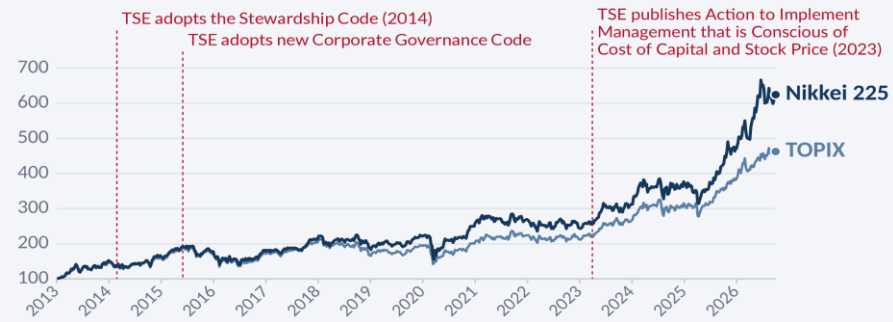
Engaged shareholders are good for Japan

Reforms that gave shareholders a real voice have driven higher corporate profitability, higher returns, record investor interest in Japan and improved governance. When these things improve, everyone benefits: employees, whose wages depend on their company's profitability; pension holders and other shareholders in Japanese companies; customers, who want affordable, safe and effective products; and suppliers, whose survival and growth depend on their customers' success. Engaged shareholders, domestic and foreign, have played an important role in driving these changes.

Engaged shareholders have made Japanese companies better

Japanese equities have risen since governance reform began in 2013



Source: Bloomberg, as of Sep 30, 2026

Since 2013 and the beginning of structural corporate governance reforms through September 30, 2026, the Nikkei 225 is up +524% and TOPIX +362%.

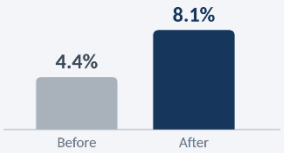
Improved price-to-book ratios



Price-to-book ratios of TOPIX-listed companies have improved since corporate governance reforms began, from 1.05x in 2013 to 1.82x in 2026.

Source: Bloomberg, as of Sep 30, 2026

Independent boards lift profitability

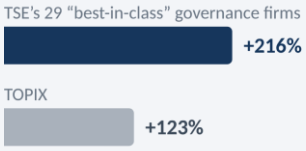


Change in the 3-year average ROE before and after the appointment of independent outside directors to a majority of the board.

ROE increase came from improved profit margins and more efficient asset use, not financial engineering.

Source: Dai-ichi Life Research Institute

The market rewards good governance



A portfolio of Japan's "best-in-class governance disclosers" identified by the TSE in February 2024 has outperformed TOPIX by +93 percentage points since the start of 2023. Better disclosure and governance is rewarded by the market.

Source: Bloomberg

Yet there is still a significant gap relative to global counterparts

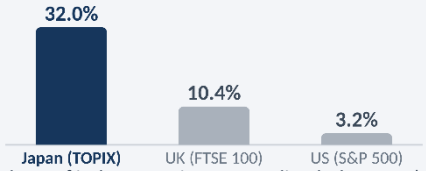
Price-to-book



Japanese companies trade at about a third of the US price-to-book multiple.

Source: Bloomberg, as of Sep 30, 2026.

Proportion of stocks trading below 1x PBR



The % of index constituents trading below 1x P/B is higher in Japan than in the US or the UK.

Source: Bloomberg, as of Sep 30, 2026.

Operating margins



Japanese operating margins remain well below US and UK levels.

Source: Bloomberg, as of Sep 30, 2026.

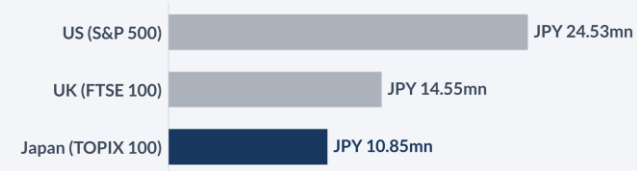
Return on equity



Japan has below average market ROE relative to other developed markets, at 8.8%.

Source: Bloomberg, as of Dec 31, 2025.

EBITDA per employee



US companies generate more than twice as much EBITDA per employee as Japanese companies.

