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Towards a New Japanese Golden Age

The Bull-Case For Japan In Spite Of Global Uncertainty

Japan Multi-Year Bull-Market Intact

- We Believe in Staying Bullish Japan Risk Assets – Equities and Real Estate
- Attractive Valuations and Corporate Focus on Capital Returns
- Positive Domestic Demand Dynamics – “New Middle Class”
- Domestic Pro-Growth Focus – Capital Spending Returns
- Pro-Business Policy Support – Privatizations, Tax Cuts, Deregulation
- Monetary Policy Ready To Act
- *Domestic Risk – Cost-Push Margin Squeeze*
- *External Risk – China Balance Sheet Recession = Policy Conundrum*

Still Bullish Japanese Equities – Why?

■ Valuations

- With a trailing price-to-earnings (P/E) of around 15x, TOPIX is trading at a significant discount to its own valuation history, as well as at a discount to Wall Street
 - “Abenomics” average trailing P/E has been 17.6x, with a high of 25.5x and a low of 13.5x
- Earnings estimates still conservative, in our view

■ Japan is not a Value Trap

- While GDP growth has disappointed, earning growth has not
- Consensus underestimates domestic demand, and overestimates “China”
- Catalyst – rising visibility of earnings growth from October / November

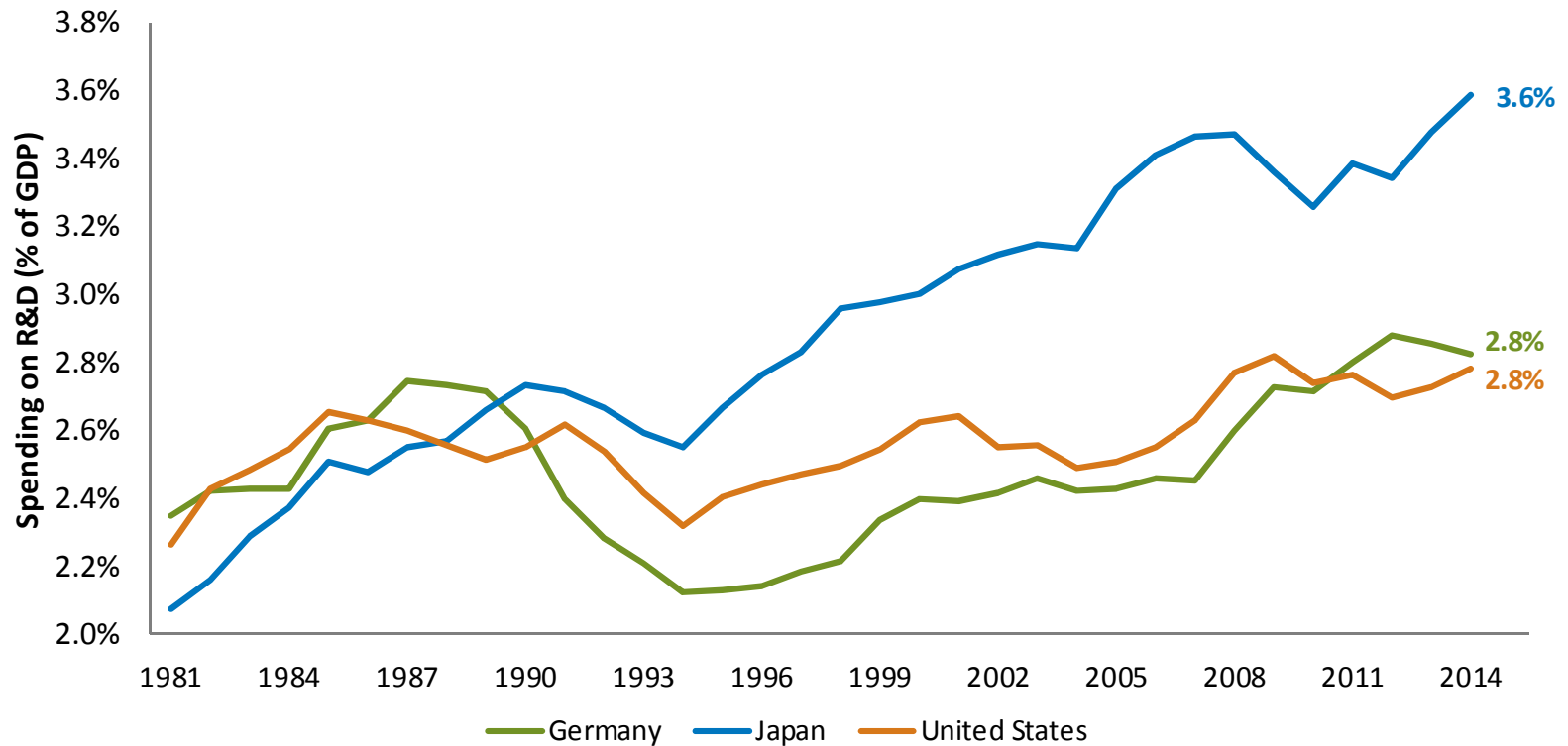
■ Pro-Growth Policy Focus

- “Team Abe” will re-focus on delivering pro-growth policies, now that the controversial security policy legislation has been passed.
- Focus on corporate tax cuts, increased support for child- and elderly care
- Deregulation drive ongoing
- Japan Post privatization added trigger for financial system consolidation

