

## Reshaping the Future of Japanese Corporate Governance



**Yuichi Murao, CFA**  
Senior Managing Director  
CIO, Japan Equities  
Published October 2022

*Significant progress in governance practices and shareholder engagement make corporate Japan an environment rich in opportunities for selective investors. In this paper, CIO Yuichi Murao reviews some key drivers of corporate governance reform within Japan, promising developments in shareholder activities, and Nomura Asset Management’s own efforts to promote improved corporate value through engagement.*

### **Evolving State of Corporate Governance**

During the course of the past decade, Japanese companies have made great progress in enacting corporate governance reforms and enhancing their accountability, thanks to the combined efforts of the Japanese government, the Tokyo Stock Exchange, and other stakeholders. Specifically, this has resulted in increased board independence and diversity, reduced cross-shareholdings, and created a greater willingness to engage in dialogue with shareholders.

One key driver of these positive developments has been the Corporate Governance Code. First issued in 2015 and later revised in 2018 and

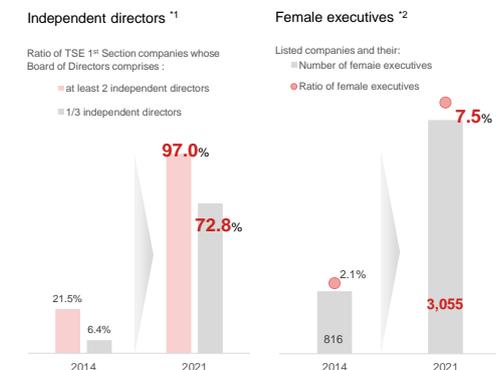


2021, the Code adopts a “comply or explain” approach to promoting its general principles, which include securing shareholder rights, ensuring transparency, and clarifying board responsibilities.

Revisions to the Code are made on an ongoing three-year cycle. The first round included additions to encourage the reduction of cross-shareholdings and clarify the board’s role in supervising management. The more recent 2021 revisions sought to enhance board independence, promote diversity among senior management,

and place greater emphasis on sustainability and ESG considerations.

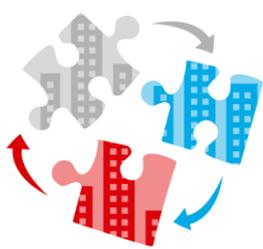
**Change in Board Independence and Diversity**



Source:  
 1) JPX, companies listed on the First Section of the Tokyo Stock Exchange  
 2) Prepared by Nomura Asset Management based on "Toward Accelerating the Advancement of Women in the Workplace," Cabinet Office, Government of Japan, March 10, 2020.

In the years since the the Code's introduction, significant progress has been made in many of these areas, particularly with regard to the participation of women at the executive level and the presence of independent directors within corporate boards.

**Tokyo Stock Market Restructuring**



The positive momentum is expected to continue, if not accelerate, following the Tokyo Stock Exchange's reorganization of its

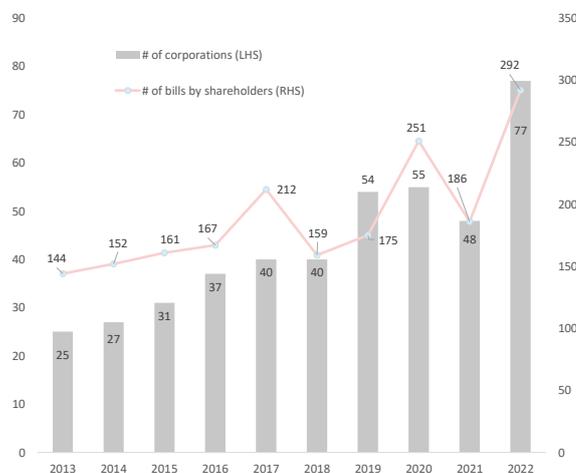
market segments in April 2022. The previous Tokyo market structure was complicated by legacy segments retained from the 2013 merger of the Tokyo and Osaka exchanges. The restructuring simplified the market into three sections, the Prime, Standard, and Growth segments, with the aim of offering greater clarity to investors as well as religning (re-aligning ?)incentives for listed companies.

