Thematic Insight

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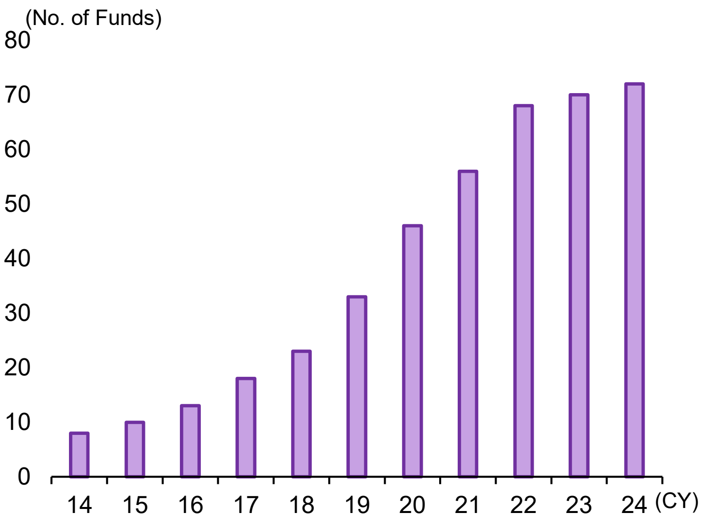
Japan open to activist investors

- **Behind the rise in investor activism in Japan is the change in corporate attitudes in favor of shareholder interests, which has increased the likelihood of activist proposals being accepted. Investor activism should increase further, given increasing support from institutional investors, prominent calls for more focused business strategies such as business portfolio revisions, and a rise in M&A activity by business corporations.**
- **Investment returns tend to rise over the long term when companies acquiesce to proposals made by activists. Activism can be viewed as a catalyst for promoting corporate management reform, and investors in the Japanese equity markets will need to carefully scrutinize the content of activist demands and the intentions behind managements' responses.**

Investor activism still has a negative image in Japan, but since 2020, returns have been relatively high on stocks targeted by activist interventions. In this report, we look at the factors behind the increase in activism, and point out the possibility that activist proposals that contribute to long-term growth in corporate value may help to lift share prices.

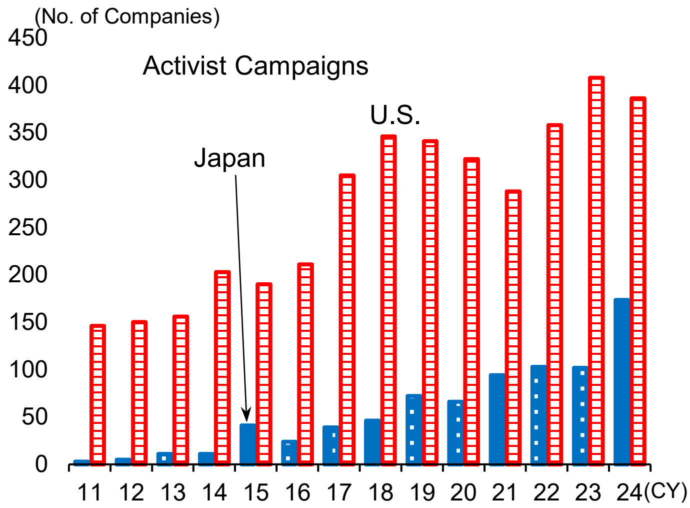
Investor activism is becoming less of an exception in Japan. The number of activist investors in Japan has increased from 8 in 2014 to 72 (as of May 2024; IR Japan Holdings; Exhibit 1). While lower than in the US, the number of activist campaigns targeting listed companies, after a boom in the mid-2000s, turned up again from the late 2010s to reach 103 in 2022, and to date in 2024 is running at an annualized figure of over 170 (Bloomberg; Exhibit 2).

Exhibit 1: Number of Activist Funds is Increasing in Japan



Note: Data as of May 10, 2024.
Source: IR Japan HD, MUFG: Trust Bank

Exhibit 2: Activist Campaigns are also Increasing in Japan



Note: Figures for 2024 are estimated based on Jan.-June data.
Source: Bloomberg, MUFG: Trust Bank

<u>Behind the rise of activism: Demands increasingly likely to be accepted</u>

In addition to Japanese stocks being relatively undervalued, we attribute the rise in activism to the growing likelihood that activist proposals will be accepted by the target companies.

First, the attitude of domestic institutional investors have changed over the past few years. Conventionally, institutional investors have divested of their shareholdings when they deem that share price upside is limited owing to issues affecting management of the investee (the Wall Street Rule). However, accompanying the growth in assets managed in passive funds and the adoption of the Stewardship Code, institutional investors have started using engagement to push for sustainable growth and improvements in corporate value. According to the Japan Investment Advisers Association, the leading topics for engagement include corporate strategy (excluding shareholder returns), corporate governance (including board composition and capital structure), and corporate earnings and the long-term outlook (Exhibit 3).

Voting by institutional investors reflects their engagement. Institutional investors sometimes vote against company proposals at general shareholders' meetings where there is no visible attempt to address issues. Judging by voting records, over the past two to three years institutional investors have been increasingly calling for board diversity, including the appointment of female directors, and improved asset efficiency through moves such as a reduction in strategic shareholdings. This echoes proposals by activist investors. European asset managers submitted climate change-related shareholder proposals to Toyota Motor and J-Power at their June 2023 general shareholders' meetings.