■ Don't underestimate the Bank of Japan

Structural Strength – Rich IP Base

■ R&D Investment as % of GDP

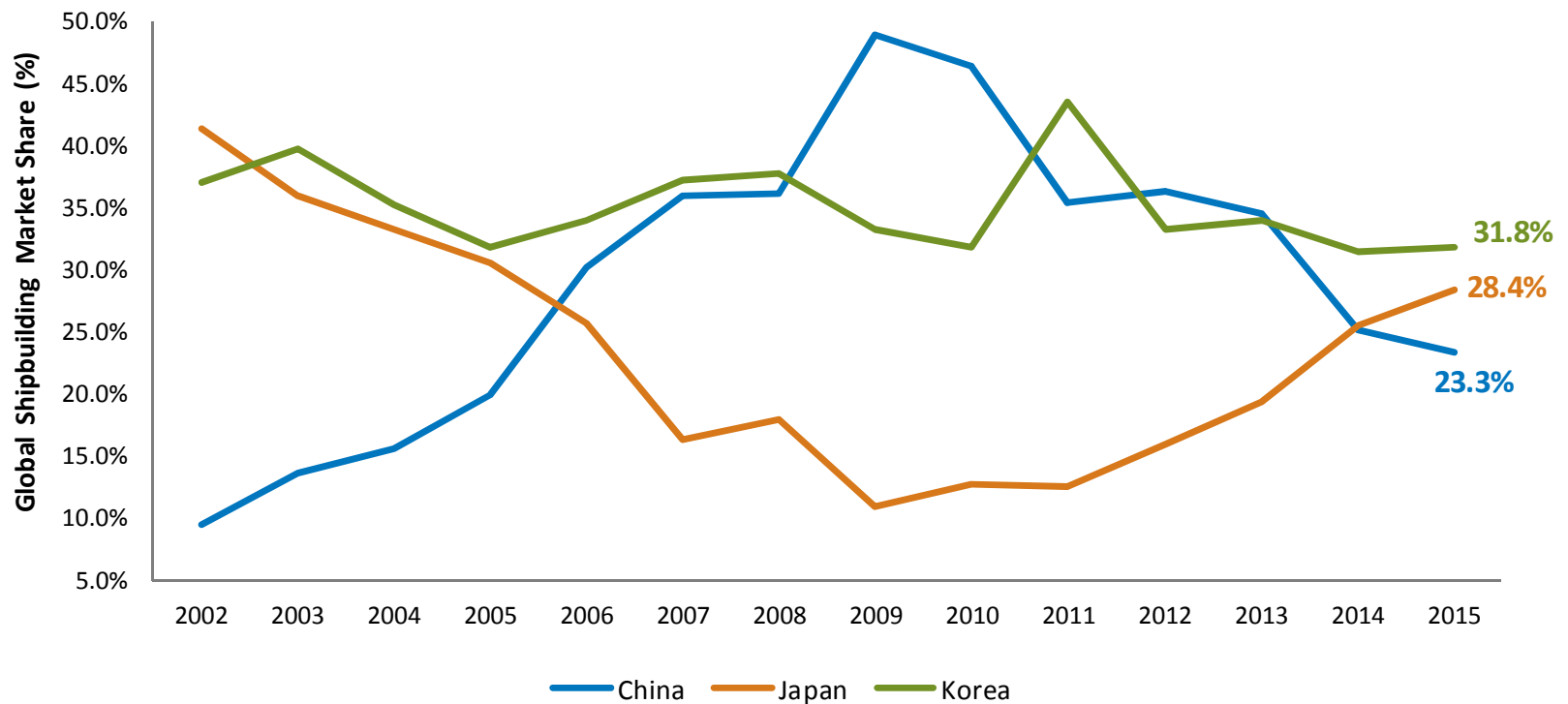


Source: Organisation for Economic Co-operation and Development, OECD as of 12/31/2014



