

JAPANESE ACTIVISM: HEDGE FUNDS AND INSTITUTIONAL ENGAGEMENT





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INTRODUCTION

Shareholder activism in Japan has entered a new era. Once a rarity, activism by hedge funds and institutional investors has surged in recent years, driven by corporate governance reforms and changing attitudes.

Activist hedge funds (known in Japan as “*monoiu kabunushi*” – “shareholders who speak up”) are increasingly targeting Japanese companies, while domestic institutional investors like pension funds have become more assertive stewards of corporate value.

OVERVIEW OF SHAREHOLDER ACTIVISM IN JAPAN

Shareholder activism in Japan has been on the rise over the past decade, transforming from an infrequent and often frowned-upon occurrence into a significant force in corporate governance. In 2023, over 100 Japanese companies were targeted by activist campaigns. In the first half of 2024, Japan saw 38 new activist campaigns – almost triple the number from the same period a year earlier – making it the second-busiest market for activists after the United States.



Typical targets and goals: Activists in Japan commonly focus on companies that appear undervalued or inefficient – for example, firms with low price-to-book ratios ($P/B < 1.0$), low return on equity (ROE), large cash reserves, or heavy cross-shareholdings. Such traits signal that the market values the company below its assets and potential. Activists see these as opportunities to unlock value by pushing for changes like higher shareholder returns, leaner operations, or strategic shifts.

Activist profiles: A large share of activist investors in Japan are foreign hedge funds, frequently based in Hong Kong, Singapore, or the U.S., that take minority stakes of a few percent. Prominent global activists such as Elliott Management, Third Point, and ValueAct have established a presence, alongside regional funds like Oasis Management and domestic funds inspired by pioneers like Yoshiaki Murakami.



At the same time, homegrown activism is alive – Murakami’s funds and newer domestic activist funds have targeted smaller undervalued companies, often pushing for higher dividends or buyouts.

Impact on performance: Studies suggest that activism in Japan, despite modest success rates, can yield positive stock performance in targeted firms. Even when campaigns don’t fully succeed, they can pressure management to improve performance or return capital.

“Measurable uplift in share prices, abnormal returns of nearly +0.7% around announcement, and sustained excess returns in the months following.”

COMMON ACTIVISM STRATEGIES IN JAPAN

Accumulating a Strategic Stake:

Activists quietly build minority stakes (often 1–10%). The legal threshold to submit shareholder proposals is only 1% ownership held for 6 months.

Engagement and Dialogue:

Many start with private meetings to present suggestions, since Japanese culture favors consensus.

Open Letters and Public Campaigns:

If dialogue fails, activists publish open letters urging higher dividends, buybacks, or restructurings.

Proxy Fights and Shareholder Proposals:

Activists use AGMs to submit proposals and solicit votes. In 2021, an activist proposal won approval at Toshiba, a rare breakthrough.



Media and Litigation: Some campaigns use the press or legal system to expose misconduct or pressure management.

Negotiating Settlements: Many campaigns end in compromise – management quietly agrees to reforms in exchange for activists dropping pressure.

Seeking Board Seats: Some activists win board representation, as with ValueAct at Olympus in 2019.

REGULATORY AND CULTURAL ENVIRONMENT

Cross-Shareholdings: Historically shielded companies, but now unwinding under governance reforms.

Corporate Governance and Stewardship Codes: Introduced in 2014–2015, these codes push companies toward shareholder-centric practices and encourage institutional investors to vote actively.

AGM Rights: Activists benefit from low thresholds for proposals but face defenses like poison pills.

Cultural Resistance: Companies often resist confrontation, preferring harmony. Activists must adapt with respectful approaches.

Government Stance: Supportive of reforms but wary of foreign influence in strategic sectors. Some cases, like Toshiba, revealed state interference against activists.

KEY CASE STUDIES

Toshiba: Activists like Effissimo exposed collusion between management and the government to suppress shareholder votes. The scandal led to leadership changes and, eventually, a buyout at a premium.

Olympus: ValueAct Capital worked collaboratively with management, gaining a board seat and helping restructure the company, which boosted profitability and share price.

Seven & i Holdings: ValueAct pushed for focus on the 7-Eleven business, leading to divestments and improved shareholder returns.

Tokyo Dome: Oasis Management pressured management, which led to a white knight takeover at a premium, benefiting shareholders.

Shinsei Bank: Shareholders rejected a poison pill defense, signaling growing resistance to entrenchment.

Murakami Family: Domestic activists continue to push smaller firms for dividends and governance changes.

TRENDS IN SHAREHOLDER ENGAGEMENT

- Rising number of shareholder proposals and campaigns.
- Accelerated unwinding of cross-shareholdings.
- Focus on capital efficiency, with regulators highlighting ROE and P/B metrics.
- Surge in dividends and buybacks.
- Increased M&A and take-private deals.
- Greater collaboration among investors.

FOREIGN VS DOMESTIC ACTIVISM

- **Foreign:** Often bring bold proposals and public campaigns, citing global benchmarks. Funds like Elliott, Third Point, and ValueAct have been prominent.
- **Domestic:** More focused on incremental changes like dividends and governance tweaks. Often use shareholder meetings and local networks.
- **Convergence:** Both now blend global tactics with local sensitivity.

Challenges in Japan vs. the West

- Entrenched shareholding alliances still exist. Cultural aversion to confrontation. Regulatory hurdles, including foreign ownership rules.
- Poison pills remain a defense option. Success rates historically lower, with campaigns taking longer to yield results.

Role of Institutional Investors

- **Domestic Institutions:** Insurers and banks are unwinding cross-shareholdings and voting more independently.
- **Foreign Institutions:** Increasingly willing to support activist proposals if they create value.

CONCLUSION

1

Japan's governance reforms and rising activism are reshaping its corporate landscape.

2

While challenges remain, activism is becoming a normal feature of Japan's markets.

3

Hedge funds, domestic activists, and institutional investors – especially GPIF – are pushing companies toward higher returns, better governance, and global competitiveness.

4

Outcomes may be slower and less dramatic than in the West, but the trajectory is clear: activism is now an integral part of Japanese corporate strategy.



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