

sustainable japan

ESG promotional content produced by The Japan Times Cube

MFA Inc. speaks for investors to help firms grow better

Unraveling Japanese companies

HIROKO NAKATA
CONTRIBUTING WRITER

What kinds of dialogue help shareholders maximize the value of companies they invest in?

How to approach investee companies varies depending on the type of investor, especially institutional investors. One extreme type is "activists," who target quick capital gains. They often force companies to undertake drastic reforms or replace top management to lift stock prices in the short term. The other extreme is "passive investors," who hold stocks for the long term and generally do not make specific demands, although some have engaged in dialogue in recent years.

There is a gap in the Japanese capital market between these two approaches. "Something must be done to fill the gap. That is the biggest reason for our launching this business," said Kotaro Ishii, representative director of MFA Inc., in a recent interview, part of a monthly series featuring sustainable Japanese companies by Naonori Kimura, a partner for the consulting firm Industrial Growth Platform Inc.

(IGPI).

MFA is a joint venture established in April, owned 36% by Sumitomo Mitsui Trust Bank, 25% by two companies in the CDI consulting group, 20% by IGPI, 15% by Misaki Federation Inc. and 2% each by Bank of Kyoto and Kiraboshi Bank.

MFA carries out ownership engagement activities on behalf of institutional investors and shareholding financial institutions. The new company, which calls itself a "fiduciary agent business," aims to build a business model that supports publicly traded companies through holding constructive dialogue on behalf of shareholders who understand the importance of such dialogue but lack expertise on the kind of long-term commitments required to improve corporate value. It serves as an agent for engagement but does not itself have voting rights at shareholders meetings.

In the future, Ishii hopes MFA will build a business platform that enables it and other companies to take charge of giving hands-on advice for the long-term growth of investee companies.

"Not many shareholders are able to support and encourage their investee companies," Ishii said. "I believe what is necessary for companies is businesses like MFA that play a role of directing, encouraging and strengthening companies on



Kotaro Ishii, representative director of MFA Inc. HIROMICHI MATONO

behalf of financial institutions and institutional investors."

Ishii said that what Japanese companies need to regain competitiveness is a business environment that helps them develop creatively and take bold action to start new areas of business. "Otherwise, Japan won't be able to see new companies that can thrive and revive the economic power in the next generation," he said.

His comment comes from concern over the country's economic future and listed companies' failure to attract investors in the capital market. Japan has experienced a long period of economic stagnation and deflation, with experts calling the last three decades its "lost decades." Many former blue-chip Japanese companies

slipped out of the world's top lists during that time. On the other hand, in the Japanese stock market, many companies have been undervalued partly because their profitability and capital efficiency have remained low, or they have not fully disclosed how they utilize their capital. The Tokyo Stock Exchange warned on March 31 that half of the listed companies on the Prime market and about 60% of those on the Standard market showed a "price book-value ratio" (PBR) under 1.0, meaning their share price was below its liquidation value. According to MFA, the share prices of about 1,800 firms — more than half of the country's listed companies — have a PBR under 1.0.

MFA said its business aims to boost

Japanese companies' growth potential so they can attract more investment and activate the capital market. Its engagement for investee companies will be done not from a specific shareholder standpoint but from a "multi-stakeholder perspective," understanding investee companies' top management and at the same time maintaining an objective perspective. To get support from stakeholders, MFA also backs companies' disclosure of strategies that will lead to economic and social value, it said.

The importance of engagement activities — institutional investors' dialogues with investee companies to improve business management and corporate value so they can achieve sustainable growth — has gained focus in Japan in recent years, following a series of capital market reforms.

The Financial Services Agency set forth in 2014 the Stewardship Code, principles considered effective for institutional investors who own Japanese-listed stocks to act as responsible investors. The Japanese code was based on a British model established in 2010. In 2015, the Corporate Governance Code — principles contributing to the realization of effective corporate governance — was applied to all companies listed on the Tokyo Stock Exchange.

These reform steps have enhanced the importance of dialogue between companies and their investors. In particular, the process draws attention to a role of institutional investors as "responsible investors" to engage in dialogue that helps companies grow and enhances their value in the medium and long terms.

