



ACGA Tokyo: The Brave New World of Investor – Company Dialogue in Japan Kenji Iwamoto, Director of Engagement November 2016

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





Engagement works: much better position without large ownership

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

Calbee official Annual Report 2014

Succeeding in the Global Market

CALBEE, Inc. Annual Report 2014

Strengthening Corporate Governance and Promoting Diversity



Kenji Iwamoto Director of Englagement, Governance for Dwners Japan XX

Mc. Meanship byted Governance for Owners Japan in February 2011 after working at the then Industrial Basic of Japan. He holds an MBA in France and Storeby Horn Secondence working in corporate frame of working and owe 20 years of scoreering keeling the TMAM-GO Japan Engigement Fund as the Director of Engagement.

Dialogue between an Institutional Investor and an Outside Director

Kenji Iwamoto of Governance for Owners Japan KK and outside director and independent officer Kazuo Ichijo discussed their evaluation of corporate governance at Calbee and the issues to be addressed.

Current state of corporate governance in Japanese companies, and where they should be heading

wamoto: The Japan Engagement Fund aims to help investee companies increase their shareholder value over the long-term while providing an attractive return to investors, mainly through having constructive dialogue with investee management teams. In Japanese companies, the management and executive teams are often essentially the same. Directors should have a management perspective, but often have only an executive officer's perspective. Even when companies have an executive officer system or committe system, their actual situation often doesn't reflect their formal structure. People involved with daily operations inevitably have a narrower perspective. I think the director's true role should be to make broad, independent judgments without getting drawn into the details of frontline operations, and to stimulate nnovation that creates new value or significant changes.

-----Ichijo: I agree. It is difficult for the executive team to produce the kind of innovation that can disrupt the status quo, but without innovation, there can be no development. So there is a strong need to separate management and execution.

Today's market changes rapidly, and needs are diversifying. Having multi-faceted connections with external people ing. making multimateries connections with external people who have technologies and skills that the company lacks, and using these connections to innovate through open inno-

vation, can help to maximize profits. son, can neep to maximize promo-The three main principles of open innovation are ope Ine three main principles of open innovation are open, transparent, and inclusive. These must be reflected both in a

transparent, and inclusive. These must be retracted company's activities and its corporate governance

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Calbee has been working to strengthen corporate governance and promote diversity under a new management framework that started in 2009. In order to succeed in the global market, we believe it is necessary to meet global standards of corporate governance and diversity, by adopting systems that are in ordinary use by global corporations. Calbee's top management is committed to building a robust organizational framework for succeeding in the global market to increase the Company's shareholder value.

Japanese companies tend to apply these three perspec tives only to a narrow area. The problem is that organizational systems end up becoming Japanese systems run by Japanese people for Japanese people. Globalization requires the concepts of open, transparent, and inclusive to be realized in a more diverse world. This is an important challenge for all Japanese companies.

Thoughts on the Corporate Governance System at Calbee

----Ichijo: At Calbee, only two of the seven directors have executive functions: the CEO and the COO. The other five are outside directors. Moreover, since the CEO spends a lot of time outside the company, he can look at its systems objectively and make decisions with a long-term view. While this is not perfect, it is very close to an ideal structure. una la nut perrect, it is very case to an ideal structure. General wisdom might hold that people outside a com pany wouldn't have a proper understanding of it. But we concluded at the first Board of Directors meeting of the reorganized Calbee that companies should be managed in a reorganized Cablee that companies should be managed in a way that even outsiders can understand. The presence of outside directors requires tack knowledge to be made explicit. Verballing tack knowledge and putting at into fig-ures makes it possible to analyze a Jupanese companies have a kit of tack knowledge, so they can benefit from out-infer-dimension.

Actually, sometimes we outside directors do decide to side directors. eject matters brought up for discussion at the Board of Directors meeting.

 wamoto: Cabbe is rather progressive for a Japanese company. The CEO understands the essence of corporate governance. Also, the outside directors are clearly all inde-Quantatrice. Made, we outside datectors are cleanly as inde-pendent and genuine. They have all the necessary talents; some of them are knowledgeable about corporate finance. some of them are knowledgeable about corporate transiti and international business strategy, such as Professor Ichio, and others are toor managers in the food industry. The board has strong diversity too, including lemake and non-Japanese members. The founding family has been admirable in under-transition and which to the censent structure. standing the shift to the present structure.



CALBER, Mr. Annual Report 2014

Kazuo Ichijo Outside Direct

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Governance for Owners

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
 - ✓ <u>Tried to eliminate stock selection effect</u> 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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