Japan Comeback

Global Shipbuilding – New Orders – Market Share

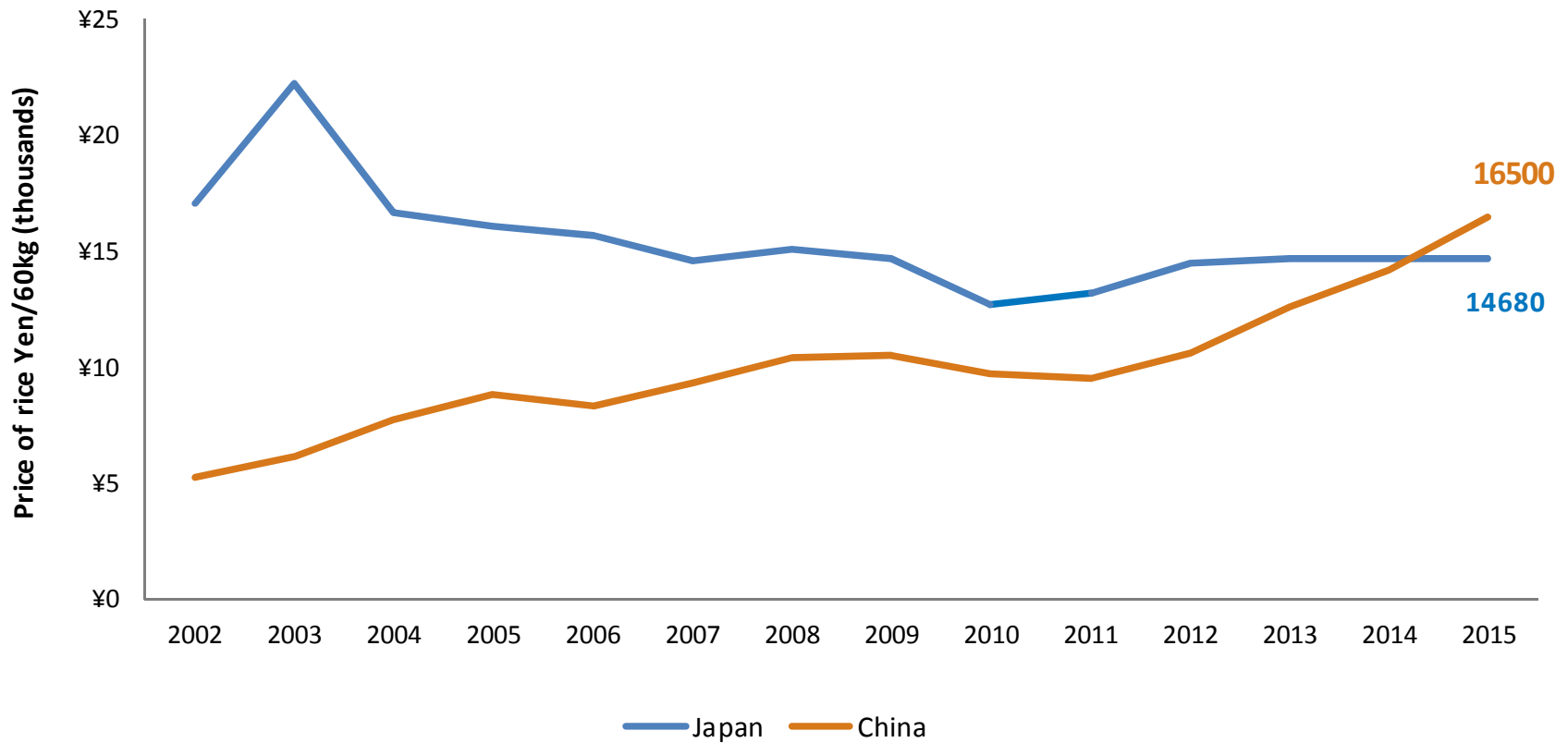


Source: Carlson as of 06/30/2015



Japan is Cheap

■ Rice Price in Yen – per 60kg



Source: Japan Ministry of Finance as of 06/30/2015



Japanese Labor is Cheap

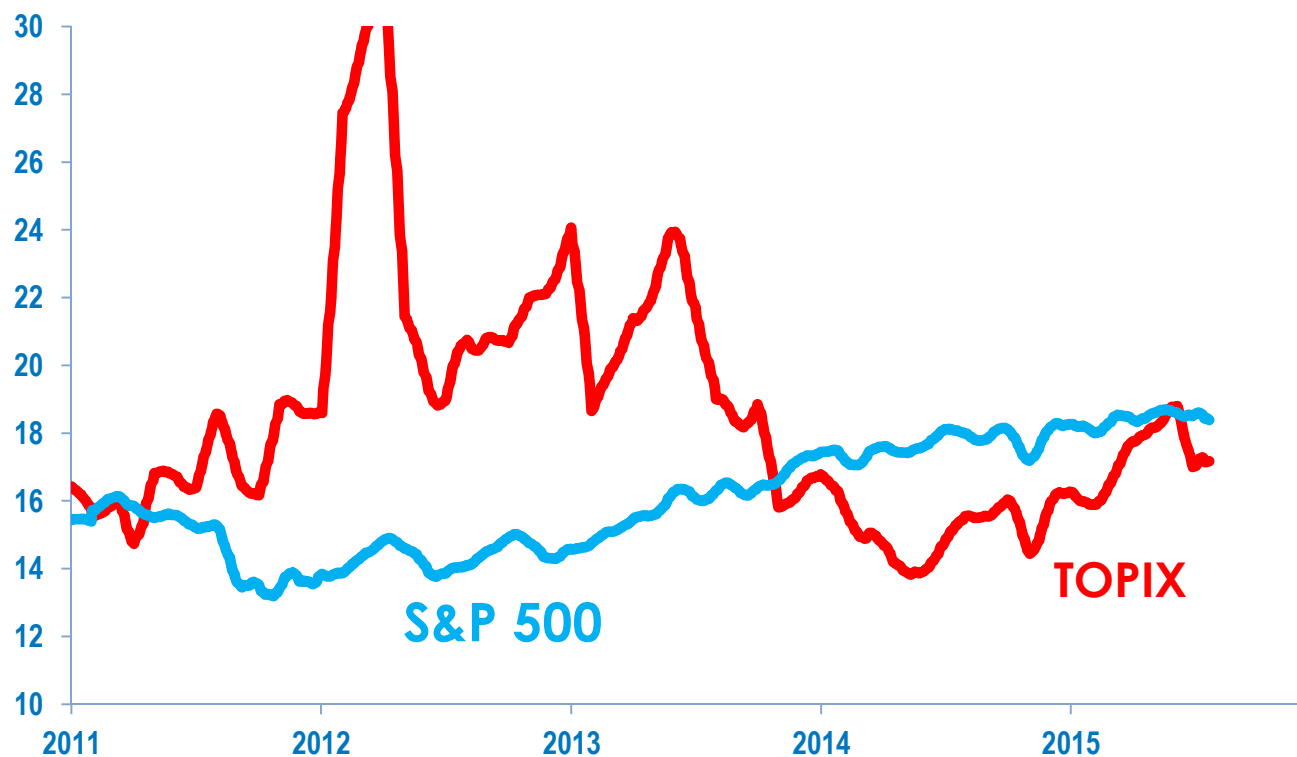
Minimum Wage per Hour	
U.S.	\$9.00
UK	\$9.50
France	\$12.50
Shanghai	\$2.50
Tokyo	¥744 = \$6.0 at ¥124/\$

Source: Japan Ministry of Finance, Japan Ministry of Health, Welfare and Labor



Asset Prices – “Abenomics Discount”

■ Trailing P/E Multiple – TOPIX and S&P 500



Source: Bloomberg as of 4/7/2015



A New Japan

	Dec-89	Jun-15
Market Cap	590	591
Cross Holdings	50%	15%
Foreign Holdings	4%	32%
Foreign Trading	8%	69%
Price to Earnings	61x	17x
Earnings per Share	21	101
Return on Equity	1.9%	9%
Companies	1165	1883

Source: Tokyo Stock Exchange as of 06/30/2015

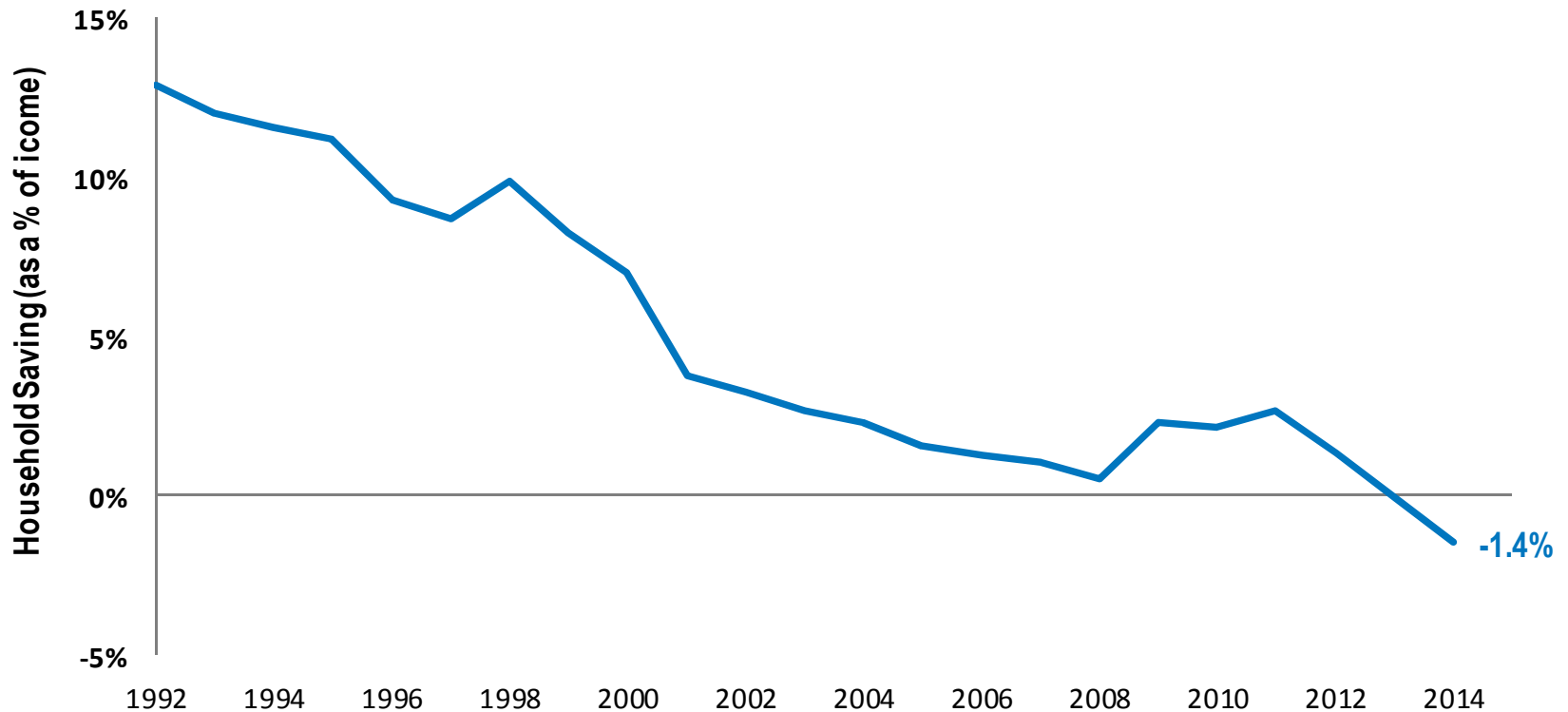


What is Different this Time?

- Regime Certainty – Pro-Business
- Unifying Rival – China
- Structural Savings Deficit
- Structural Labor Shortage
- Japan is *CHEAP*

