



## Monex Activist Forum 2023 - Be an Activist!

### Event Report

On February 4th, 2023, Monex, Inc. (“Monex”) and Japan Catalyst, Inc. (“Japan Catalyst”) hosted the fourth edition of the Monex Activist Forum, a four-hour hybrid event that attracted over 5,000 individual investors online and 300 in-person attendees in Tokyo. Since its inception in 2019, the Forum has established itself as the preeminent and largest platform for shareholder activism discussions in the Japanese investment community.

Monex launched the Forum with the core belief that fostering effective communication between Japanese companies and retail investors, who own a substantial 17% of Japanese equities, can encourage companies to review their shareholder returns and governance, empower retail investors with a deeper understanding of Japanese companies, and ultimately improve the valuation of Japanese equities. Monex’s mission is to educate retail investors about their shareholder rights and inspire them to become “activists”. The growth of the event from 1,000 attendees in 2019 to over 5,000 attendees is a testament to the success of this approach.

The Forum brought together individual investors, academic experts, industry professionals, and leading activist managers to discuss key issues such as Japan’s stagnant stock prices and the role of activists in Japan’s capital markets. The event was a resounding success, highlighting the growing importance of shareholder activism in driving positive change in Japanese companies.

**4th** Edition since 2019

**5,000+** retail investors joined live online

**300+** retail investors attended in person

**92%** of respondents\* found the event informative

**69%** of respondents\*\* indicated experience of voting shares

\*651 respondents \*\*564 respondents

*The growth of the event from 1,000 attendees in 2019 to over 5,000 this year demonstrates the growing interest and awareness among retail investors of the importance of activism and corporate reform in Japan*



The Forum began with **Oki Matsumoto, Chairman of Japan Catalyst**, discussing the importance of engagement strategies in the age of AI. With the rise of AI technology and real-time information sharing, finding alpha in investments is becoming increasingly challenging. He emphasized the need for proactive engagement strategies that can drive corporate transformation, create new information and generate alpha. As many Japanese companies struggle to change on their own, activist investors like Japan Catalyst play a critical role in driving positive transformations and enhancing productivity and corporate value.

**Professor Ken Kusunoki of Hitotsubashi University** then delivered the keynote address, emphasizing the importance for companies to engage in dialogue with “long-term engagement” investors in order to achieve sustainable and long-term corporate growth. **Seth H. Fischer of Oasis Management** gave a powerful video presentation on the power of shareholders, using their recent campaign with Fujitec as a case study. Fischer, who made a surprise appearance at the venue at the end, encouraged retail investors to exercise their rights to support good corporate governance. The audience also enjoyed video messages from **Masahiro Okafuji, Chairman of ITOCHU Corporation**, and other eminent economists and fund managers, who provided unique insights and analysis on the Japanese stock markets.



*Video presentation by Seth H. Fischer, Oasis Management*



*Mr. Fischer made a surprise appearance at the closing of the event*

The Forum also featured two engaging panel discussions with **Oki Matsumoto**, **Jesper Koll** and **Taro Hirano** of Japan Catalyst, **Kazuhiko Toyama**, an outside director of Panasonic and TEPCO Holdings, **Tsuyoshi Maruki** of Strategic Capital, **Toby Rodes** of Kaname Capital and **Katsunori Tanaka** of Ariake Capital. The first panel focused the stagnant Japanese stock market, while the second brought together leading activists in Japan to discuss their approach to engaging with Japanese companies and their views on the Japanese equity markets from an activist standpoint.

During the panel discussions and Q&A sessions between retail investors and the speakers, the following key moments emerged:



## Q. What do you think is causing the stagnation of Japanese stock prices, and how can it be reversed?

**Jesper Koll**, an economist and global ambassador of Monex Group, pointed out that **the lack of ambition and clear goals among Japanese business leaders is a significant factor contributing to the stagnation of Japanese stock prices**. According to Koll, this has often been observed by foreign institutional investors in their communications with companies, particularly those run by “salarymen” management. He emphasized that activists can be instrumental in transforming such companies and bringing about positive change.