It is often assumed that activist investors are more confrontational and aggressive in making their demands, but it is rare for an activist to be hostile from the outset. Demands are submitted initially in writing and followed by direct negotiation with management. If they are then rejected, the activist investors will publish their requests and turn to more hostile methods. The process through the negotiation stage differs little from engagement by institutional investors. In a sense, the line differentiating activist investors and institutional investors is blurred.

Exhibit 3: Common Engagement Topics are Corporate Strategy, Governance Structure and Earings Outlook

(Year)	2017	2018	2019	2020	2021	2022	2023
Governance Structure (including board composition and capital structure)	65%	72%	74%	79%	78%	81%	79%
Chairman and CEO Leadership on the Board	25%	20%	23%	24%	26%	25%	23%
Qualification of Directors and the Board, and Support for Outside Directors	26%	27%	39%	42%	40%	38%	40%
Levels of Director Remuneration and How to Determine Remuneration	18%	19%	26%	35%	37%	40%	41%
Existence of Outside Directors and their Roles	34%	36%	42%	44%	37%	37%	33%
Existence of Auditors and the Audit Committee and their Roles	9%	15%	15%	17%	15%	16%	12%
Corporate Strategy (excluding shareholder return measures)	91%	88%	84%	85%	79%	80%	80%
Corporate Culture (culture and employee diversity)	23%	32%	38%	41%	38%	38%	35%
Corporate Earnings and Long-term Outlook	71%	66%	66%	66%	67%	69%	65%
Corporate Activities in Ggeneral	42%	36%	35%	35%	36%	37%	38%
Social and Environmental Issues（下記12、13、14を除く）	31%	42%	46%	56%	58%	49%	46%
Business-related Human Rights Issues	-	-	-	-	-	28%	30%
Climate Change	-	-	-	-	38%	48%	47%
Biodiversity	-	-	-	-	-	15%	19%
Risk Factors (excluding social and environmental issues)	48%	46%	45%	51%	48%	47%	44%
Management Succession	23%	26%	31%	32%	31%	30%	31%
Mergers & Acquisitions	30%	30%	35%	38%	32%	30%	27%
Audit Status	8%	8%	11%	11%	16%	12%	11%
Key Audit Matters	-	-	-	-	-	11%	12%
Shareholder Return Policy	60%	62%	58%	63%	57%	57%	58%
Independence of Outside Directors and Outside Auditors	23%	30%	34%	37%	32%	36%	33%
Evaluation of the Board of Directors to Enhance Corporate Value	16%	20%	26%	30%	27%	27%	31%
Information Disclosure	-	30%	36%	46%	51%	53%	47%
Others	10%	12%	16%	13%	11%	14%	16%

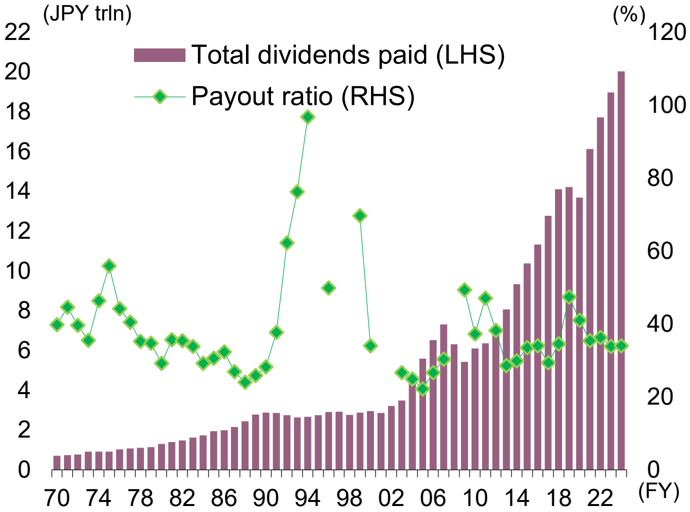
Note: Respondents were 270 companies in total, including 258 investment adviser members and 12 investment advisory and agent members declaring their acceptance of the Japanese Stewardship Code; multiple answers allowed.
Source: Japan Investment Advisers Association, MUFG: Trust Bank

This is because the direction of government policies and broader social values is in line with the goals of investor activism. The Corporate Governance Code, introduced in 2015, requires listed companies to respond appropriately to ensure shareholder rights are protected, and to give sufficient consideration to minority interests and foreign shareholders. The TSE implemented market structure reforms in 2022, and followed up in 2023 by calling on companies to “implement management that takes account of the cost of capital and share price”. This call is said to have put significant pressure on companies with P/Bs below 1x.

In this context, Japanese companies are reorienting themselves to give greater emphasis to shareholders’ interests. Total dividends paid by listed companies reached a record ¥19 trillion in FY23 (Exhibit 4), and share buybacks exceeded ¥9 trillion in FY22 and FY23. The total value of buyback programs established in Apr-May 2024 was ¥7.1 trillion, up 75% YoY.

There is also steady progress in the reduction of strategic shareholdings. Despite the uptrend in share prices, the ratio of strategic shareholdings to net assets among TOPIX 500 stocks fell from 13.5% in FY15 to 8.4% in FY23 (Exhibit 5). The average number of stocks held for strategic reasons by companies in the TOPIX 500 (excluding financials) fell from 82.3 in FY14 to 72.8 in FY18 and 63.4 in FY22. This trend has probably gained momentum, considering that the Toyota Group further reduced its strategic shareholdings last year.