Real Scarcity to Drive Real Change

■ Household Sector Savings Rate - % of Income

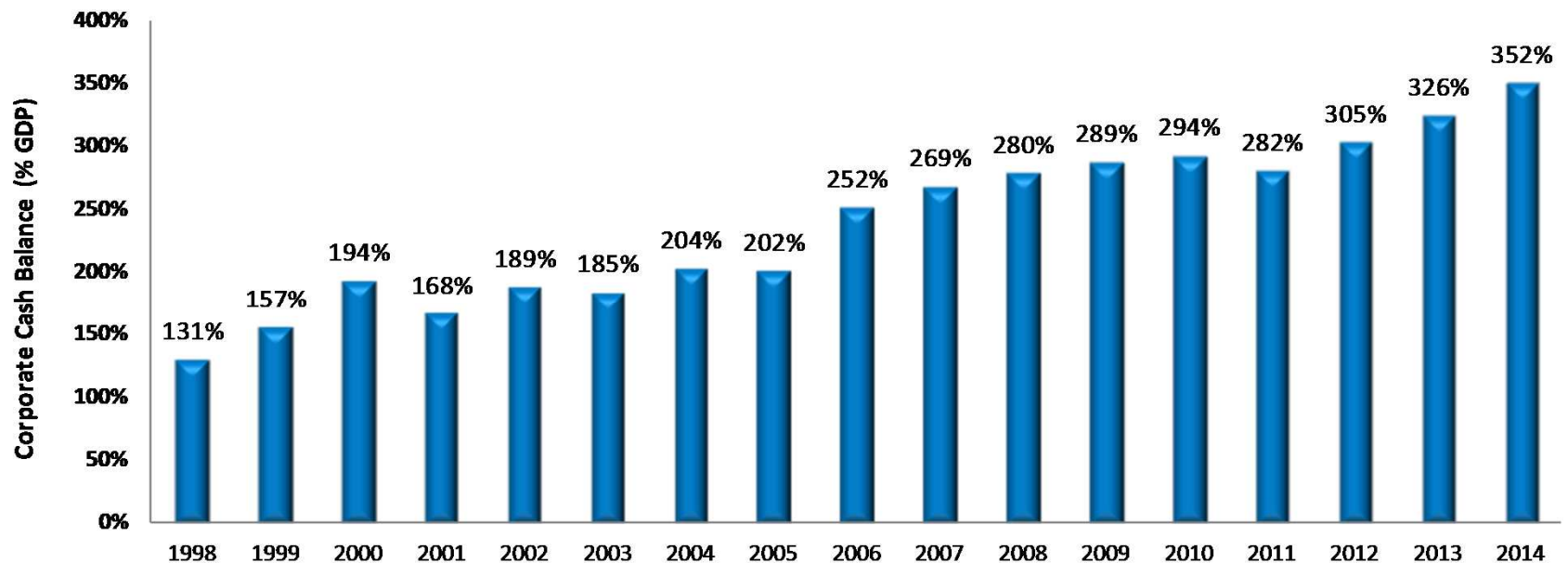


Source: OECD as of 12/31/2014



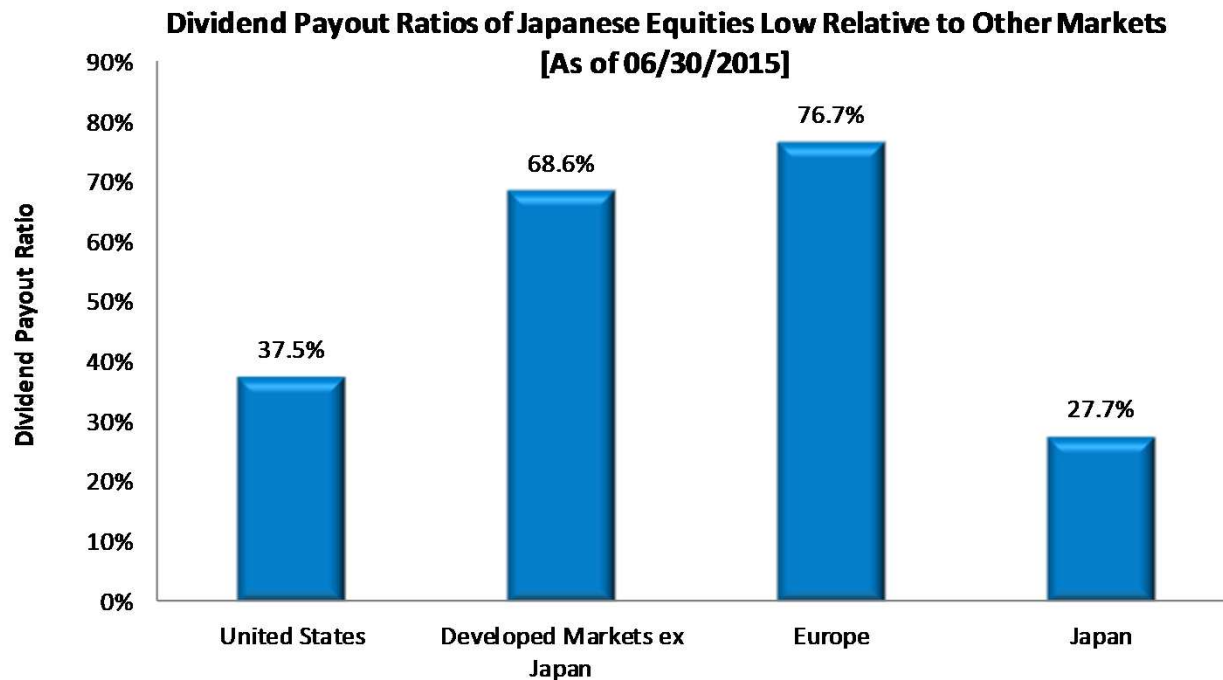
High Corporate Cash Balances

■ Corporate Sector Retained Earnings as % of Gross Domestic Product (GDP)



Source: Japan Ministry of Finance as of 12/31/2014

Japan's Low Payout Ratios Indicate Potential for Continued Dividend Growth

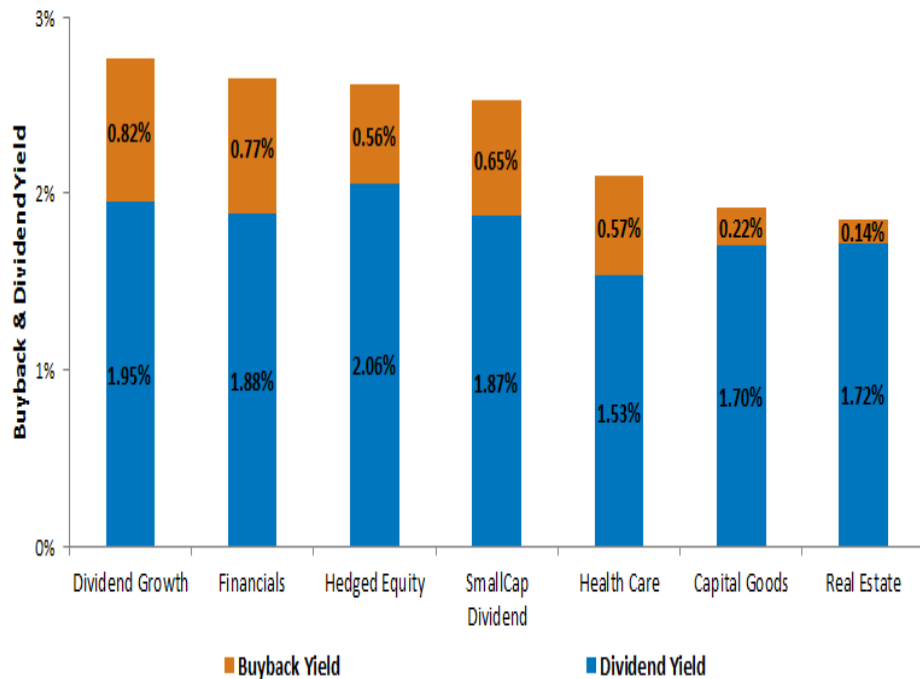


Source: Bloomberg, with data as of 6/30/2015. Japan is represented by the TOPIX Index universe, United States is represented by the S&P 500 Index universe, Europe is represented by the MSCI Europe Index universe, and Developed Markets ex Japan is represented by the MSCI EAFE ex Japan Index universe. You cannot invest directly in an index.