**Kazuhiko Toyama**, a prominent business leader and corporate governance expert in Japan, expressed a similar view, noting that **over the past 30 years, Japanese top management has prioritized stability over growth**. Because that many of these individuals have spent their entire careers at the same company since new graduates, they tend to develop a “village mentality”, protecting their own “salarymen community” and favoring the status quo over disruptive innovation. Toyama asserted that such management attitudes have contributed to the low growth and stagnant share prices of Japanese companies.

However, there is hope for change. **Oki**, who now serves as a member of the Tokyo Stock Exchange (TSE) Follow-up Council for Market Restructuring, revealed that **the TSE has a sense of urgency and is taking vigorous measures to address the current situation where half of the listed companies are trading below 1x P/B**. According to Oki, the TSE has been quite open to radical opinions from the council members, including his own, and is modifying its original plans to incorporate them into the reform initiative. For instance, the TSE is introducing a new measure requiring companies with low P/B Ratio to disclose their plans to improve their capital efficiency within a specific timeframe, a step not included in the original plan.

**Toyama supported this idea, arguing that external pressures, such as regulatory requirements, would be much more effective in changing the behavior of Japanese “salarymen” managers than positive incentives, such as stock-based compensation, because it would give them a good excuse to change their priorities from traditional “community first” to corporate growth and innovation.**



*“To improve profitability and stimulate growth, Japanese society needs to embrace a risk-taking culture and reinvigorate the dynamism of business activities at both the firm and industry levels.”*

- Kazuhiko Toyama, Chairman of IGPI Group

*“The productivity of Corporate Japan can be enhanced through “the exchange of production factors”, and activist investors can play a vital role in promoting and facilitating this exchange.”*

- Oki Matsumoto, Japan Catalyst

## **Q. How can we explain why the profitability of Japanese firms declines with firms get older, in contrast to the US firms?**

**Toyama contended that the lower profitability of Japanese firms is again largely due to the prevalence of a “village mentality” among top management.** This mentality often leads them to retain underperforming businesses and resources rather than strategically reorganizing their business portfolios, as their US and European counterparts engage in more often and more radically. This has been particularly evident in the digital sector over the past three decades. Moreover, Japan’s low rate of “business entry and exit” compared to other developed countries has further contributed to its relatively lower growth. To improve profitability and stimulate growth, Toyama argued that Japanese society needs to embrace a risk-taking culture and reinvigorate the dynamism of business activities at both the firm and industry levels.

Oki, a board member at Mastercard, shared similar observations to Toyama and highlighted a key difference in the approach of US and Japanese companies to unprofitable businesses. In the US, publicly traded companies face intense pressure from shareholders to achieve growth, which often results in the divestiture of low-margin businesses. In contrast, Japanese companies are not particularly good at “exiting” businesses and tend to hold onto unprofitable businesses for longer periods of time. **This difference in “exit” strategies is a major factor in explaining the productivity gap between the two countries. To boost productivity among Japanese firms, Oki suggested promoting the “exchange” of factors of production such as human or capital resources, among companies.** For example, if two companies have overlapping businesses, they could potentially increase their overall productivity by exchanging the resources belonging to one of their businesses with each other. This allows both companies to focus on their core competencies and allocate resources more efficiently, resulting in improved productivity and competitiveness in the global market. Historically, the “zaibatsu,” METI, and banks took the lead in strategically reallocating resources among companies in Japan. Oki believes that in the current environment, activist investors can take on this role.

**Jesper added that this potential for productivity growth is very attractive to global investors.** The fact that there are many companies with growth potential represents a low-hanging fruit opportunity for investors. Furthermore, the growing number of success stories of activists successfully transforming Japanese companies adds to the appeal of investing in Japanese equities.