Exhibit 4: Japanese Companies Have Increaed Dividends Significantly



Note: Universe based on former TSE1 and Prime Market firms; dividend payout ratio not displayed for fiscal years when firms booked losses. FY2024 figures based on DPS forecasts and the number of common shares (excluding treasury stock).

Source: Mitsubishi UFJ MS Securities, MUFG: Trust Bank

Exhibit 5: Japanese Companies Have Reduced Strategic Shareholdings Gradually

Note: Universe based on TOPIX 500 (ex. financials); data as of FY2023.

Source: Asian Corporate Governance Association "Recommendations for Cross-Shareholdings by Japanese Companies"

We also note a change in stance among activist investors. In the mid-2000s, activist investors such as M&A Partners (a Murakami Fund) and Steel Partners tended to take aggressive measures, and were unable to gain support from wider society. Just over 40% of large shareholding reports were linked with media reports of activist investors demands. However, only around 20% of such demands were successful (i.e., taken up by management), which is clearly lower than in the US and Europe (Nikkei, Economics Classroom, "Vocal Shareholders and their Companies: Raising the Efficacy of Management Reform", Waseda University Professor Hideaki Miyajima, 21 January 2020). Indeed, many activist proposals were difficult for institutional investors to get behind. Examples include demands that companies fully divest from strategic shareholders and allocate the proceeds to dividends. Even if the proposal was sound in terms of economic theory, dividends funded by asset sales are not sustainable.

However, a look at investor activism in the late 2010s reveals a decline in hostility and an increase in more realistic and sustainable demands. The analysis by Professor Hideaki Miyajima et al. shows that while the proportion of large shareholding reports that related to activist demand reported on in the media has fallen to around 30%, the success rate for such demands has risen to 40%. More activists are entering dialogue with large institutional investors and asking for support for their proposals.

We believe the rising likelihood that demands will be accepted is in turn encouraging further activism.

Support from institutional investors, demands related to strategy, M&A by business corporations

We expect activism to become even more prevalent going forward.

First, support from institutional investors could become more forthcoming as activist investors enhance their financial capabilities, in which case, we would expect campaigns targeting mid- and large caps in addition to small caps.

The Nikkei reported on 11 June that major US and European buyout funds such as Bain Capital and Blackstone have started investing heavily in Japanese companies, targeting high returns. This could be attributed to a tighter focus on profitability among Japanese management, and yen depreciation. The size of the private equity market in Japan is estimated at around 0.3% of nominal GDP, well below the 1.3% weighting for the US (Japan Private Equity Association, 2016-2022 average). We anticipate an increase in funds available to activist investors as the market expands.

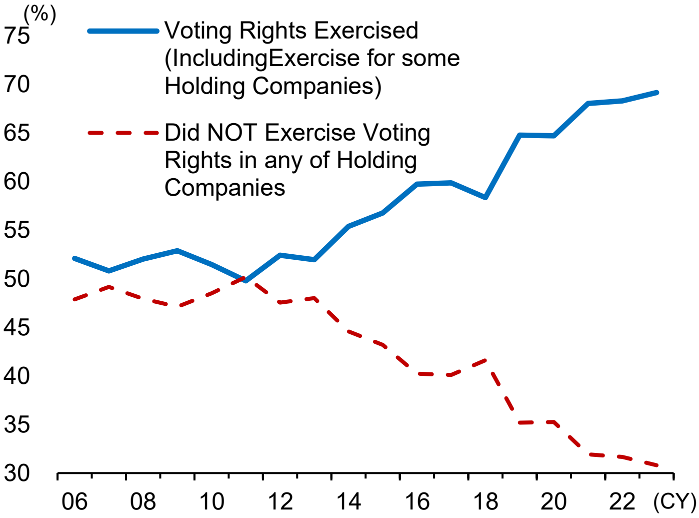
At the same time, we expect an increase in support from domestic institutional investors for activist proposals. Activist shareholder proposals are rarely approved at shareholders' meetings, but institutional investors often approve of such proposals judging from proxy voting policies and engagement. There were 72 shareholder proposals by activists in 2023. In some cases, where companies conclude from prior meetings with institutional investors that a shareholder proposal has a high likelihood of success, they may adjust company proposals to incorporate some of the activist demands. This can result in the activist dropping their proposal.

According to a QUICK survey, 15% of market participants believe activism will raise the value of Japanese companies, and 67% that it will do so to some degree. These figures are significantly higher than the percentage of respondents who believe activism will hardly raise or impair value (respectively, 13% and 4%; QUICK Monthly Survey, Equities, June 2024).

The number of individual shareholders has been rising since FY14 (TSE Shareownership Survey), and the number of individual shareholders that participate in AGMs is also increasing. Amidst rising interest in how companies are run, the percentage of respondents who said they exercised their voting rights has been in a sustained uptrend (Exhibit 6). The expansion of the NISA program (offering tax exemptions for small investments) in 2024 triggered an influx of retail funds to Japanese stocks, which has increased the social requirement for the kind of sustained improvement in earnings and long-term increase in corporate value that can underpin asset formation.