These steps in the 2010s to review companies' discipline so they can regain strength followed Japan's experience of sharp postwar growth and then economic collapse, Ishii said. "The era of postwar reconstruction and the era of fast eco-



HIROMICHI MATONO

nomous growth (in the 1960s and the 1970s) was a time when we didn't have to think about what we should do because the economy was doing well," Ishii continued, explaining that people's working hard to make products naturally led to the post-war growth. Then the economy enjoyed a boom in stock and land prices in the late 1980s and early 1990s, followed by an economic and financial crash in late 1990s.

"When society entered into the era of uncertainty, it became clear that the country did not have the ability to figure out what we should do next," he said, adding that this is the biggest issue for the companies and their leaders who experienced the lost decades.

Stock owners, financial institutions and institutional investors are in particular responsible for encouraging companies to find a direction to increase their value amid growing uncertainties in the world, Ishii said.

This section, "Sustainable Japan," features issues related to the environment and a sustainable society while highlighting the satoyama activities of companies and other organizations.

For more information, see <https://sustainable.japantimes.com>



Established in April, MFA is a joint venture owned by a series of Japanese banks and corporations. HIROMICHI MATONO

Sustainable Japan Award — 2023 results

the japan times
Sustainable Japan Award
2023

In June 2021, The Japan Times merged its previously launched ESG Consortium and Satoyama Consortium into the Sustainable Japan Network. Its purpose is to support individuals, companies and organizations that have been working toward a sustainable society. Once a year, The Japan Times holds the Sustainable Japan Award, with both a satoyama section and an ESG section, to recognize and celebrate those who have made significant contributions. Here are this year's awardees.

Grand Prize winner

ASICS CORP.

Asics Corp. aims to contribute to efforts to achieve carbon neutrality and limit the global temperature increase to 1.5 C above pre-industrial levels, with the ultimate goal of protecting the environment. The company is committed to achieving net-zero emissions by 2050 and a 63% reduction for both its operations and supply chains by 2030.

For this, it became the world's first sporting goods maker to be recognized by the Science Based Targets initiative. It developed the Gel-Lyte III CM 1.95 shoes, whose

greenhouse gas emissions are the smallest in the world, taking advantage of know-how gained in a joint study with the Massachusetts Institute of Technology on environmental impact over a product lifecycle.

Asics' green procurement policy requires its key suppliers to set an emissions reduction target and use renewable energy. Asics monitors suppliers and supports them through ongoing dialogue, aiming to transition its entire value chain to a circular business model.



Excellence Award winner

CITY OF MANIWA

Since the 1990s, Maniwa, under the philosophy of "use natural resources found in the region efficiently and recycle them," has striven to work with the private sector, aiming to simultaneously resolve social, economic and environmental issues.

Taking advantage of abundant wood resources in the region, the city opened a biomass power plant fueled by wood materials left over from the thinning of mountain forests and from sawmills. In agriculture, the municipality produces the

Maniwa Satoumi brand of rice in paddies that use as fertilizer oyster shells collected from fishing villages along the coast of the Seto Inland Sea.

It has supported the forestry and wood materials industry by promoting the use of cross-laminated timber, a construction material that can be recycled after its components are separated.

Furthermore, the municipality has been promoting the development of "remakes" and new products.



ESG: Excellence Award winner

NISSAY ASSET MANAGEMENT CORP.

As an expert on asset management, Nissay Asset Management Corp. is aware of its responsibility to help make society sustainable, support increase in corporate value and contribute to sound development of the capital market as part of its fiduciary responsibility toward pension funds, their subscribers and beneficiaries of investment trusts. The company notably practices responsible investment under committed management. In addition, the company believes it is important to increase the public's knowledge

about the U.N. sustainable development goals (SDGs) and finance to help make our society sustainable. In this regard, it takes advantage of its expertise on asset management in its initiatives, including dispatching instructors to conduct classes at elementary schools and conducting investment seminars on its website, where a textbook on finance and investment is made available. Nissay Asset Management has thus contributed to disseminating knowledge about SDGs and raising awareness on them in many respects.



ESG: Excellence Award winner

POPPINS CORP.

Since its establishment, Poppins Corp. has maintained an original approach toward pursuing what is necessary for women to continue working.

The Poppins group has worked with the Harvard Graduate School of Education's Project Zero on joint research over many years. Since the fall of 2021, it has been engaged in joint research on the primary subject of "SDGs for children" as part of efforts toward achieving the U.N.'s fourth sustainable devel-

opment goal, "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all."

