



Implication of “Corporate Governance” to Japanese Economy

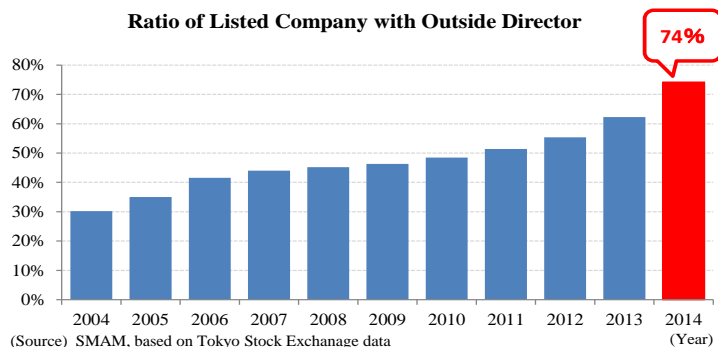
1. What does “Corporate Governance” means to Corporation?

“Corporate governance” refers to the company’s internal control system of governing structures aiming at sound corporate activities by supervising and incentivizing the management to appropriately maximize the corporate value. In many cases, the owner of a public company is the shareholders. Therefore, for the shareholders, the management is a responsible person who is granted “a professional proxy of the corporate management”. “Corporate governance” contributes to serve as check and balance function to avoid conflict of interest amongst the stakeholders.

2. Latest Trend in Japan

Enhancement of corporate governance is one of the major objectives of the “Japan Revitalization Strategy” (Third Arrow of Abenomics) aiming at the improvement of corporation’s productivity and profitability by changing the mindset of management. Abe administration has already implemented three important policies. First, it introduced the principles for responsible institutional investors known as “Japan’s Stewardship Code” which was accepted and signed by 127 institutional investors as of the end of May. Second, partial revision of the Companies Act intended to promote the appointment of the outside director was approved by the Cabinet on June 20. Third, the Industrial Competitiveness Enhancement Act came into force in January this year to promote business restructuring through granting new tax incentives to private sectors.

Japanese corporations have already responded to the government policies mentioned above. This year, the agenda attracted most at the general shareholders meeting was the “corporate governance”. According to the Tokyo Stock Exchange (TSE), 74% of the listed company on the first section of TSE appointed the outside director. And, a new stock index called “JPX-Nikkei Index 400“, which is composed of the companies meeting requirements of global investment standards, such as high ROEs, efficient use of capital and investor oriented management, was launched and welcomed by investors. In addition, A JV, Mitsubishi Hitachi Power Systems, Ltd. was formed in February 2014 integrating the thermal power generation systems businesses of Mitsubishi Heavy Industries, Ltd. (MHI) and Hitachi, Ltd. on the Industrial Competitiveness Enhancement Act. This example is notable in terms of showing a desirable direction for Japanese companies to step into streamlining their business for higher competitiveness and profitability.



3. Future Outlook

We believe that the trend of enhancing “corporate governance” will be ongoing as it is a global theme and moreover this theme forms an important piece of the growth strategy of Abenomics. In fact, the government is under the process of introducing “Corporate Governance Code” and planning a new policy to promote management support and business restructuring of the corporations by the financial institutions.

The shareholders of Japanese corporations, in and out of Japan, claim that accumulated reserves money might have been used more efficiently by making profitable investment or paying more dividend if the corporate governance were implemented more properly. The retained earnings (internal reserve) of the Japanese corporations (exclude financial institutions) in FY2013 was more than 300 trillion yen. This was deemed as the symbol of the passive attitude of Japanese corporations, not efficiently making use of the reserves. However, this can be seen as a potentiality for the Japanese stocks to be positively looked once the huge reserve is used for an productive investment such as M&A or capital expenditure as well as for increased dividend payment. We believe that the “corporate governance” will attract investors’ attention as it will be a long lasting challenge and it is closely linked with the desirable ways of management of the Japanese corporations and the attractiveness of the Japanese stocks.

Disclaimer

Please read this disclaimer carefully.

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM’s judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indexes belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM’s authorization, or from disclosing this material to a third party.

Registered Number: Kanto Regional Finance Bureau (KINSYO) No.399

Member of Japan Investment Advisers Association and the Investment Trusts Association, Japan

© Sumitomo Mitsui Asset Management Company, Limited



Sumitomo Mitsui Asset Management