Source: Bloomberg, trailing twelve month EBITDA, as of Oct 2026.

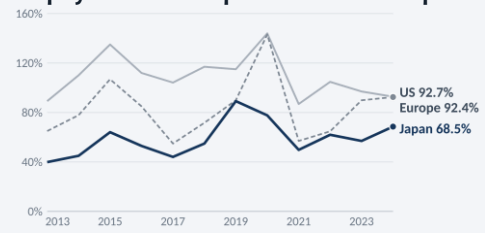
Engagement Unlocks Japanese Companies' Latent Value

Japanese companies have significant room to improve how they put capital and resources to work. Engaged shareholders help management capture that opportunity through higher returns, stronger investment and better governance, and the gains reach every stakeholder.

- **Room to reward shareholders more.**

Japanese companies distribute a smaller share of their profits through dividends and buybacks than their U.S. and European peers. That leaves clear room to raise shareholder returns as capital efficiency improves. Japanese households hold a higher proportion of their assets in equities now than Europeans and with an aging population many are now relying on their investment returns to support them in retirement.

Total payout ratio: Japan vs US vs Europe



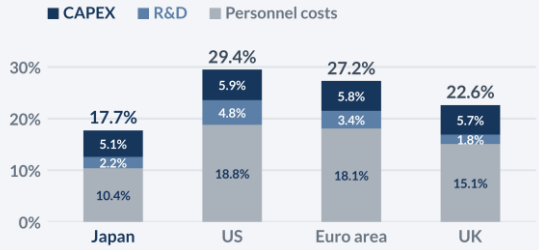
Source: METI, Secretariat Material for the 5th Value Creation Management Subcommittee (Oct 24, 2025), p. 45

- **Turning retained profit into growth.**

Japanese companies spend less on CAPEX and R&D relative to revenue. That retained capital can be a ready source of growth investment, if management works with engaged shareholders to deploy it effectively.

Growth investment: Japan vs US vs Europe

CAPEX, R&D and personnel costs, % of revenue, FY2023



Source: METI, Secretariat Material for the 5th Value Creation Management Subcommittee (Oct 24, 2025), p. 31

- **Margin improvement is the biggest prize.**

Japanese companies generate significantly lower operating margins than their U.S. and European peers, which points to substantial operating improvements available. Higher investment, higher payouts and higher margins all flow from better operations and resource allocation, the areas where engaged shareholders focus.

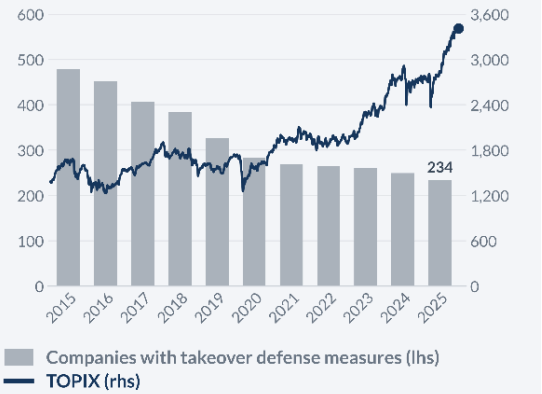
- **Better governance earns a market premium.**

The market rewards companies that remove takeover defense measures: as companies removed them, the market rose.

Of the 132 TSE companies that still carry a poison pill, the median ROE is 8.0%, according to Bloomberg. That is roughly the cost of equity most investors assume for Japan and the floor the Ito Review set in 2014. The rest of the market earns a median 10.9%. Growth tells the same story: pill companies have grown revenue at a median 3.6% over the past three years, about half the 6.9% for other TSE companies.

The companies most insulated from takeover are the ones creating the least value, earning barely enough to cover their cost of capital while growing at half the market's pace. Whether the pill is a cause or a symptom, the effect is the same: less pressure on management to fix it.

Number of companies with Takeover Defense Measures vs TOPIX performance



Sources: JPX, Bloomberg, as of 2025

- **Engagement succeeds through shared conviction**

Japan-focused activist funds hold an estimated JPY 10tn (USD 62.8bn), or 0.69% of total market value as of August 2026. Their proposals succeed only when other shareholders back them, so each win reflects broad investor agreement that change will create value.