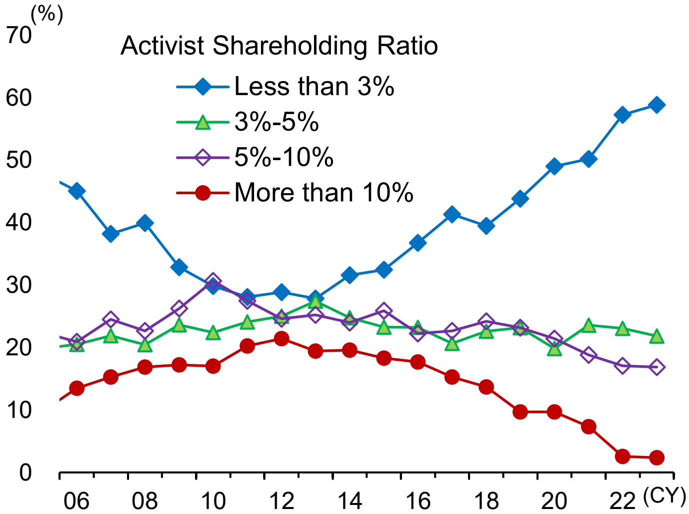
In the US, many companies are partially owned by activist investors. However, since 2012 there has been a sustained fall in the percentage of companies in which activist investors have a stake of 10% or higher, and an increase in the number of companies that are less than 3% owned by activists (Exhibit 7). This is probably because even companies with low activist ownership ratios can come under pressure to comply with activist proposals through endorsement by institutional investors. Activists are even campaigning against large market cap companies such as Apple and Disney.

Exhibit 6: More Individual Shareholders Exercise their Voting Rights



Note: The number of respondents was 1,000; data as of 2023.
Source: Nomura Securities, MUFG: Trust Bank

Exhibit 7: At U.S. Companies, Activist Shareholding Ratios Decline



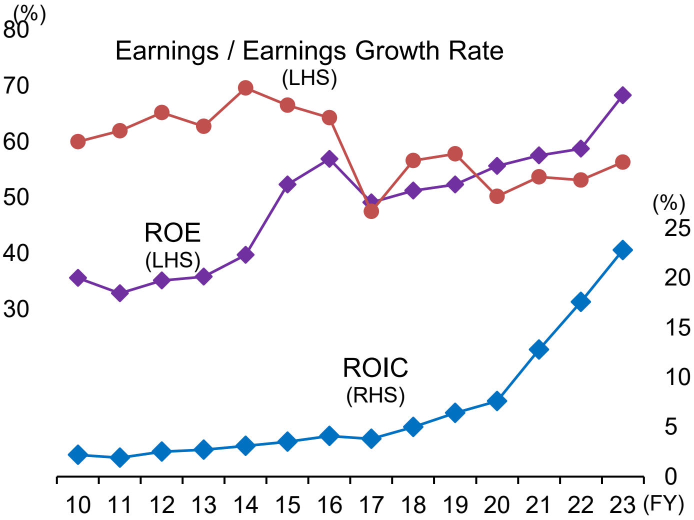
Note: Universe is S&P500 companies; data as of 2023.
Source: FactSet , MUFG: Trust Bank

Second, we anticipate greater calls for business strategic change, such as only business portfolio revisions, in addition to dividend hikes, share buybacks, and divestment of strategic shareholdings.

Dialogue with domestic and foreign institutional investors has resulted in Japanese companies focusing on capital efficiency and the cost of capital, and including ROIC targets in medium-term plans (Exhibit 8). Companies are now being asked to make segmental ROIC disclosures. Criticism of management for maintaining low-margin non-core businesses has resulted in business disposals being considered as a serious option. The "best owner" concept is spreading, and some companies have started selling off even profitable businesses if they are seen as a poor fit for core competencies. At the same time, many companies are investing aggressively in fixed assets capex as price hikes help raise earnings (Exhibit 9). We anticipate an increase in the number of companies revamping their business portfolios as they seek operational expansion.

Hitachi provides a good example of a business portfolio revamp. Hitachi decided to focus management resources on the social innovation business as part of a restructuring that emphasized capital efficiency. Together with the closure and sale of non-core operations, it also reduced the number of listed subsidiaries from more than 20 to zero. Seven & i Holdings decided to sell its stakes in Sogo and Seibu to a US investment fund at its August 2023 extraordinary General Meeting of Shareholders. The strategy of spinning off the struggling department store business and concentrating management resources on the convenience store business to strengthen overseas expansion was recently proposed by ValueAct, but had been put forward previously by multiple activist investors such as Third Point.

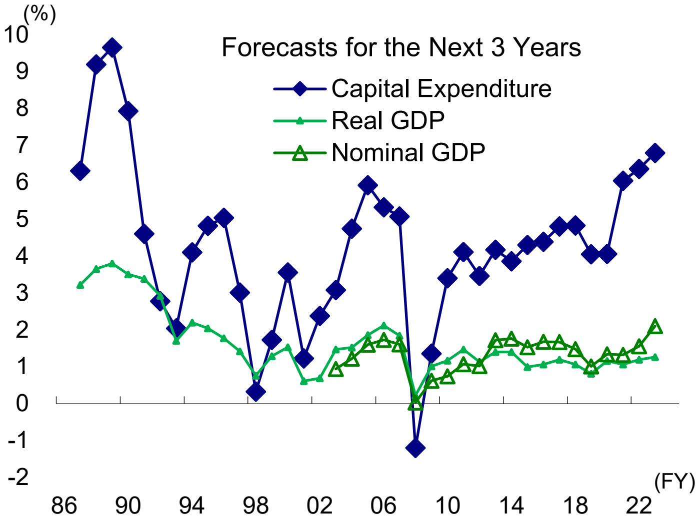
Exhibit 8: More Japanese Companies Emphasizing ROIC as a KPI in their Business Plans Recently



Note: Universe is 1,200 listed companies with largest market caps; other options include "sales/sales growth rate," "profit margin on sales,' "dividend payout ratio," etc.; data as of 2023.