## Q. What will be the role of activist in Japan's capital markets?

In response to the questions, Oki cited a statement from the TSE's policies announced in January 2023:

*“In Japan's economy, the lack of a smooth transition of personnel and capital resources to growing areas has led to a prolonged slump in productivity. In order to ensure the sustainable development of the Japanese economy in the future, it is important to promote industrial metabolism and innovation in business and society. In doing so, individual listed companies can not only take measures independently, but **they can also consider ways to increase productivity by exchanging factors of production and by implementing M&As with other companies.** It is important for TSE to create a framework to encourage such efforts and thereby contribute to the improvement of productivity in the Japanese economy as a whole.”*

He revealed that he strongly advocated for this idea of “exchanging factors of production” to increase productivity during the TSE council, which the TSE agrees with and incorporate into the very beginning of its policy statement. He believes that if a company cannot improve its productivity independently, exchanging factors of production or merging with other companies in the same industry can be a viable option. **Activists can play a pivotal role in supporting such efforts, ultimately leading to higher productivity of Corporate Japan, revitalization of capital markets, and higher returns for investors.**

**Tsuyoshi Maruki, CEO of Strategic Capital, highlighted the role that activists can play in promoting good corporate governance within Japanese firms.** He mentioned their recent campaign against Japan Securities Finance as an example of their efforts, explaining that he had raised concerns about the company's governance practices and management appointments in the belief that improving governance would lead to an increase in shareholder value. According to Maruki, the media's coverage of their campaign with JSF has substantially increased compared to the previous year's campaign, indicating a gradual shift in society's perception of activists and their role in promoting corporate governance. Maruki echoed Oki's statement, saying that he too believes that activists can revitalize the Japanese economy.

**Katsunori Tanaka, Founder of Ariake Capital, a fund specializing in the Japanese banking sector,** noted that although the banking sector has long been seen as abandoned, some top management are actively seeking to transform themselves. Tanaka believes that **activists can play a significant role in driving their transformation and potentially eliminating value traps under the right conditions.**

**Toby Rodes, Co-Founder of Kaname Capital, noted that shareholder activism in Japan was once taboo but is now a practice and a requirement.** As a foreign investor who raises funds in dollars to invest in companies that most Japanese institutional investors do not look at, Rodes sees Japanese retail investors as his biggest allies in many ways and looks forward to working with them to unleash and realize corporate value.

**Taro Hirano, President of Japan Catalyst, highlighted one of the key roles that activist engagement can play, which is to help Japanese companies raise prices to the appropriate levels to break the deflationary spiral, as demonstrated by auto parts suppliers who have successfully passed on their costs through pricing strategies.** He believes that **activists' demand for higher capital productivity can encourage companies to adopt effective pricing policies that can lead to significant increases in profitability and corporate value.**

**Q. How has the position of activist funds in Japan changed over the last 20 years? And how do you see Japanese companies have changed?**

**Maruki, one of the founders of Japan’s first activist fund, noted that the perception of activist funds in Japanese society has changed significantly since he started the fund in 1999.** In particular, he pointed out that the way the media covers activist activities has changed, and that activist managers no longer have to worry about their children being bullied at school. The large audience for this Forum is also a sign of a big change. With governance and stewardship codes in place, he believes large companies have changed considerably, with over 30% of foreign shareholders pressuring them. On the other hand, there are still many small and medium-sized companies with a market capitalization of tens of billions of yen, which are his typical targets, that have never even had a dialogue with shareholders. These companies may not have changed much in the last 20 years, left behind in the reforms, and therefore offer attractive investment opportunities for growth. He feels that institutional investors are also starting to change as they begin to vote against management, and he anticipates this trend to accelerate further in the coming years.

Oki then provided some background on the use of the term “*activist*” in the Forum and the fund’s name. Despite initial resistance from the board of Monex Group, he was determined to use the term “*activist*”. His aim is to rebrand the term by removing negative connotations associated with it through the Forum initiative and to raise awareness among Japanese investors about the importance of shareholders voicing their opinions and exercising their rights in revitalizing the Japanese economy.