Share Buybacks are Becoming a More Important Theme in Japan

Composition of Shareholder Yield for WisdomTree's Japan-Focused Indexes (as of 6/22/2015)



Buyback Stream

2011 : Y0.8 trillion

2013 : Y1.6 trillion

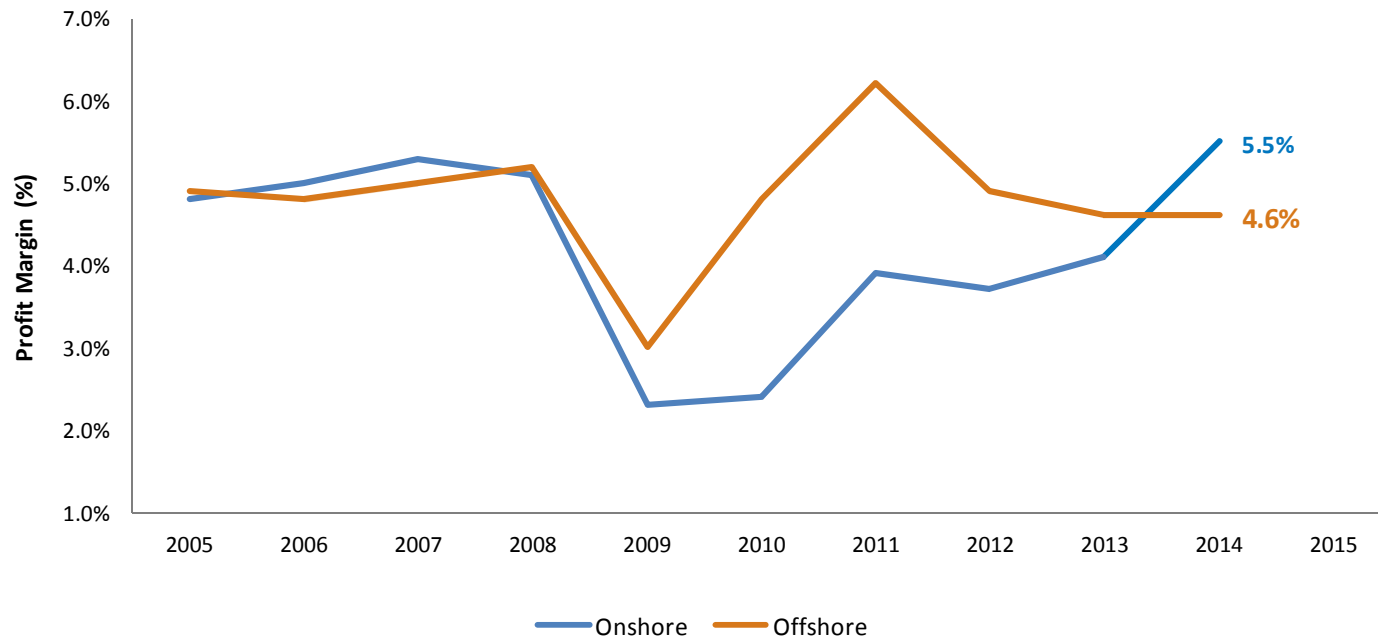
2015 : Y3.2 trillion

Source: WisdomTree, Standard & Poor's. Buyback Stream is based on all constituents of the WisdomTree DEFA Index incorporated within Japan. Annual figures are as of the first dates after rebalance implementation, specifically 6/20/2011, 6/18/2012, 6/24/2013, 6/23/2014 and 6/22/2015. Composition of Shareholder Yield is calculated for the WisdomTree Japan Hedged Dividend Growth, Japan Hedged Financials, Japan Hedged Equity, Japan SmallCap Dividend, Japan Hedged Health Care, Japan Hedged Capital Goods and Japan Hedged Real Estate Index universes. Past performance is not indicative of future results. You cannot invest directly in an index.



New Realities – Domestic Margins Are Back Up

Operating Profit Margins for Japanese Industry : On-Shore & Off-Shore

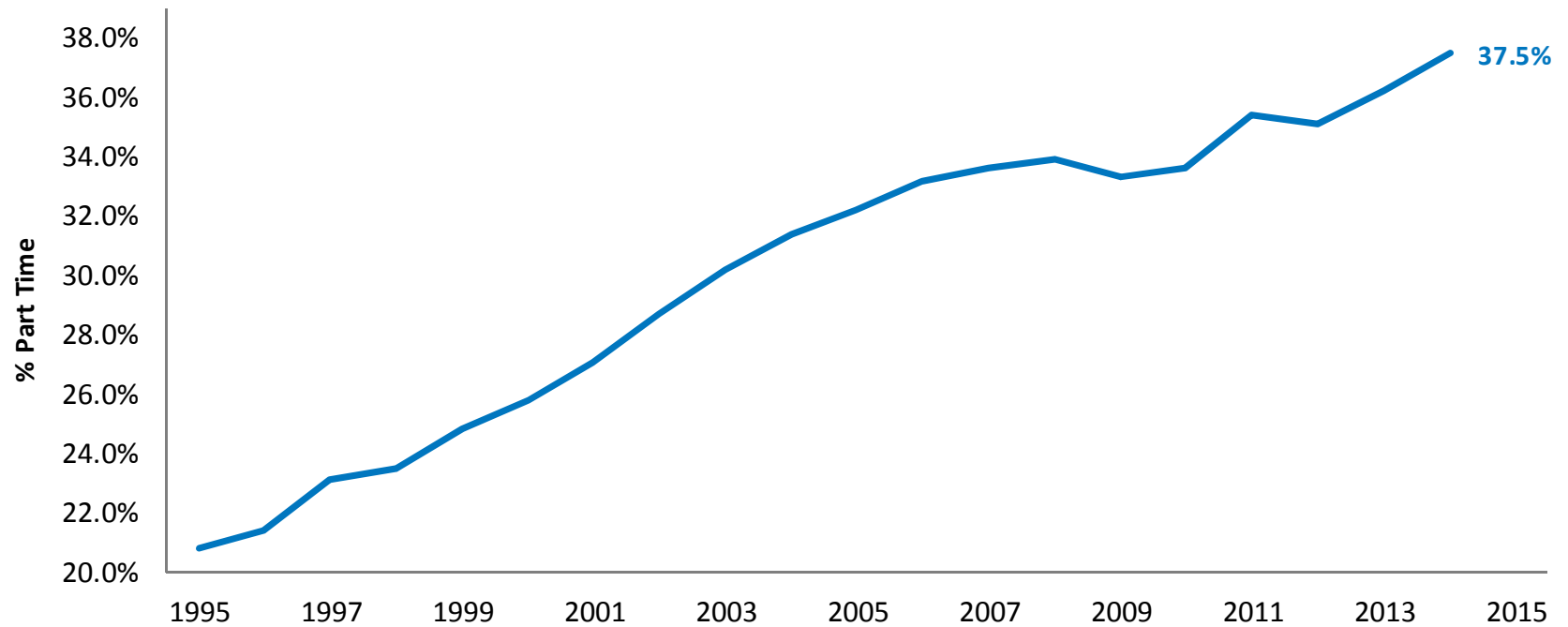


Source: Japan Ministry of Economy & Industry, Japan Ministry of Finance, WisdomTree as of 12/31/2014



