tax policies encouraging business consolidation. DXJT, with the heavy weight to SoftBank, is even more in focus now with news of this latest IPO. ¹New York Stock Exchange and the NASDAQ Global Market ²Amazon was a constituent of the WisdomTree Earnings 500 Fund (0.009%) and the WisdomTree Total Earnings Fund (0.002%) as of 5/1/14 ³eBay was a constituent of the WisdomTree Earnings 500 Fund (0.27%) and the WisdomTree Total Earnings Fund (0.24%) as of 5/1/14 ⁴Source: Alibaba Registration Statement ⁵SoftBank was also a constituent of the WisdomTree DEFA Fund (0.13%) and WisdomTree International LargeCap Dividend Fund (0.16%) as of 5/1/14 ⁶Source: Bloomberg, 11/30/12–4/30/14 ⁷Source: SoftBank earnings presentation, 5/7/14 ⁸Reporting period 3/31/13–3/31/14 ⁹Sources: WisdomTree, Bloomberg, 3/31/14 ¹⁰The drop from the current ownership stake of approximately 34.4% to more than 30% is an estimate of the impact of dilution on SoftBank's ownership stake. It is impossible to know with certainty how this picture will look after the IPO, but the point is that SoftBank is likely to remain a major stakeholder in Alibaba and is reasonable given public information up to 5/1/14 ¹¹Sprint was not a constituent of any WisdomTree Fund as of 5/1/14 ¹²T-Mobile was a constituent of the WisdomTree Total Earnings Fund (0.018%) and the WisdomTree Earnings 500 Fund (0.005%) as of 5/1/14 ¹³Masayoshi Son is founder and chief executive officer of SoftBank ¹⁴Source: WisdomTree, 5/1/14

Important Risks Related to this Article

Holdings subject to change. Current and future portfolio holdings are subject to risk. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing their investments on certain sectors increase their vulnerability to any single economic, regulatory or sector-specific development. This may result in greater share price volatility. The Fund focuses its investments in Japan, thereby increasing the impact of events and developments in Japan that can adversely affect performance. The Fund uses various strategies to attempt to minimize the impact of changes in the Japanese yen against the U.S. dollar, which may not be successful. Investments in derivative investments can be volatile, may be less liquid than securities and may be more sensitive to the effect of varied economic conditions. As this Fund can have a high concentration in some issuers, the Fund can be adversely impacted by changes affecting those issuers. Due to the investment strategy of this Fund, it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu, Brian Manby and Scott Welch are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Initial public offering (IPO) : The first sale of stock by a private company to the public.

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.

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.

Market Capitalization : Market cap = share prices x number of shares outstanding. Firms with the highest values receive the highest weights in approaches designed to weight firms by market cap.

Third arrow policies : The part of Japan's Abenomics process of reform that is focused on structural changes intended to promote economic growth.