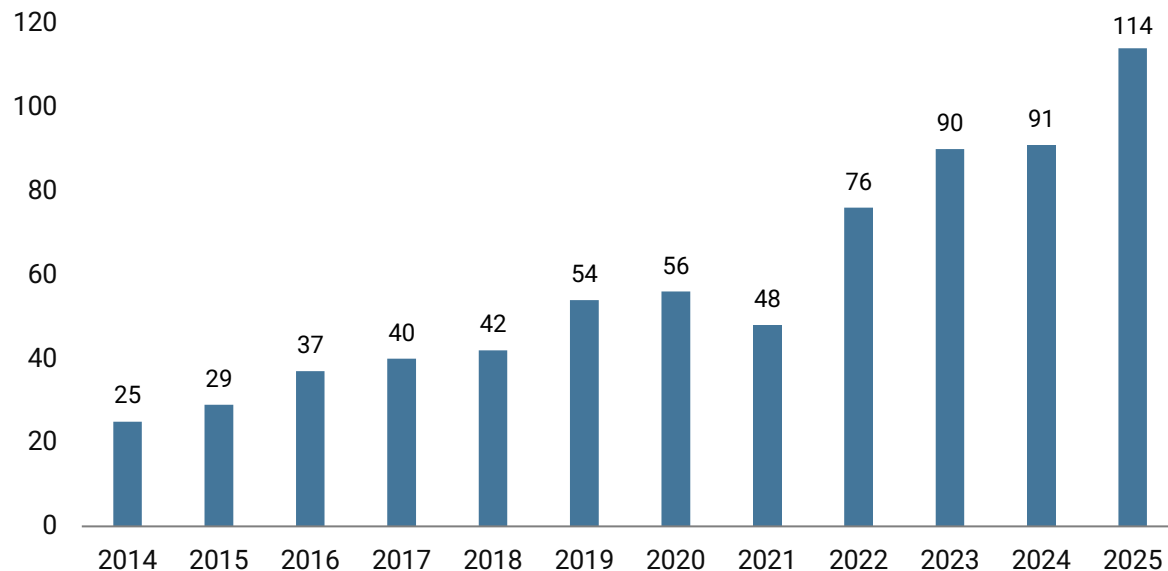


Shareholder Proposals – A Powerful Tool for Driving Change

2025 has once again been a record year for shareholder proposals at Annual General Meetings (AGMs) in Japan. This year, 114 companies received shareholder proposals, which will be voted on in June (the month when Japanese companies traditionally hold their AGMs).

Number of Companies Receiving Shareholder Proposals in June AGMs



Sources: CLSA and Mizuho

While Japan still faces challenges in some areas of corporate governance compared to other major economies, its robust shareholder proposal process - characterized by low ownership thresholds and limited board authority to reject proposals – positions it as a potential leader in advancing shareholder democracy.

Unlike other major economies where initiating a shareholder proposal often necessitates substantial ownership stakes - sometimes as high as 10% of outstanding shares - Japan offers remarkably greater accessibility. Here, a shareholder holding just 300 lots (equivalent to 30,000 shares, with 100 shares being the minimum lot size) for at least 6 months can put forward a proposal. This can translate to a market value as low as \$100,000. Furthermore, in contrast to countries like the US, where shareholder proposals are typically advisory, those passed in Japan tend to be binding. Japanese company boards also have significantly less leeway to exclude proposals from the AGM compared to

their counterparts in the US. While historically, such shareholder activism was perceived as “aggressive” and culturally unacceptable for institutional investors, this landscape is rapidly evolving, driven by support from the Japanese government, regulators and the stock exchange, who aim to enhance corporate value and shareholder engagement.

Dalton considers proactive engagement a core part of our fiduciary duty and aims to engage with every Japanese company we invest in, grounded in the belief that even the best company managements can benefit from constructive dialogue. Our preference is to foster dialogue through private engagement. However, when management is unwilling or slow to implement necessary changes to unlock value for all shareholders, we view shareholder proposals as a vital catalyst for accelerating progress. Our proposals generally concentrate on three fundamental and, we believe, universally beneficial areas:

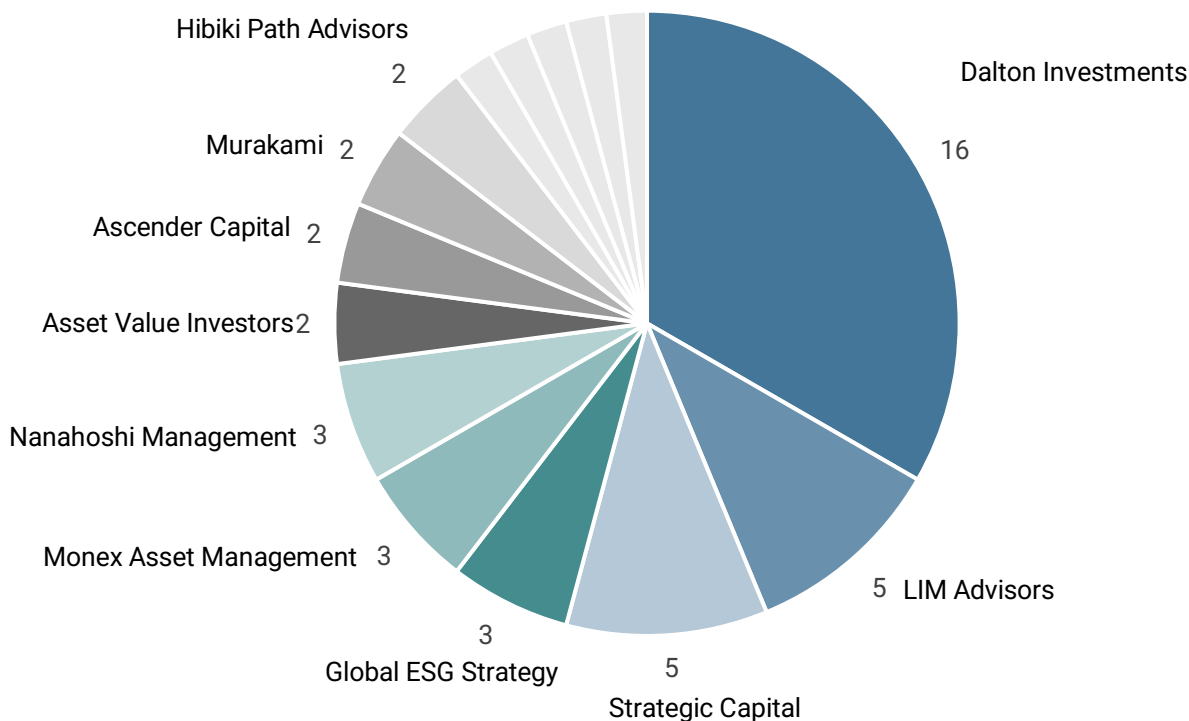
- Enhancing corporate governance – we advocate for the adoption of majority independent directors (a norm in many major economies but not in Japan).
- Optimizing capital allocation – while Japanese companies often demonstrate operational excellence, 30 years of deflation has resulted in many accumulating inefficient balance sheets and exhibiting low returns on equity. Our proposals aim to encourage more effective capital deployment strategies.
- Improving alignment of interests – with a significant portion of the Dalton investment team’s personal investments deployed alongside clients in our strategies, we deeply understand the importance of shared incentives. We believe that encouraging Japanese company management teams to hold company stock would create a similar alignment of interests, benefitting all shareholders.

Our primary objective with shareholder proposals is not to win a majority of shareholder votes, but rather to compel company management to thoroughly discuss key issues at the board level and issue a transparent public response, accessible to all shareholders and the broader market. While company management invariably recommends voting against our proposals, the public scrutiny generated often acts as a catalyst, pushing companies to implement certain improvements to better address the concerns of their broader shareholder base. Notably, we have observed an encouraging trend: increasing support for these proposals not only from foreign asset managers and asset owners, but also from domestic institutional investors, signifying a growing recognition within Japan of the importance of shareholder engagement.

In our analysis, the heightened oversight and pressure stemming from increased shareholder proposals are contributing factors to the recent surge in go-private transactions among listed Japanese companies. Facing greater accountability and the demands of public shareholders, some companies are evidently concluding that the burdens of remaining publicly listed outweigh the perceived benefits. These go-private transactions typically take place at a meaningful premium to the current stock price.

This AGM season witnessed a significant wave of shareholder proposals, with institutional asset managers putting forward initiatives at 48 companies. Notably, the Dalton organization, including our affiliate Rising Sun Management, spearheaded a substantial portion of this activity, submitting proposals to 16 of these companies. While we acknowledge our leading position with a 39% institutional market share in this area, our true aspiration is to see a wider embrace of this crucial mechanism by our peers. We firmly believe that broader participation from institutional investors is essential to unlock Japan's full potential as a global leader in shareholder democracy.

Number of Companies Receiving Shareholder Proposals by Institutional Manager



Sources: Daiwa Institute of Research, Dalton

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