Source: Life Insurance Association, MUFG: Trust Bank

Exhibit 9: More Companies Are Going to Increase Capital Expenditure



Note: Universe is listed companies on Prime Market and Standard Market; number of responding companies is 1,439 for FY2023; GDP and capital expenditure are the simple averages of the forecast growth rates over the next three years.

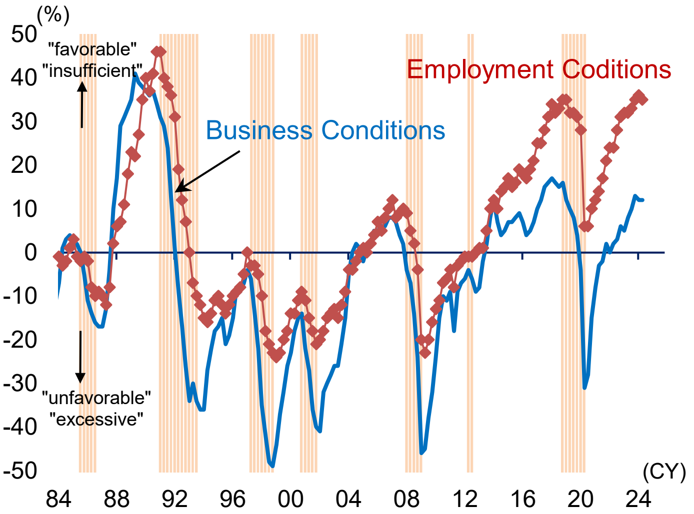
Source: Cabinet Office, MUFG: Trust Bank

We also note a general improvement in the employment environment (Exhibit 10). It is commonly believed that Japan has tight regulations on dismissals, and that it is not possible to dismiss specific workers. While this view is not entirely correct, there were nonetheless concerns through the mid-2010s that business disposals necessitating a reduction in headcount would receive social censure, and in one sense companies were unable to sell off non-core businesses even if the need was clear.

Recently, however, these concerns have waned amidst the chronic labor shortage and increasing fluidity of employment, resulting in a decline in criticism of business disposals from wider society. Some have pointed out employees are more motivated if they work at a company that positions a specific business as its core operation, than if they are in large company that treats the business as a non-core operation. The employment-related barriers to business disposals are also coming down.

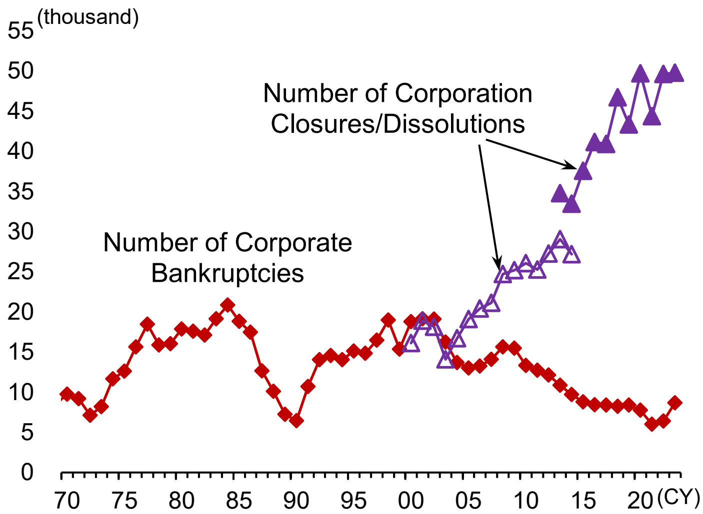
If we limit our scope to SMEs, we note the number of bankruptcies remains low, but the number of business closures and suspensions has increased sharply since around 2015 (Exhibit 11). Low debt levels help prevent bankruptcies, but businesses are being forced to close operations owing to the difficulty of securing staff or the lack of potential successors. We believe there is progress among SMEs in terms of industry realignment and the metabolism of economy. This makes it easier for listed companies to overhaul their business portfolios.

Exhibit 10: Employment Conditions are Chronically Tight



Note: Universe is all industries, all enterprises; shaded areas indicate economic recessions; data as of June 2024.
Source: Bank of Japan, MUFG: Trust Bank

Exhibit 11: Number of Corporate Closures and Dissolutions have been Increasing



Note: Number of corporate suspension/dissolution is counted differently up to 2012; data as of 2023.
Source: Tokyo Shoko Research, MUFG: Trust Bank

Third, there has been an increase in M&A activity by business corporations, and the options available for activist investors are expanding. In 2023, there were some high-profile hostile acquisitions by major corporations. In July, Nidec announced a takeover bid for Takizawa without management support. Two months later, it secured approval and the takeover was carried out. In December, Dai-ichi Life Holdings announced a takeover bid for Benefit One at a higher offer price than a separate bid already underway from M3. Benefit One subsequently agreed to the Dai-ichi Life's offer, and was converted into a wholly owned subsidiary.