- **Japanese households and pensions share the upside**

Equities now make up nearly a quarter of Japanese households' financial assets, the highest share in over 30 years. The Government Pension Investment Fund (GPIF) is also one of the largest owners of Japanese equities. Every gain in corporate performance builds Japanese savings, spending and retirement income.

Japan still trails global standards on governance and accountability

Catching up to global counterparts is not only about company fundamentals, it also means having independent boards and management that are held accountable and are answerable to shareholders.

Measure	Japan	United States	United Kingdom
Director independence	Prime Market: at least one-third of the board must be independent. Standard and Growth require two independent directors under the CG Code, with a comply-or-explain fallback.	Majority required by NYSE/Nasdaq listing rules; audit, compensation and nominating committees fully independent.	At least half the board, excluding the chair, should consist of independent non-executive directors (UK Gov. Code).
Independent chair	Only 7.7% of companies in TOPIX have independent Chairs.	Majority of Russell 2000 companies have independent Chairs.	69% of companies in the FTSE 100 have independent Chairs.
Lead independent director as intermediary for shareholders	Optional role to communicate with management and the statutory auditors – shareholders not specifically mentioned; very rarely seen in practice; shareholders often find it hard to gain direct director access.	Nearly universal among S&P 500 boards to have a lead or presiding director; for those without a lead or presiding director, an independent chair serves this role.	UK Gov. Code expects (comply or explain) a senior independent director (SID), who is available to shareholders if concerns are not resolved through the Chair or CEO.
Management accountability	Usually triggered by scandal or crisis. CEO often stays on as chairman or advisor.	Usually triggered by sustained share price underperformance or failed strategy. CEO often leaves the company.	Usually triggered by underperformance, failed deal, or loss of investor confidence. CEO often leaves the company.
Director compensation (non-executive)	JPY8.3M total compensation for outside directors of Prime listed companies in 2025.	JPY19.4M cash compensation for outside directors in 2025 PLUS ¥29.8M stock compensation.	JPY23.6M total compensation for outside directors in 2025.
Duty to get the best price in a sale	Neither statutes nor government guidelines impose a legal duty to get the best price.	In a sale of control, directors must seek the best value reasonably available (*Revlon* duty), enforced through shareholder litigation. Go-shop provisions (negotiated, not required; common in sponsor-backed take-privates).	Directors must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole, however, no express duty to get the best price on a sale. Takeover Code obligations: --Board must obtain independent financial advice and publish its opinion on the offer. --Board cannot take frustrating action (e.g., share issues, buybacks, material contracts) during an offer period without shareholder approval or Takeover Panel consent; Board may recommend against a bid but cannot block.
Valuation advisor accountability	A company's financial advisor often serves as a valuation advisor too, and they are often retained on a success-fee basis, subject to just a summary disclosure and with no practical liability to shareholders.	Mandatory disclosure of all fees paid to financial advisors in certain situations (merger proxy/tender materials), and fairness opinion including all fees paid to the advisor in the past two years.	Through the regulator; independent advice is mandatory, and the Takeover Panel polices adviser independence and can censure publicly or cold-shoulder; adviser fees are disclosed by category (Rules 24.16 and 25.8).
Proxy advisor accountability and disclosure	No mandatory disclosures.	No federal proxy-rule regulation of proxy advisers after *ISS v. SEC* (D.C. Cir. 2025); SEC oversight is limited to Advisers Act fiduciary/conflict rules.	Fee disclosures apply to certain takeovers per certain regulations requiring a public comply-or-explain code-of-conduct statement, annual methodology and engagement disclosures, and prompt conflict-of-interest disclosure to clients, with FCA notification and enforcement.
Legal discovery	No powerful US style discovery; plaintiffs must identify specific documents; internal papers are often exempt; no depositions; courts are unwilling to issue document production order, so shareholders have to rely on voluntary disclosure by the company.	Broad discovery of documents and communications, plus sworn depositions of directors and advisers; pre-suit books-and-records inspection (DGCL 220).	Court-managed disclosure, including documents adverse to one's own case; no US style pre-trial depositions.

Sources: Bloomberg, WTW, O f All Co., Ltd.