

April 15, 2026

On behalf of the CFA Society NY, we hosted an event last evening entitled,

“Japanese Corporate Reform: Unlocking Decades of Undervaluation”

We are very grateful to all presenters for a truly insightful discussion:

- **Toru Shindo, CFA** - Chief Investment Officer, United Nations Joint Staff Pension Fund
- **Haruyuki Yamashita, CFA** - Head of Policy Engagement, Tokyo Stock Exchange
- **Yoshiko Yamaguchi, CFA** - Founder and CEO, Soya Japan
- **Timothy Foley** - Founder/Co-CIO, Edwall Management, LP
- **Amy Shigemi Hatta, CFA** - Outside Director, Nomura Holding America Inc.
- **Yuko Taniuchi** - Head of US Investor Relations, Hitachi, Ltd.

Meeting Notes:

We were fortunate to hear Opening Remarks from Mr. Toru Shindo, followed by a Keynote from Mr. Haruyuki Yamashita, both of whom framed a compelling case for Japan’s evolving investment landscape.

Mr. Shindo opened with a powerful historical perspective, having started his career near the peak of Japan’s late-1980’s bubble and drew parallels between that era’s euphoria and today’s concentrated enthusiasm in global markets. His core message: after more than two decades of underperformance, Japan continues to witness an unprecedented, coordinated effort across government, regulators, and the private sector to revitalize its capital markets. With meaningful reforms underway and over ¥2,100 trillion in household assets still largely underutilized, he emphasized Japan as a long-term opportunity for global diversification at a time when portfolios remain heavily concentrated in U.S. equities.

Mr. Yamashita built on this foundation with a clear and actionable framework: Japan is becoming one of the most attractive markets for global investors. He highlighted three key pillars:

1. Corporate governance reform (“value creation” focus): Companies are increasingly aligned around cost of capital, transparency, and investor engagement - driven not by mandates, but by market discipline and peer pressure.
2. A more open and efficient market structure: Continued unwinding of cross-shareholdings, rising M&A activity, and improved disclosure standards are enhancing capital efficiency and alignment.
3. Opportunity in “hidden gems”: While progress is evident at the aggregate level, the next source of alpha lies in identifying companies with improving governance and underappreciated potential.

Bottom line:

Japan is not just recovering, it is restructuring. With increasing accountability, improving returns on capital, and structural reform gaining traction, the market is re-emerging as a credible and differentiated allocation for global investors.

Last night's Panel Discussion was led by Yoshiko Yamaguchi and added depth to the theme that Japan's corporate governance reform is increasingly relevant to global investors, but still in its "early innings".

A key takeaway was that Japan's recent equity market strength cannot be attributed to governance reform alone. Panelists pointed to multiple drivers, including post-COVID earnings recovery, supportive monetary conditions, AI-related tailwinds, and geopolitical reallocations away from China. That said, governance reform has clearly mattered in reshaping investor perception, improving capital allocation, and strengthening the market narrative around Japan. TSE's Haruyuki Yamashita suggested the reform process is only in the "second inning," with substantial room for further improvement.

From the TSE's perspective, the reform effort remains intentionally principles-based rather than enforcement-heavy. Rather than imposing hard mandates, TSE has relied heavily on disclosure, dialogue, and peer pressure - an approach panelists noted is particularly effective within Japanese corporate culture. While many companies have improved, the consensus was that meaningful work remains, particularly around balance sheet efficiency, capital allocation discipline, and better utilization of underused assets.

Hitachi was highlighted as an important case study in how governance reform can create real economic value. Yuko Taniuchi explained that Hitachi's transformation was driven not only by governance reform itself, but by deep internal changes in board structure, portfolio simplification, management discipline, and a more deliberate engagement with investors. The broader message was that governance reform is most effective when it is internalized by management rather than treated as a box-ticking exercise.

From an investor perspective, Tim Foley emphasized that Japan remains fertile ground for active engagement and activism. He argued that reforms at the exchange and FSA level have materially widened the opportunity set, allowing investors to push companies from "good to better," rather than needing to wait for egregious governance failures to warrant engagement. Importantly, despite the market's strong move since 2022, he noted that Japan still offers a very large universe of underfollowed and asset-rich smaller-cap opportunities, particularly in companies trading below 1.0x book value.

Amy Hatta added a valuable boardroom perspective, stressing that governance quality depends not just on Board composition, but on whether directors genuinely represent shareholders and challenge management constructively. She argued that Japan still needs more independent board leadership, including independent board Chairs, and more substantive discussion at meetings. She also pushed back on the common foreign misconception that Japanese executives do not care about shareholders. Rather, they do care deeply, but may not always know how best to respond to market expectations.

Several themes emerged repeatedly throughout: the importance of investor dialogue, the unwinding of cross-shareholdings, the growing role of MBOs and private equity, and the need for clearer disclosure in English and better communication with foreign shareholders. Panelists also noted that many smaller Japanese companies remain lightly covered, under-engaged, and underappreciated, creating a potentially rich hunting ground for investors willing to do deeper fundamental work.

Bottom line:

The panel reinforced that Japan's governance reform is not a finished story - it is an evolving one. The market has responded, but the opportunity may still be significant, especially where improved governance, capital allocation, and shareholder engagement have yet to be fully recognized. For investors seeking diversification away from highly concentrated U.S. markets, Japan increasingly appears less like a tactical trade and more like a structurally improving opportunity.

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