The number of companies that announced an MBOs in FY23 was 18, with the total value of equity acquired reaching a record ¥1,468.8 billion. In such situations, if the takeover price is deemed too low, activist investors may intervene to raise the price or change the merger ratio. Regarding Itochu's TOB aimed at converting FamilyMart into a wholly owned subsidiary in 2020, the Tokyo District Court ruled to estimate the appropriate share price at ¥2,600, above the ¥2,300 offer price.

In August 2023, METI drew up the Guidelines for Corporate Takeovers, delineating a code of conduct for corporate directors and the board when corporate acquisitions take place, citing the importance of M&A for the optimization of resource allocation, industry reorganization, and ensuring a healthy metabolism on the capital markets. The board of directors is required to accept proposals submitted by activist investors and other outside parties, if those proposals are deemed superior to management policy and likely to raise corporate value. The Guidelines also call for hostile takeovers to be renamed takeovers without consent, suggesting that they aim at bringing about a change in attitudes.

Successful activist campaigns tend to coincide with high returns

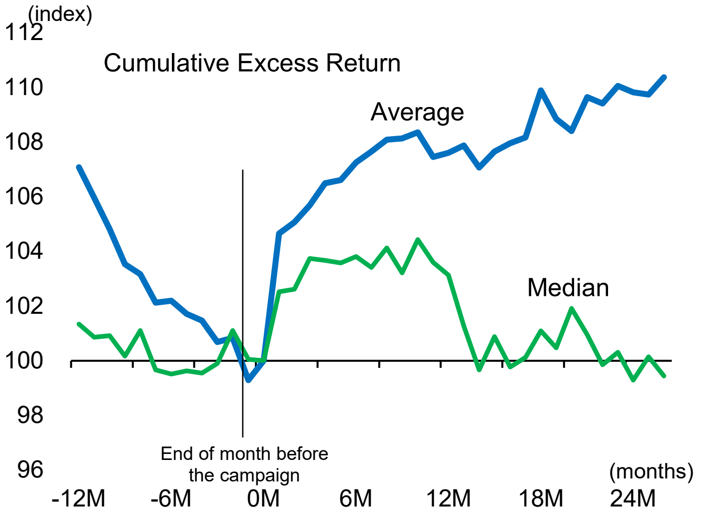
What is the share price impact of investor activism? From a look at the share prices of companies listed by Bloomberg as targeted by activist campaigns, we note gains immediately following intervention, then average excess returns versus TOPIX of 7.6% after the first year and 9.8% after two years (Exhibit 12). The medians were, respectively, 3.1% and -0.7%. The relative P/Bs (vs. TOPIX) for companies in scope rose slightly from 0.69x in the year prior to intervention to 0.73x two years later (see Exhibit 13). Short-term share price movements are often discussed, but it appears that companies that intervene by activist investors are generating returns over the long term.

When considering the source of long-term returns, we are particularly interested in the analysis of Professor Wataru Tanaka of the University of Tokyo, who focused on the outcomes of activist proposals. Professor Tanaka examined the characteristics of listed companies subject to intervention (defined as the acquisition of a 5%+ stake) between 2000 and 2011 ("The long-term effect of hedge fund activism in Japan").

Many of the companies subject to intervention by activist investors had high profitability (ROA), but lacked investment opportunities (low Tobin's Q) and were cash rich (high ratio of cash and equivalents). Looking at target companies overall, there was no improvement or deterioration in either ROA or Tobin's Q relative to comparable companies (companies with similar characteristics in the same industry) following activist intervention. However, companies for which the intervention was successful (increased shareholder distributions, officer appointments, restructuring, etc.) showed a meaningful improvement in Tobin's Q and capital allocation ratio over the following five years. The paper concluded that intervention by activist investors is consistent with the free-cash-flow hypothesis, which posits an improvement in corporate value from returns to shareholders primarily from free cash flow.

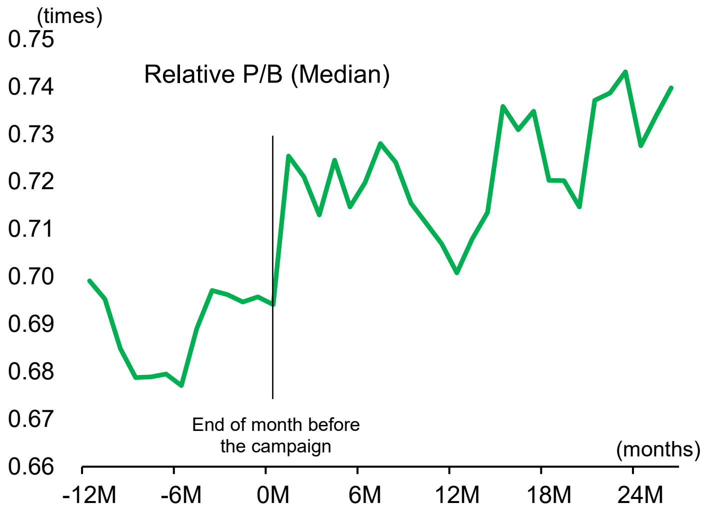
Activist investors intervene mainly in value stocks, pressuring management to revise capital and shareholder return policies. When these proposals are accepted and the company takes a more proactive stance on shareholder returns, in many cases the share price turns up. We understand this to mean that if, as a result of activist demands, a company revises capital policy and business strategy in a way that positively affects shareholder value, higher market appraisals result in a long term rise in the share price. In other words, investor activism could be regarded as a catalyst for reforms by corporate management.