In 2022, focus was placed on the fifth goal, "Achieve gender equality and empower all women and girls" to deepen understanding of the impacts that ideas about gender may have on children. In June 2021, Poppins held a symposium focusing on celebrating diversity as the culmination of its research efforts over the preceding six years.



ESG: Special Award winner

MUSUBIE NPO

This year, the Certified Nonprofit Corporation Nationwide Children's Cafeteria Support Center, Musubie, marks its 11th anniversary. *Kodomo shokudo* (children's cafeterias) are now operating across Japan, with the total exceeding 7,300. The nonprofit wants children's cafeterias to be widely known as places where not only children but anyone can come and spend time, serving as places that help establish different kind of connections. Musubie

has expanded the scope of support for children's cafeterias by linking them with stakeholders in their respective regions to give them sustainable bases. In addition to sharing information on subsidies and donations, Musubie has touched off a "big social wave" of supporting children under region-wide efforts by getting governments and social welfare councils onboard, as well as businesses that had not previously been involved in social activities.



ESG: Special Award winner

TOKYO METROPOLITAN GOVERNMENT

The Tokyo Metropolitan Government releases impact reports on its green and social bonds, and has the reports independently verified by external agencies — the first local government to do so in Japan. This shows the municipality's awareness of the importance of maintaining information transparency. The pioneering efforts, which include its issuance of green and social bonds, have significantly contributed to activating the market for ESG (environment,

social and governance) bonds issued by Japan's local governments. The Tokyo government's strong commitment to sustainability under the leadership of Gov. Yuriko Koike and related efforts in collaboration with its stakeholders have set an example for other local governments to follow. Its use of English and multiple other foreign languages to spread information has helped increase Tokyo's presence as an international financial center.



Satoyama: Excellence Award winner

VALUE MANAGEMENT CO. LTD.

Since its establishment in 2005, Value Management Co. Ltd. has striven to create tourism towns using valuable historic buildings, promoting tourism under joint public-private efforts. This has included the preservation and use of historic resources and the creation of regional revitalization models. The company has worked to restore a wide range of historic buildings, trying to preserve as much of their value as possible. Value Management has so far returned 80 historic

buildings across Japan — including cultural assets, castles and buildings in popular tourist destinations — to a viable state. In the Aichi Prefecture city of Ozu, the company launched in July 2020 a stay-in-a-castle plan, previously unheard of in Japan. It also operates "distributed hotels," which have facilities dispersed in different locations in a region. Value Management has been working with local communities to create healthy towns that attract tourists.



Satoyama: Excellence Award winner

YAMAGATA DESIGN CO. LTD.

Based in the Shonai region of Yamagata Prefecture, Yamagata Design Co. Ltd. has been working to resolve regional issues in the fields of tourism, education, human resources and farming since its foundation in 2014. The company's Suiden Terrasse, a "hotel floating in the rice fields," was created with an ambition to make Shonai a magnet for tourists from around the world. The facility, which has attracted more than 50,000 guests annually, has had a significant

positive impact on the regional economy. In the area of farming, the company has developed soil restoration using organic resources in the region, worked to realize farming that does not rely on chemical fertilizers or pesticides and is resilient against climate change risks, and developed a weed-control robot. Its education project, Sorai, has created a mechanism that allows businesses and the local community to support education.



Satoyama: Special Award winner

SASUE MAEDA FISH SHOP

Naoki Maeda is the fifth-generation owner of the more than six-decade-old Sasue Maeda Fish Shop in Yaizu, Shizuoka Prefecture. He has striven to deliver great-quality fish in optimum condition for the specific way each dish is prepared, which won him respect of noted chefs across Japan. Maeda has also trained prominent chefs who visited his shop from overseas.

Not only does he have expert knowledge and skills, Maeda has done what he can to

work closely with fishermen and chefs. This has included engaging with fishermen, exchanging opinions with chefs and offering feedback to them on their dishes.

Maeda selects fish suited to how chef Daigo Sugiyama, proprietor of Chakaiseki Onjaku, wants to prepare it, and Sugiyama adjusts the specifics based on what Maeda tells him about its condition. The Japan Times selected the restaurant for its Destination Restaurants list in 2022.

