



Japan's Tourism Industry Taking Off

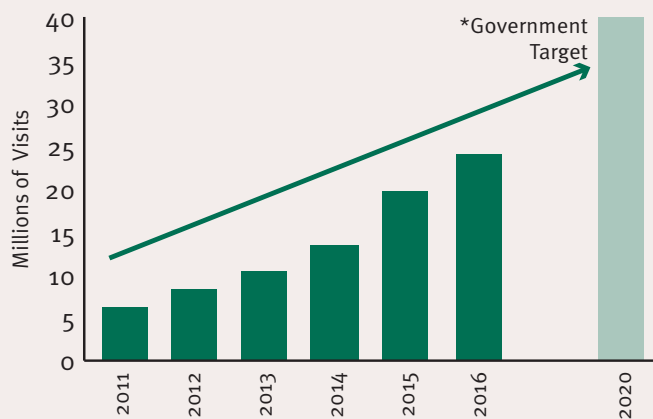
Tourism is a growing industry in Japan and has the potential to contribute meaningfully to economic growth over the next decade. Over the past five years, the number of tourists has increased by an average of approximately 30% each year, and the number is expected to continue to rise. With the average tourist spending \$1,500, tourism in total currently equates to approximately 0.7% of Japan's GDP. We believe tourism has ample room for growth, and as it expands its impact on overall economic growth could be significant.

Promoting Tourism

The government has made tourism an important part of its goal to reach 600 trillion yen (\$5 trillion) in nominal GDP by 2020. In 2016, a record 24 million tourists visited Japan, an increase of more than 20% compared to 2015, and beating the government's 2016 target of 20 million.¹ We believe tourism in Japan has ample room to grow, as the total number of visitors remains small compared to many other countries. For example,

RISING TOURISM IN JAPAN

Having reached 24 million tourists in 2016, Japan has set a target of 40 million tourists by 2020.



Source: Japan National Tourism Organization

Summary

- » Tourism has the potential to be a positive economic influence in Japan
- » The country is set to meet the government's target of 40 million tourists by 2020
- » The 2020 Olympics in Tokyo provide an opportunity for Japan to expand its tourist base beyond Asia

in France, the world's top tourist destination with 83 million foreign tourists annually, the tourism industry accounts for 7% of GDP. Despite being the third largest economy in the world, Japan is ranked 22nd in the number of inbound visitors.²

To promote being a "tourism-oriented country," Japan has relaxed visa requirements, expanded its consumption tax exemption program and increased the number of low-cost air carrier routes. Additionally, the depreciation of the yen has attracted tourists by making Japanese goods and services more affordable.

According to surveys conducted by the Japan Tourism Agency, approximately 80% of Japan's tourists have arrived from Asian countries, including China, Taiwan, South Korea and Hong Kong. In 2015, approximately 25% of foreign tourist spending was on accommodations, while a whopping 42% was spent on shopping excursions.³ In fact, the spending power of Chinese shoppers was so significant in recent years, a new buzzword was created: "bakugai," meaning explosive buying.

Casino Gambling

Casino resorts could further boost tourism growth. In December 2016, the Japanese parliament approved a bill to legalize casino gambling.

The Asia-Pacific region has become the largest casino gambling market, with revenue in Macau and Singapore

1. Japan National Tourism Organization.
2. International tourism, number of arrivals, The World Bank.
3. "White Paper on Tourism In Japan: The Tourism Situation in FY2015," Japan Tourism Agency.

reaching nearly \$29 billion and \$5 billion, respectively in 2015. By comparison, gaming revenue in Las Vegas was \$6 billion in 2015. According to Hong Kong-based investment bank, CLSA, if Japan opened just two resorts in major population areas, annual gaming revenue could potentially climb to over \$25 billion, which alone could add more than 0.5% to GDP.⁴

In Japan, resorts that combine gambling with shopping and convention halls could see significant growth in tourism and revenue.

2020 Olympic Games

In preparation to host the 2020 Summer Olympic Games in Tokyo, it is estimated that Japan will spend approximately 6 trillion yen (\$60 billion) on transportation infrastructure including expanding ports, increasing airport capacity and strengthening transportation hubs.⁵ The country also anticipates additional capital investments in hotels, offices and commercial complexes.

The 2020 Games will provide an opportunity to showcase Japan's technological know-how. Plans include the creation of an Olympic robot village to help guests with directions, transportation and translation. Japan plans to impress athletes and tourists with autonomous taxis, algae-fueled planes and buses, 5G wireless technology and superspeed magnetic levitation trains.⁶

An Opportunity to Benefit from Japan's Growth

Tourism is one of many areas contributing to the recovery of Japan's economy. For investors seeking exposure to Japan's potential growth, consider the Hennessy Japan

Fund (HJPNX/HJPIX) and the Hennessy Japan Small Cap Fund (HJPSX/HJSIX), both offering "best ideas" portfolios. The Japan Fund is comprised of globally oriented mid- to large-cap companies. The Japan Small Cap Fund invests in more domestically focused companies with a market capitalization in the bottom 15% among all Japanese companies.

Both Funds are sub-advised by Tokyo-based SPARX Asset Management. As one of the largest and most experienced independent Asia-based asset management specialists, SPARX's "feet on the street" research team provides a significant and crucial advantage for shareholders.

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4. Einhorn, Bruce, Huang, Grace and Wei, Daniela. "Japan's Big Bet on Casinos," Bloomberg Businessweek, December 21, 2016.

5. Cooper, Chris and Matsuda, Kiyotaka. "Abe Plans \$61 Billion Infrastructure Spending for Japan Revival," Bloomberg.com, August 2, 2016.

6. Futurism.com.

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