**In concluding the event,** Oki Matsumoto expressed his gratitude for the overwhelming enthusiasm displayed by the attendees of the Activist Forum, which he found unmatched to any other investment seminars hosted by Monex. This, to him, is a clear indication of retail investors’ strong desire for positive changes in the Japanese capital markets. He pledged to continue engaging with companies, with the support of retail investors, to increase productivity and unlock value of companies, generate returns for investors and contribute to the enhancement of Japan’s capital markets.

*According to a post-event survey, 54% of respondents found the event highly informative, while 38% considered it informative*



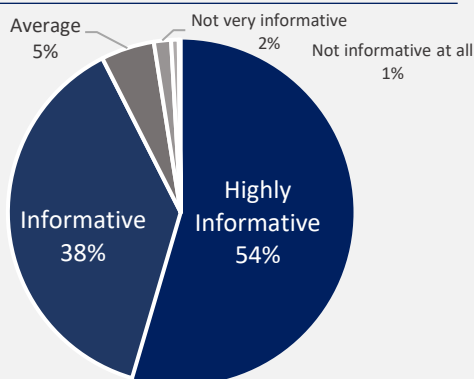
## Post-Event Survey Results: Monex Activist Forum 2023

### Did you experience any change as a result of participating in today's forum? (Total: 561)

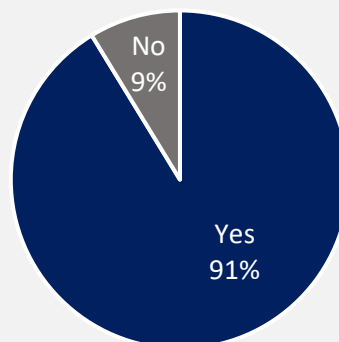
(multiple answers possible)



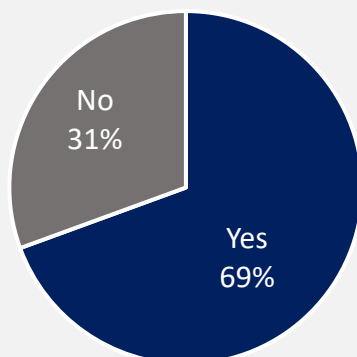
### Overall evaluation of the forum (Total: 561)



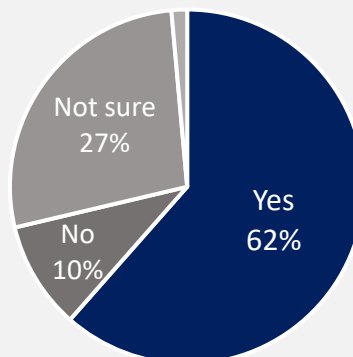
### Do you invest in Japanese stocks? (Total: 561)



### Have you ever exercised voting rights? (Total: 543)



### Do you think Japanese stocks will rise? (Total: 561)



\*This survey was conducted for those who attended the Monex Activist Forum 2023 in person or online. There were 561 responses in total. Source: Monex, Inc.

The footage of the Forum can be viewed on YouTube through the following links (Japanese language only)

- [Opening Remark and Keynote Address by Prof. Ken Kusunoki](#)
- [Video Messages and Panel Discussions 1](#)
- [Video Presentation by Seth H. Fischer of Oasis Management and Panel Discussions 2](#)

*\*You will be redirected to Monex, Inc. YouTube channel by clicking the links*

## About Japan Catalyst

Japan Catalyst, Inc. was established as a part of Monex Group, Inc. with the goal of transforming the Japanese capital market and corporate sector. As the business environment rapidly evolves, there is a growing need for changes in corporate management, and companies are seeking to transform. By offering support through long-term investment and engagement, we aim to act as a catalyst for positive change in Japanese companies.

Company Website (English) <https://www.japancatalyst.com/index-en.html>

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