Labor Scarcity Creates Demographic Sweet Spot

■ Part-Time Employment as % of Total

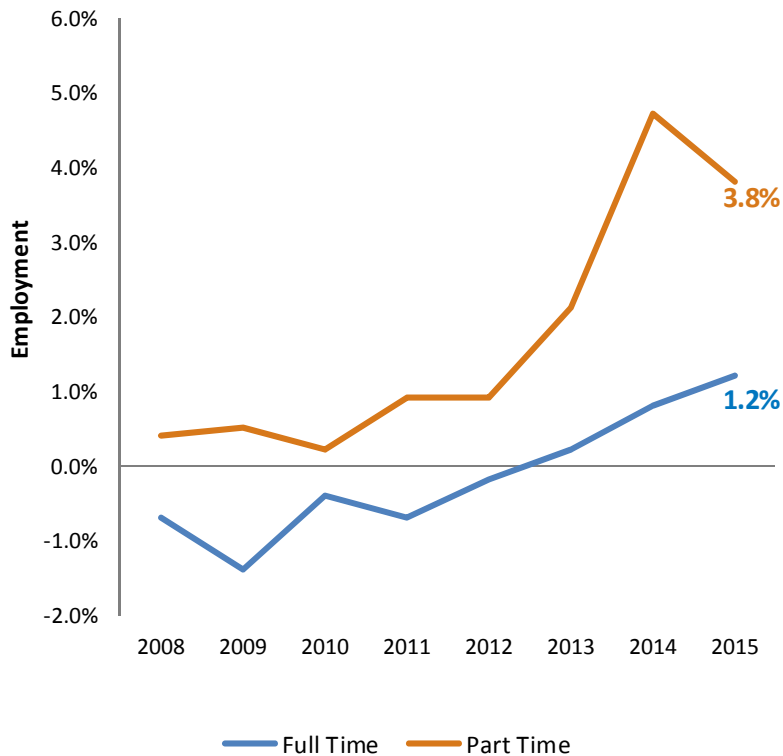


Source: Japan Ministry of Health, Welfare & Labor as of 12/31/2014

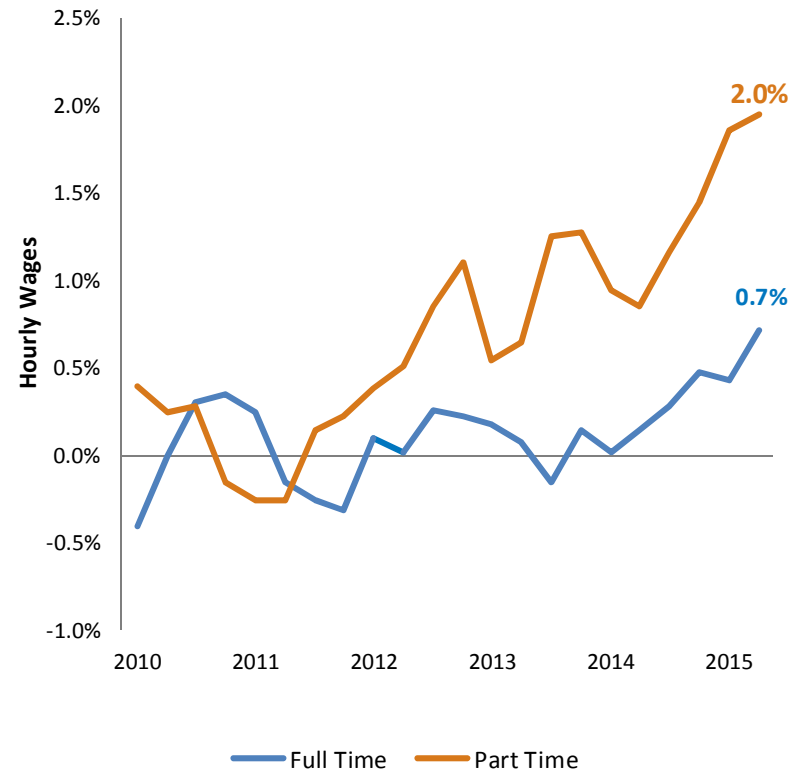


Towards a New Japanese Middle Class

■ Employment Growth %yoy



■ Wage Growth %yoy

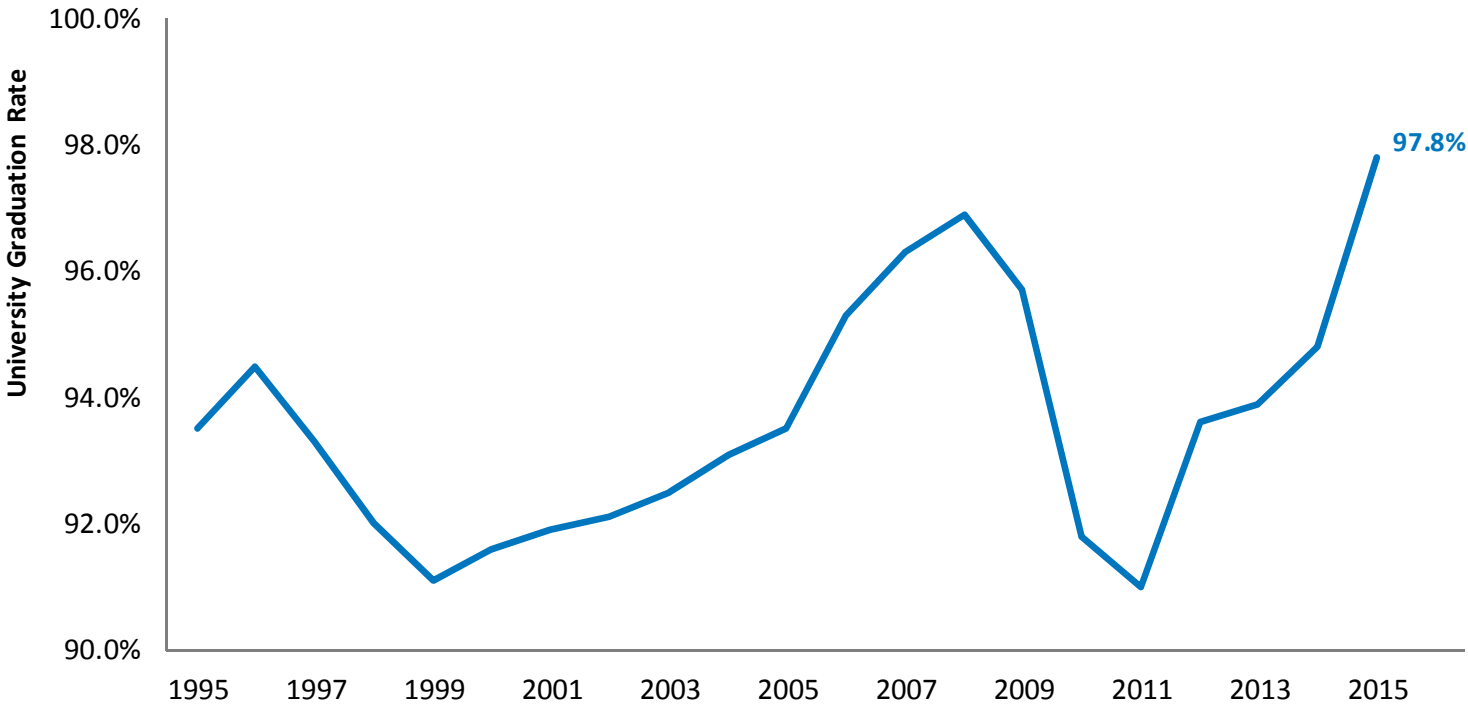


Source: Japan Ministry of Health, Welfare & Labor as of 06/30/2015



Want to be Re-born as 23-years old Japanese

■ Percent of University Graduates Finding Employment

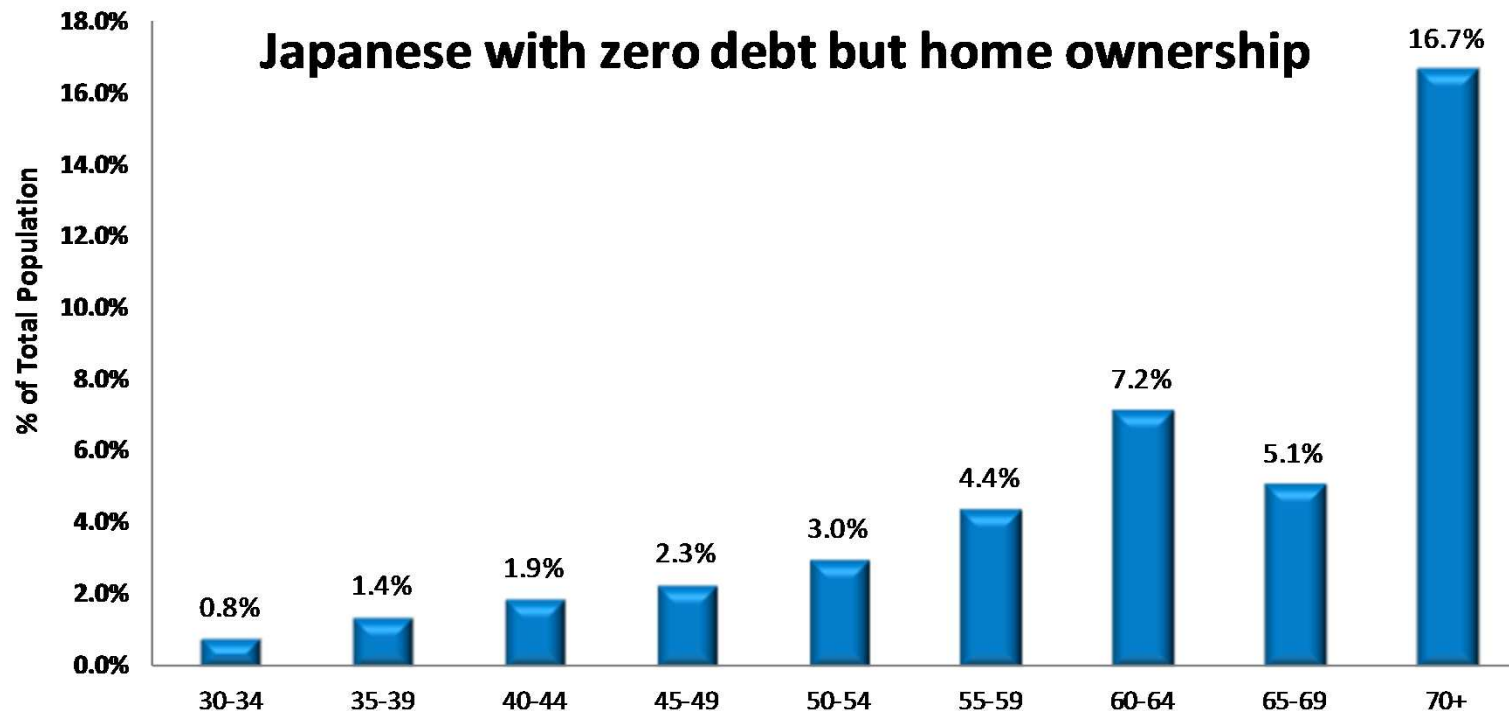


