

J-Eurus News Release

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Revelations from Institutional Investor Hearings

Both Companies and Institutional Investors Have Issues with “Engagement”

J-Eurus IR Co., Ltd. (head office: Chiyoda-ku, Tokyo; President: Yasumasa Tanaka) arranges discussion opportunities with personnel in charge of engagement and stewardship at institutional investors with offices in Japan (including foreign investors) every year. The results this year showed a marked difference between the awareness of investors and companies more than in previous years. The Company requested 15* institutional investors to engage in discussion, covering a total of JPY 110 trillion yen in assets under management.

* Including one institution not engaged in investment.

This year, investor hearings were conducted especially centered on the state of “engagement” with companies and the awareness of issues related to the Board of Directors and independent directors. Yoshiko Iwata, who was appointed as chairperson of J-Eurus IR on April 1, commented, “There has been an increase in cases where companies call an engagement meeting about their ESG efforts while they are actually contacting investors simply because they want to ask them to vote in favor of the company at the shareholders meeting. Meanwhile, there are also cases where investors’ engagement with companies is limited to *requests* to reduce crossholding of shares or ensure gender diversity on the board of directors. It is necessary for the companies to change their mindset concerning the purpose of engagement.” In addition, she encouraged caution by saying, “There has been an increase in cases setting up meetings with independent directors at the request of investors, but independent directors themselves not understanding their role and positioning leads to dialogue with investors becoming disjointed. As a result, there is a risk that investors will have a negative reaction to that company.”

Engagement is carried out by investors and the companies in which they invest with the aim of mutual understanding and jointly enhancing corporate value through “dialogue with constructive goals.” However, due to the Corporate Governance Code stating, “the need for shareholder dialogue,” it appears that there are some companies where having dialogue with investors has become the goal, and the themes they want to highlight to investors remain ambiguous.

Due to the Corporate Governance Code stating, “Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and, directors, including outside directors,

and *kansayaku*, should have a basic position to engage in dialogue (management meetings) with shareholders.” (Supplementary Principle 5.1.1), it appears that there has been an increase in companies that set up dialogue between independent directors and investors such as large meetings and small meetings. In such meetings, independent directors are required to be aware that they are representatives of minority shareholders and fulfill the role of bridging the gap between the capital market and the Board of Directors. Unfortunately, however, many investors are disappointed that they often make comments that unilaterally defend management and sometimes make comments that are not from the perspective of shareholders.

Investors say that the real purpose of ensuring diversity is to provide opportunities for people with diverse attitudes and backgrounds to fully exhibit their capabilities in the company, management and the Board of Directors, leading to the company being competitive. However, due to opportunities to directly make a statement to the company through voting being limited to the election of directors, there is an inevitable tendency for attention to be drawn to whether any women have been elected as directors. Furthermore, it was also voiced that ensuring gender diversity is the highest priority because the absolute number of women on Japanese Boards is low when viewed globally.

Companies with a PBR of less than 1 have recently become a featured theme on the TSE Prime Market. Investors pointed out that in order to broaden the scope of institutional investors becoming shareholders, the basic approach is to improve fundamentals such as performance and to provide a strong equity story to gain the attention of investors, and it is increasingly important to improve the quality of management and IR activities.

The main comments were as follows:

Engagement

- I get the impression that many companies think all they need to do is have dialogue with shareholders. I would like them to clarify whether the purpose of meetings is to conduct hearings on what shareholders are thinking or to ask about voting guidelines.
- In order to have dialogue with purpose, the content of dialogue with investors should be reported to management. Also, we would like our opinions to be delivered to the Board of Directors.
- I believe engagement is not to aim for perfection all at once, but it is necessary for companies and investors to have patient and continuous dialogue.

Meetings with Outside Directors

- Independent directors are representatives of shareholders, and their role is to sound out the capital market for what shareholders expect of the company and what they are dissatisfied with, and to provide feedback to the Board of Directors. Based on this, I would like them to report to the capital market on meeting the requirements of the capital market or progress made in responding to them.
- I believe the raison d'être of independent directors is to select CEO successors. Independent directors should have knowledge of the fundamentals of corporate governance, and select successors through activities of committees, etc.

Diversity

- I would like companies to create the required skill matrix based on management strategy and direction of growth and be able to explain that they selected the candidates for the Board members at AGM to fulfill the matrix.
- I feel that including women among directors is now a goal for companies. Of course, I am aware that including women is beneficial, but it is important to consider what kind of diversity is important for a company, and I feel that the goal and the means have been reversed.

Sustainability

- In active investment, I view non-financial information as “future financial information.”
- With regard to productivity being low in Japan, the fundamental problem is that human capital is not being used to provide added value.
- I would like companies to consider that disclosure is not the goal, but they must keep in mind that the lack of sustainability may result in the loss of business.
- Disclosure of human capital is only a tool for visualizing how to resolve the margin improvement that is most lacking in Japan.

How to broaden the scope of institutional investors becoming shareholders

- In order to broaden the scope of institutional investors, performance needs to be improved.
- Companies have various problems, such as recent performance and the size of market capitalization. If being creative, it is better to have disclosure on a clear growth story and the underlying social movements.

Latest Trends in the Survey:

- FY2022 14 institutional investors with JPY 118 trillion in Japanese equities included in assets under management

Main points of the hearings: (1) Transition to Prime Market, (2) Board composition and skill matrix; (3) Disclosure of ESG, etc.

- FY2021 9 institutional investors with JPY 66 trillion in Japanese equities included in under management

Main points of the hearings: (1) Strategic shareholdings; (2) Diversity; (3) Expectations of board effectiveness, etc.

J-Eurus IR Co., Ltd.

Japan's first global IR and governance consulting company meeting the needs of Japanese companies and proposing and promoting global-level IR activities to Japanese companies. In addition to Tokyo, it has offices in the United Kingdom and the United States. The company has an abundant track record making proposals to Japanese companies, and has obtained a wide range of customers for management consulting on investor relations including companies with market capitalization exceeding 1 trillion yen in addition to emerging companies. <http://www.j-eurusir.com> Telephone: +81-3-6273-4032