

# BLURRED VISION NO MORE

We profile four of investment's leading female voices to mark International Women's Day

March 2020 | [www.portfolio-adviser.com](http://www.portfolio-adviser.com)

# PORTFOLIO ADVISER



## THE REGULAR SHOW

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**L15T**  
**WORD**  
15 YEAR ANNIVERSARY

# Corporate reform is giant leap for Japan plc

The launch of a Corporate Governance Code in Japan in 2015 marked the beginning of profound changes to how companies in the country behave and plan for the future.

As a market known historically for its weakness on standards of corporate governance, this was a welcome change. In the years since, the code has led to a greater awareness of the role of shareholders and the need to improve value for them, as well as protect their rights.

This move towards corporate reform is most clearly visible in the collapse of the parent and child subsidiary company relationship.

## Unfair shares

These relationships are defined as ones in which the 'parent' owns the majority stake of a listed subsidiary company – the 'child' – meaning it has *de facto* control over issues such as board appointments, capital allocation and the firm's strategic outlook.

This often involves disregarding the needs and wants of the company's minority shareholders, who will have little to say in the decisions made. This leaves them open to the risk of abuse, and of detrimental decisions being made that are beyond their control.

This form of parent-child company relationship is one that is more common in Japan than any other market. While Japan has 240 of these listed subsidiary companies, there are just 28 in the US and zero in the UK. It is not a structure that needs to exist.

## Government intervention

As such, the Japanese government and regulators have turned their attention to addressing how to improve these structures to better protect minority shareholders – or how best to collapse them.

Often the best outcome for shareholders will be in the parent company either buying out the subsidiary or selling it, as both options often come at a huge premium to the prevailing share price of the companies involved.

This is where the investment opportunity lies, and where engagement as an active investor in the companies we own pays off.

## Catalyst for action

In our most recent trip to Japan, we were involved in a push to encourage Toshiba Corporation to acquire two of its child subsidiaries, Nuflare and Toshiba Plant.

Letters and media engagement by shareholders such as ourselves, coupled with on-



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going pressure from governments and regulators, acted as the catalyst for the deals to be finalised.

The acquisitions were completed at a 46% and 28% premium to each company's respective share price, unlocking huge upside for shareholders.

This is an increasing trend in Japan. Government and regulatory action has acted as a spark to encourage parent companies to evaluate their structures. The AJOT portfolio currently has around 11% allocated to this theme, and we plan to increase this allocation as new opportunities arise.

## Root and branch changes

Key to unlocking this type of value in a country such as Japan is deep fundamental analysis of companies.

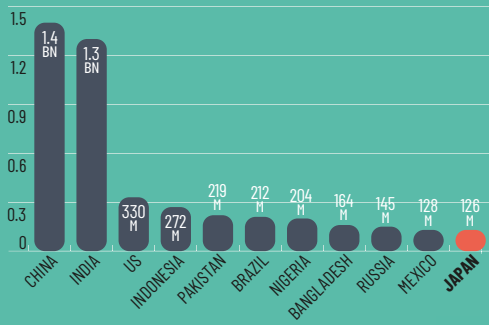
This helps investors understand where opportunities might arise as a result of corporate governance improvements. It also allows us to uncover high-quality companies with strong balance sheets that will reap returns even without root and branch changes.

The relationships between parent and child subsidiary companies – or the breakdown of these relationships – is just one area of Japanese corpo-



# AT A GLANCE: JAPAN

## POPULATION (BN) SOURCE: WORLDOMETERS.INFO



**1.62%**  
OF TOTAL WORLD  
POPULATION



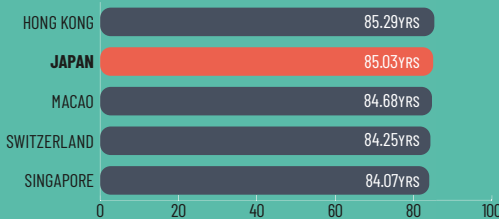
**48.4YRS**  
MEDIAN  
AGE



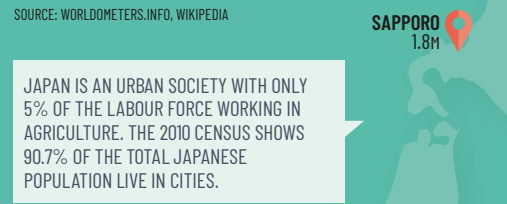
**85.03YRS**  
LIFE  
EXPECTANCY

JAPAN IS THE WORLD'S 11TH LARGEST COUNTRY BY POPULATION. AT 85.03 YEARS, JAPAN'S LIFE EXPECTANCY IS THE SECOND HIGHEST IN THE WORLD.

## LIFE EXPECTANCY RANKED SOURCE: WORLDOMETERS.INFO



## MAIN CITIES: POPULATION SOURCE: WORLDOMETERS.INFO, WIKIPEDIA



JAPAN IS AN URBAN SOCIETY WITH ONLY 5% OF THE LABOUR FORCE WORKING IN AGRICULTURE. THE 2010 CENSUS SHOWS 90.7% OF THE TOTAL JAPANESE POPULATION LIVE IN CITIES.

## JAPAN'S ECONOMY SOURCE: OECD



**GDP**  
\$41,502  
PER CAPITA



**HOUSEHOLD DEBT**  
107.3% OF  
DISPOSABLE INCOME



**GOVERNMENT DEBT**  
234.3%  
OF GDP

## TOP 10 EXPORTS SOURCE: WORLDSTOEXPORTS.COM

VEHICLES	\$148.8BN	21.1% OF TOTAL EXPORTS	PLASTICS, PLASTIC ARTICLES	\$25.2BN	3.6% OF TOTAL EXPORTS
MACHINERY INC COMPUTERS	\$137BN	19.4% OF TOTAL EXPORTS	ORGANIC CHEMICALS	\$17.8BN	2.5% OF TOTAL EXPORTS
ELECTRICAL MACHINERY, EQUIPMENT	\$103.1BN	14.6% OF TOTAL EXPORTS	MINERAL FUELS INC OIL	\$14BN	2% OF TOTAL EXPORTS
OPTICAL, TECHNICAL, MEDICAL APPARATUS	\$39.1BN	5.5% OF TOTAL EXPORTS	SHIPS, BOATS	\$13.8BN	2% OF TOTAL EXPORTS
IRON, STEEL	\$26.1BN	3.7% OF TOTAL EXPORTS	OTHER CHEMICAL GOODS	\$11.9BN	1.7% OF TOTAL EXPORTS

rate reform that is improving the situation for shareholders in the country's listed firms.

Improvements to transparency and board appointments, as well as accountability, are improving the efficiency of markets and supporting the drive for greater growth and corporate value enhancement.

Japanese markets have remained fairly static in recent years, while those in the US have continued to race ahead.

However, with the pace of corporate governance reforms increasing, Japan's companies are, we believe, the next ones to watch. **LW**