Source: Japan Ministry of Health, Welfare & Labor as of 06/30/2015



Japanese Consumers – Asset Rich

- 42.8% of all Japanese over 30 years old have no debt but own their home



Source: Bank of Japan (BoJ), Japan Ministry of Finance, Japan Ministry of Health, Welfare and Labor and WisdomTree Calculations as of 12/31/2015



Rich Baby Boomers

■ Net Financial Assets by Age Group

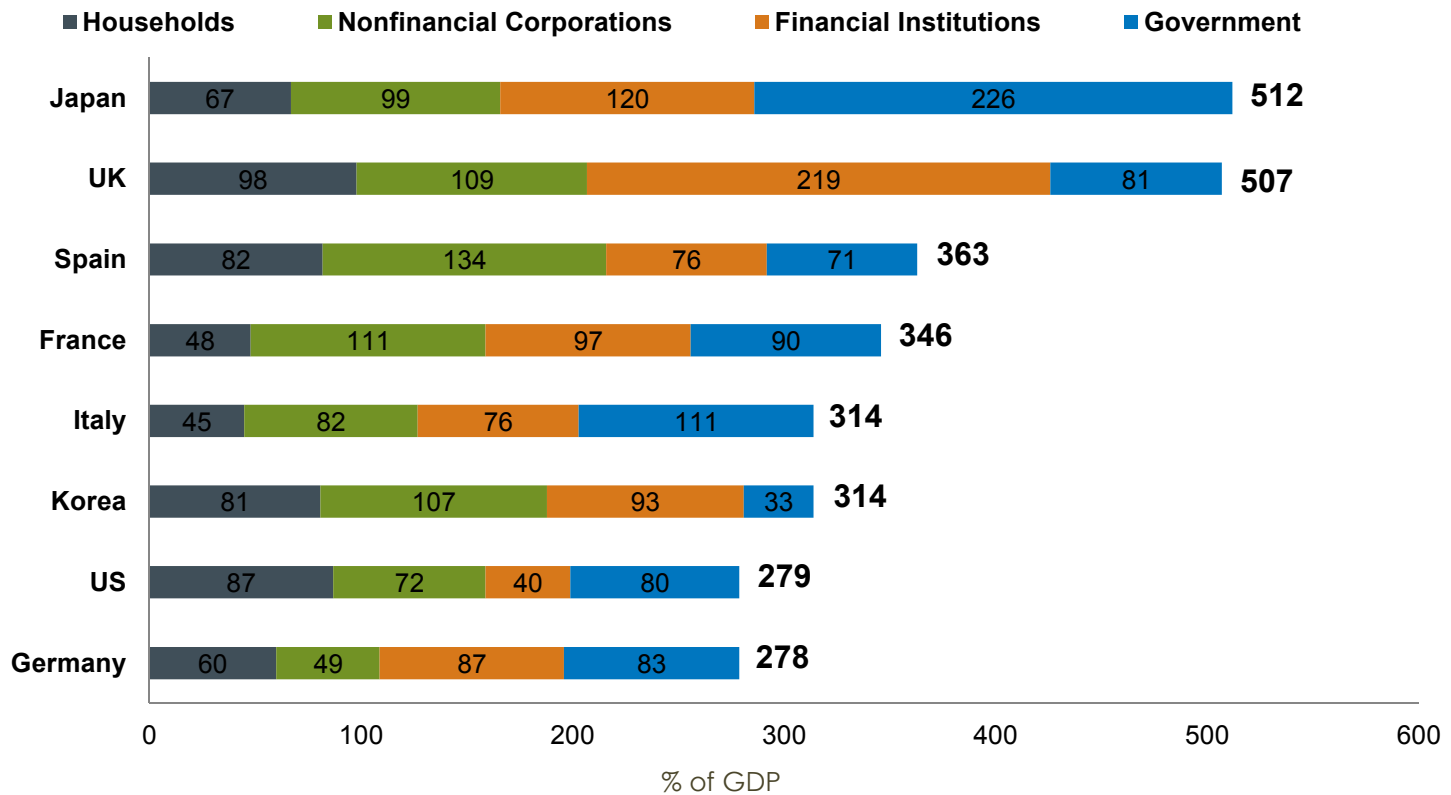
Age	Net Assets (Trillion Yen)	% of Total
To 39	31	2.50%
40 to 49	96	7.40%
50 to 59	280	21.80%
Over 60	880	68.20%