The TSE has tightened its requirements for corporations seeking a coveted Prime market listing by removing cross-shareholdings from liquidity criteria and demanding compliance with the Corporate Governance Code. Furthermore, Prime-listed companies are prompted to increase climate disclosures based on the Task Force on Climated-Related Financial Disclosures (TCFD) framework.

**Increased Shareholder Activism**

Even as we recognize the improvements made thus far, we must also recognize that there is further progress to be made. Thankfully, we are seeing a record amount of shareholder engagement in recent years, represented in part by a clear upward trend in shareholder proposals.

**Trends in Shareholder Proposals**



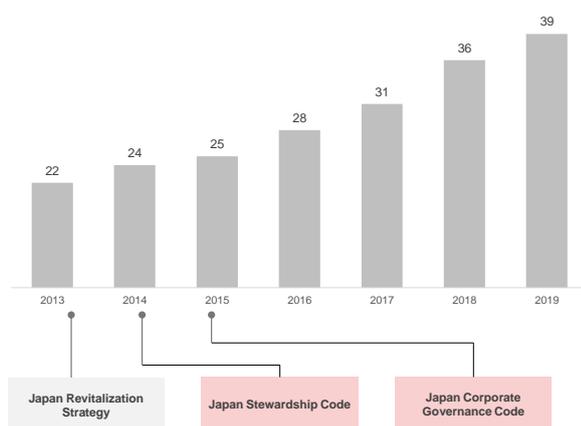
Source) Nomura Asset Management based on IR Japan, Inc. data

As of June 2022, a record number of 77 companies had received a historical high of 292 proposals. Both figures are significant jumps from the previous highs in 2020 when 55 companies received 251 proposals.

The proposals cover a wide variety of topics, including increasing returns to shareholders and taking action to mitigate climate change.

Japanese companies have also seen a rise in activist investor activity in recent years. Though it is difficult to categorize all activist investor together, they are generally defined as investors that buy significant stakes in a company with the aim of aggressively influencing change, often favoring open confrontation with their target companies.

**Trends in the number of activists in Japan**



Source) Nomura Asset Management

Since the second wave of corporate reform began in 2013, Japan has become the second largest market for activist investors following the United States. These investors are increasingly gravitating toward Japan as they observe a market rich in potential to unlock value for shareholders. Share ownership structure has reached a tipping point where the balance of power has tilted in favor of active investors, and the aforementioned corporate governance reforms have made companies more willing to engage in dialogue with their shareholders.

**NAM's Commitment to Engagement**



We at Nomura Asset Management are also committed encouraging further corporate reform that contributes to a more prosperous society

through active engagement. We firmly believe that engagement is one of our best tools to understanding the management and potential of the companies within our portfolios, as well as their capability to create value over the medium- to long-term.

Toward this end, we established a new dedicated Engagement Department in November 2021 to enhance cooperation between our teams in Equity Research, Responsible Investment, and Portfolio Management. Our unified approach involves setting and sharing achievable goals with investee companies. We then engage in ongoing dialogue with these companies to promote reform through milestone management. We then share the outcomes of these activities with our portfolio managers to ensure reflection in investment decisions and proxy voting.