Exhibit 12: Companies having Experienced Activist Campaigns Tend to See Higher Returns



Note: Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; data as of May 2024.
Source: Bloomberg, MUFG: Trust Bank

Exhibit 13: Their P/B Ratios have Increased Relatively



Note: Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; data as of May 2024.
Source: Bloomberg, MUFG: Trust Bank

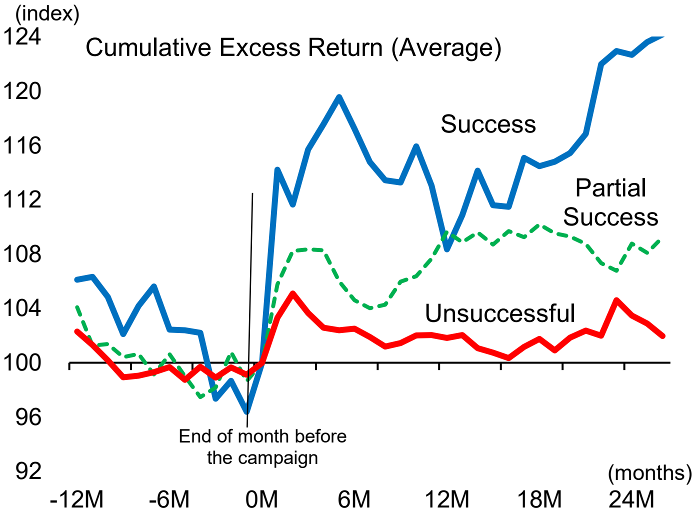
When assessing recent returns, evaluating the impact of activist campaigns is a challenge. Imagine, for example, a shareholder proposal from an activist investor demanding a major dividend hike. Even if the proposal is rejected, the company may decide to raise the dividend for reasons of its own. With this in mind, we consider use of Bloomberg's three categories of "success", "partial success", and "unsuccessful".

Based on these classifications, cumulative excess returns for companies subject to activist intervention since 2015, one year following the action were 8.3% for successful intervention (36 companies, average), 9.7% for partial success (39), and 1.8% for failed intervention (145). Two years after intervention, returns were, respectively, 22.7%, 8.8%, and 3.5% (Exhibit 14). Median returns two years out were 6.8%, -0.7%, and -3.3% (Exhibit 15). Although the sample sizes are not especially large, returns were relatively high for successful action. The probability of positive cumulative excess returns two years out is 68% for the success group, 50% for partial success, and 49% for unsuccessful. This suggests that successful action is likely to result in share price gains.

Examples that have attracted market attention include companies with successful activist interventions such as JSR and Shimachu. In March 2020, US-based ValueAct Capital Management announced that it had a stake in JSR, and in June 2021, JSR accepted a ValueAct appointment as an outside director. The company subsequently spun off and sold its original elastomer business, and raised profitability by concentrating management resources on semiconductor materials such as photoresists. It then delisted in April 2024 following a takeover bid from Japan Industrial Partners. In October 2020, Shimachu announced a friendly tender offer by DCM Holdings, following which Nitori Holdings announced a separate offer for a higher price. Shimachu management then approved the Nitori HD proposal, and the takeover was executed.

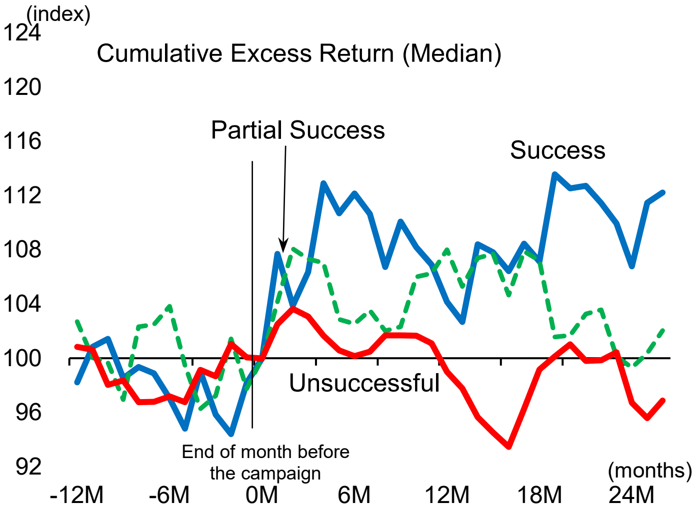
Partial successes include Dai Nippon Printing and Cosmo Energy Holdings. In January 2023, Dai Nippon Printing announced that US-based Elliott Management had acquired a stake in its equity. It then announced changes to its capital policy, including the sale of strategic shareholdings in Recruit Holdings and other entities (roughly ¥220 billion) and a share buybacks (roughly ¥300 billion). Dai Nippon Printing also participated in a tender offer for Shinko Electric Industries as part of a strategy for expanding the semiconductor-related business. Cosmo Energy Holdings drew up anti-takeover measures in response to large-scale purchases by a fund related to Yoshiaki Murakami. However, the Murakami fund sold its stake to Iwatani. The company subsequently entered a capital and business tie-up with Iwatani to strengthen its efforts in hydrogen and renewable energy.