Source: Bank of Japan & WisdomTree calculations as of 12/31/2014



High Public Debt Levels

■ Debt by Major Economic Sectors



Source: McKinsey as of 3/31/2011



Abenomics - The Other Agenda

■ Effective 2014

- Double capital gains tax
- Raise top income tax from 50% to 55%

■ Effective 2015

- Raise inheritance top tax rate from 50% to 55%
- Impose “exit tax” for financial asset owners

Pension Cuts Are Real

■ Effective 2015

- Macro Slide: Move from full CPI indexation to only two-thirds indexed
- Overpayment Cut : Subtract an additional 0.5% for past deflation overpayments

■ Clear speak :

- 2015 Benefits should have gone up by 2.8%
- But: $2.8\% - 1\% - 0.5\% = 1.3\%$ is the actual increase

Fiscal Realities – Past 35 years

Budget	Average	High	Low
Total Expenditures	18.1	22.6	13.8
Social Welfare	4.5	6.3	3
Local Transfers	3.5	4.1	2.6
Others	8.8	10.1	7.2
Debt Services	1.3	2.1	1
Revenues	13	16.7	7.7
Income Tax	4.6	5.8	2.7
Corporate Tax	3.5	4.8	1.3
Consumption Tax	2	2.2	1.8
Others	2.9	3.7	1.9

Source: Japan Ministry of Finance in Percentage Share of GDP



Fiscal Dynamics – Reflation Scenario

Budget	Average	Reflation	
Total Expenditures	18.1	19.5	
Social Welfare	4.5	5	= 2% above low
Local Transfers	3.5	3.5	= average
Others	8.8	8.5	= 1% above low
Debt Services	1.3	2.5	= 2x average
Revenues	13	18.5	
Income Tax	4.6	6	= 0.2% above high
Corporate Tax	3.5	5	= 0.2% above high
Consumption Tax	2	3.5	= 1.3% above high
Others	2.9	4	= 0.3% above high

Source: Japan Ministry of Finance & WisdomTree in percentage share of GDP

Who is Afraid of China ?

- Percent of each countries export products that compete head-to-head with Made-in China Products in the US market

	1990	1995	2000	2005	2014
Japan	3	8	16	25	56
Korea	25	28	37	50	72
Tarwan	27	40	50	78	85
Singapore	15	19	35	45	68
Indonesia	49	60	68	72	81
Malaysia	37	37	47	72	89
Philippines	42	46	46	75	87
Thailand	36	48	56	77	88

Source: C.H.Kwan – RIETI / NRI ; WisdomTree estimates for 2014



China's Importance In Perspective - Sales

■ Manufacturers Sources of Sales – Domestic, Exports & Off-Shore Factories

Sales	Total Sales (Trillions of Yen)	Growth (%)	Respective Share (%)	
	3/2014	3/2009-3/2014	3/2009	3/2014
Total	445.7	5.0	100%	100%
Domestic	255.6	4.2	60.4	57.3
Offshore	117.0	6.6	23.4	26.3
Exports	73.1	7.0	16.2	16.4
China				
Total	57.7	5.9	12.1	12.9
Offshore	44.3	6.2	9.1	9.9
Exports	13.4	6.3	3.0	8.3
US				
Total	88.1	9.0	18.1	19.8
Offshore	74.4	8.6	15.5	16.7
Exports	13.7	11.5	2.6	3.1

Source: Japan Ministry of Economy & Industry, Japan Ministry of Finance, WisdomTree



China's Importance In Perspective - Profits

■ Manufacturers Sources of Profits – Domestic, Exports & Off-Shore Factories

Profits	Total Sales (Trillions of Yen)	Growth (%)	Respective Share (%)	
	3/2014	3/2009-3/2014	3/2009	3/2014
Total	25.47	32.7	100%	100%
Domestic	14.06	40.4	48.2	55.2
Offshore	5.38	8.6	38.9	21.1
Exports	6.03	15.9	12.9	23.7
China				
Total	3.14	17.0	17.6	12.3
Offshore	2.04	7.8	15.2	8.0
Exports	1.11	74.2	2.4	4.3
US				
Total	4.59	14.0	27.9	18.0
Offshore	3.42	7.4	25.8	13.4
Exports	1.16	96.4	2.1	4.6

Source: Japan Ministry of Economy & Industry, Japan Ministry of Finance, WisdomTree





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Appendix

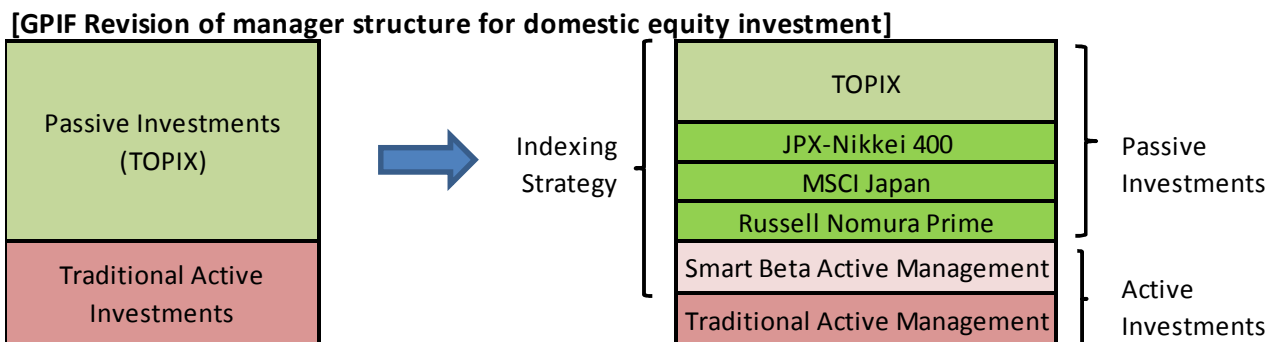
Money in Motion on BOJ/GPIF

- Japanese Government Pension Investment Fund (GPIF) allocating to foreign assets, including smart beta* equities
- On Oct. 31, 2014, the GPIF, the largest pension in the world with \$1.1 trillion in assets, adjusted its asset allocation

- Increased its holdings of risky assets including Japanese equities and foreign equities and bonds and reduced its holdings in Japanese Government Bonds (JGBs)
- Increased allocations in “Smart Beta active management**” away from traditional active management

		Asset Allocation	
		Old	New
JGBs		60%	35%
Japanese Stocks	→	12%	25%
Foreign Bonds		11%	15%
Foreign Stocks	→	12%	25%

- BOJ providing dual endorsement to the Exchange Traded Fund (ETF) structure and non-cap weighted beta
- As part of its quantitative easing program, the BOJ has been purchasing ETFs to provide monetary stimulus
 - In their latest program announcement, the BOJ tripled its annual ETF purchases to ~\$35bn



Source: Government Pension Investment Fund Japan, April 2014. You cannot invest directly in an index.

*Smart Beta: A term for rules-based investment strategies that don't use conventional market-cap weightings.

**Smart Beta Active Management: Refers to actively managed structures that employ smart beta strategies.



Important Information

Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty.

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

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