For a more detailed look at specific examples of engagement, please refer to the series of feature articles hosted on NAM's global website:

[Nomura Asset Management: Engagement Feature Articles](#)

**Project BRIDGE: Rediscovering Japan**



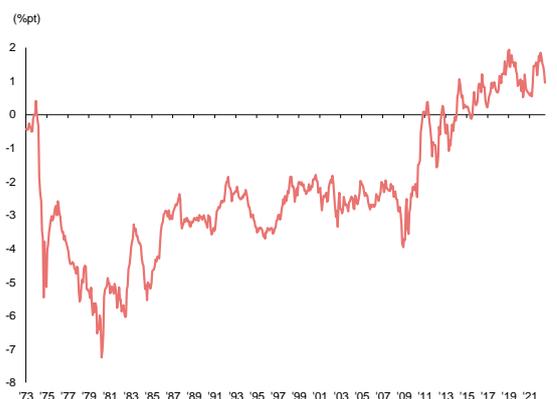
In light of the progress made within corporate Japan and lagging market valuations, we have redoubled our efforts to promote the appeal of

Japanese equities to investors around the world. organized under the title Project BRIDGE.

Launched in March 2022, the project seeks to live up to its name by “bridging the gap” in two crucial areas. The first is the gap in investor awareness of opportunities within the Japanese capital market. Japan is home to companies with rich expertise and the potential for high growth and profitability. Through both informational campaigns and our fundamental-focused equity strategies, we hope to bring greater awareness of the many opportunities available to investors. Already in 2022, we have met with over 150 global institutional investors and engaged in very fruitful discussions.

The second gap we hope to bridge is one of valuation: the disparity between a company’s potential value and its market valuation.

**Earnings yield gap between Japanese and global equity market earnings (Japan equity - Global equity)**



\*1: Earnings yield is an inverse of Price to Equity Ratio (PER). The higher the earnings yield, the more undervalued the stock is considered to be.

Source: Nomura Asset Management based on Datastream Period: January 1973 - June 2022

On the whole, we believe that market valuations of Japanese equities are not reflective of the companies’ inherent strengths and competitiveness. Indeed, in terms of relative earnings yield, Japanese equities have reached their most undervalued level in 50 years. Our solution to this issue returns to the central theme of engagement and working over the long-term with our investee companies as a bottom up agent of change.

Nomura Asset Management is specially positioned to fulfill the role of helping investors rediscover the opportunities and potential of the Japanese market. I invite you to visit our special Project BRIDGE website to follow our ongoing efforts:

[Nomura Asset Management: Project BRIDGE](#)

## Disclosure

This document was prepared by Nomura Asset Management Co., Ltd. (“NAM”) for informational purposes only and distributed by Nomura Asset Management Europe KVG mbH – UK Branch, from sources it reasonably believes to be accurate. Although this report is based upon sources we believe to be reliable, we do not guarantee its accuracy or completeness.

Unless otherwise stated, all statements, figures, graphs and other information included in this report are as of the date of this report and are subject to change without notice. The contents of this report are not intended in any way to indicate or guarantee future investment results. Further, this report is not intended as a solicitation or recommendation with respect to the purchase or sale of any particular investment. This report may not be copied, redistributed or reproduced in whole or in part without the prior written approval of Nomura Asset Management Co., Ltd. Nomura Asset Management Europe KVG mbH is authorised and regulated by the Federal Financial Supervisory Authority (BaFin). Its UK Branch is also authorised and regulated by the Financial Conduct Authority (FCA).

The information in this report is not intended in any way to indicate or guarantee future investment results as the value of investments may go down as well as up. Values may also be affected by exchange rate movements and investors may not get back the full amount originally invested. Before purchasing any investment product, you should read the related risk documentation in order to form your own assessment and judgement and, to make an investment decision. This document may not be reproduced or redistributed, in whole or in part, for any purpose without the written permission of Nomura Asset Management Europe KVG mbH.

## SFDR Disclosure

The EU Sustainable Finance Disclosure Regulation (“SFDR”) requires investment firms to formalise how sustainability is integrated into their business and processes, and to make new public and client facing disclosures on sustainability matters. The aforementioned disclosures relating to Nomura Asset Management Europe KVG mbH are published on our website at <https://www.nomura-asset.eu/responsible-investment/esg-sustainable-investment/>.

October 2022

Nomura Asset Management Europe KVG mbH - UK Branch