Exhibit 14: Companies with Successful Activist Campaigns have Seen Higher Returns



Note: Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; success, partial success and unsuccessful criteria are from Bloomberg; data as of May 2024.
Source: Bloomberg, MUFG: Trust Bank

Exhibit 15: Their Relative Returns have been High even for the Median

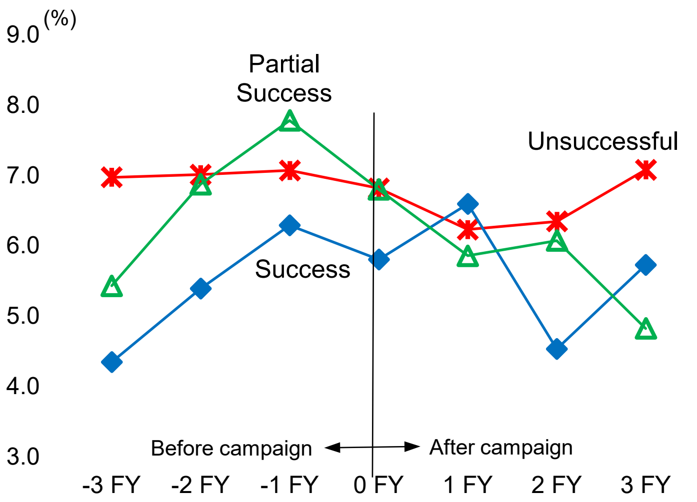


Note: Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; success, partial success and unsuccessful criteria are from Bloomberg; data as of May 2024.
Source: Bloomberg, MUFG: Trust Bank

Unfortunately, a look at ROE data reveals almost no improvement following activist intervention whether successful or otherwise. ROE for companies with successful intervention was 6.3% in the year prior to the action, 5.8% in the relevant year, and 6.6% one year later, with a visible decline after two years. ROE for the unsuccessful group was 7.1%, 6.8%, and 6.2%, respectively (Exhibit 16). In addition to the relatively small sample sizes, we attribute the lack of improvement to the prevalence of proposals to date related to shareholder returns and capital policies, and the limited occurrence of proposals requesting business strategy revisions.

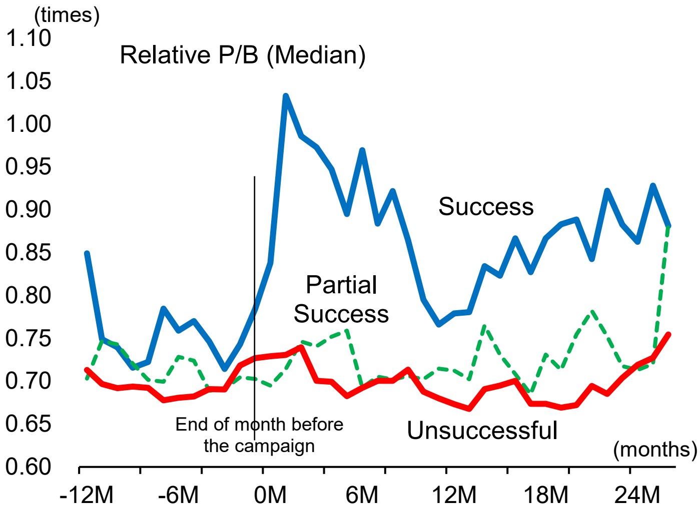
On the other hand, P/Bs tends to rise for companies in the success group when compared to the unsuccessful group. Given the uptrend for the market overall throughout this period, it is helpful to look at TOPIX-relative P/Bs. For successful intervention companies, the multiple averaged 0.76x for the year prior to the intervention, but rose sharply immediately following the action, then entered a period of correction before ending at around 0.9x, two years later (Exhibit 17). The relative P/Bs of stocks with partially successful and unsuccessful interventions remained largely unchanged from around 0.7x at the time of intervention. In many cases, companies with successful interventions became more aggressive on shareholder returns, and we think that increased investor interest is one reason for the rise in share prices.

Exhibit 16: ROE of Successful Companies Have Not Necessarily Improved



Note: Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; success, partial success and unsuccessful criteria are from Bloomberg; data as of May 2024.
Source: Bloomberg, MUFG: Trust Bank

Exhibit 17: P/B Ratios of Successful Companies Have Increased Relatively



Note: Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; success, partial success and unsuccessful criteria are from Bloomberg; data as of May 2024.
Source: Bloomberg, MUFG: Trust Bank

Nature of activist demands and management responses

From the perspective of Japanese stock investment, we point out the possibility that activism could trigger revisions to business strategies and capital policy, in addition to short-term share price gains driven by supply-demand factors. If a company adopts business strategies and capital policies that boost shareholder value after considering activist proposals, it ought to lead to a longer-term rise in the share price underpinned by improved market valuations and long-term earnings growth. Company valuations are generally premised on the current business and financial strategies. However, any potential for strategy revision should be taken into account.

Raising shareholder value still presents a challenge for a significant number of Japanese companies. However, many companies are carrying out management reforms in response to engagement by domestic institutional investors and the continued unwinding of cross-shareholdings. Under these circumstances, we expect companies to push forward with reforms that contribute to long-term enhancement of corporate value and accept the demands of activist investors, in whole or in part. We believe it is possible to view investor activism as a catalyst for management reforms.

Of course, activist investors' proposals are not always the right solution, and it is not uncommon for management to reject them. Careful scrutiny of the nature of the activist's demands and the intention behind management's responses is a crucial part of making investment decisions.

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