ACGA Tokyo: The Brave New World of Investor – Company Dialogue in Japan
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Adding value through constructive engagement
GO Japan: Stewardship service & Engagement Fund

Engagement Overlay Services: Mid to Large cap.

- **Bespoke services** to global public pension / institutional clients’ existing portfolio companies
- Flagship product: “Japan Engagement Consortium” (JEC)
- 7Y since May 2009, constructively engaged with more than 40 companies

Japan Engagement Fund: Mid to Small cap.

- “TMAM-GO Japan Engagement Fund” (JEF) with Tokio Marine Asset MGT
- Inception to Sept. 2016: JEF 26.9% p.a. vs. TOPIX 12.1% p.a. (JEF 198% vs. TOPIX 69%)
- 4.5Y since March 2012, AUM about USD 575M (JPY 60B)
- Long term (avg. 4-5Y), NOT event driven, highly concentrated portfolio (10-15 portfolio companies)
## Key messages to international investors

| CG/Stewardship Codes | ✓ GROWTH rather than MONITORING (i.e. minimize agency cost)  
| | ✓ Obviously TAILWIND, but Don’t expect too much in a day |
| Management Team | ✓ Limited number of “Professional Management”  
| | ✓ Still lifetime (long term) employment is default |
| Opportunity | ✓ Lots of great quality companies on public market with small coverage  
| | ✓ Lots of areas to collaborate with MGT |
| Incentives | ✓ Majority still consist of FIXED salary  
| | ✓ Lower incentives for sudden change / Companies are their “Home” |
| Long term | ✓ “No one washes a rent car”: interest alignment is the key  
| | ✓ Be Patient: need to understand big communication gap |
| Aggressive on LT returns | ✓ Constructive approach, but aggressive on continuous improvements  
| | ✓ Encouragement rather than force to do something (event driven) |
Japanese way of Engagement: make good companies even better

“Friendly” Activist Value up focus fund

- Take board seat or have larger ownership position
- Aggressively access insider information to intervene in management decisions

Engagement Fund (Constructive, Long-term)

- Attack management team
- Make a lot of noise
- Often use proxy fight, TOB pressure, media campaign

Strong Activism (Confrontational, Short-term)

Consulting Operational issue Instruct

Activist Fund

JEF Enhance Awareness Strategic Decision Encourage

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Engagement works: much better position without large ownership

How senior management see JEF: with less than 1% ownership

Calbee official Annual Report 2014
Engagement works: High correlation excess return vs. progress

Key points

- **High correlation observed**
  - As achievement ratio increased, excess return got higher
  - The confidence coefficient of direct correlation is more than 90%

- 7Y excess returns of JEC 33 companies
  - All companies from clients’ portfolio
  - Equally weighted virtual portfolio
  - Tried to eliminate stock selection effect as much as possible by doing so

- Engagement achievement Ratio
  - Objectives achieved / total # of objectives
  - Only took objectives where concrete improvements have been observed and shared with clients
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