

CONTENTS

Feature Articles

This month's focus: "Stewardship Code"

Overview	<i>Megumi Suto</i>	2
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Articles

Important Role of Principles for Responsible Institutional Investors in Improving Long-term Corporate Value in Japan	<i>Sadayuki Horie</i>	6
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Principles for Responsible Institutional Investors, Japan's version of the UK's Stewardship Code, was formulated to enhance medium- to long-term investment return for clients and beneficiaries by improving and fostering investee company corporate value/sustainable growth through constructive engagement, or purposeful dialog, based on in-depth knowledge of companies and their business environment. Institutional investors, including asset managers and pension funds, should fulfill to the utmost their responsibility to enhance portfolio returns through active dialog with investee companies.

The UK Stewardship Code and Implications for Japan	<i>Ryoko Ueda</i>	17
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The UK Stewardship Code clarified the role of shareholders, in particular institutional investors, and it is anticipated that their efforts will result in improving corporate governance and the value of UK listed companies. The Code is having a significant impact on engagement between institutional investors and companies. However, the increase in the number of institutional investors which have signed up to it has caused a problem in terms of quality.

This paper discusses the background of the Code in the context of corporate governance reform and studies its implications for Japan through analysis of the adherence of institutional investors.

Stewardship Code in Japan—From viewpoint of investment firms—	<i>Daichi Soda, CMA and Yousuke Mitsusada, CMA</i>	29
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Investment firms complying with Japan's stewardship code will need to have constructive discussion with companies in which they invest to fulfill "engagement". For most Japanese investment firms, this will be something new. Therefore, in this thesis, we conducted research on overseas cases and a few Japanese ones to examine what kind of discussions are most effective and how investment companies approach "engagement." We found that the agenda of Japanese "engagement" would also be governance and

strategy similar to that of cases overseas. In addition, “joint engagement with other investors” may be more effective from a psychological viewpoint. It is true that there are still some difficulties in setting up “joint engagement” but the seeds have been planted.

Influence of Japan’s Stewardship Code on Companies

..... *Tamami Ota, CMA* 41

This article takes up the question of how Japanese companies will be influenced by Japan’s stewardship code which defines principles for institutional investors. It also requires companies to raise corporate value and achieve sustainable growth. In relation to the introduction of a stewardship code, the Tokyo Stock Exchange and Financial Services Agency are now planning to draft a corporate governance code, which will outline the principles of corporate governance for Japanese companies.

Prospects

Downside Risk and Estimation Risk of Baseline Portfolio *Hitoshi Takehara* 52

Economic and Industrial Analysis

Legal Practice and Strategy for Sustainable Corporate Responsibility in a Global Age— Paradigm Shift of CSR Practice and Its Impact on Corporate Value
.....*Daisuke Takahashi, CMA* 58

Point of View*Nobuyuki Saji, CMA* 69

Article

Factors Determining Whether Firm Continues Zero Leverage Policy
..... *Shigeo Takami, CMA* 73

The phenomenon of complete zero leverage is rather exceptional, comprising less than 7% of Japanese manufacturers we studied. The result of logistic regression analysis indicates that the most important factor for zero leverage is having complete zero leverage status the previous year ; to the contrary, an increase in capital expenditure or decrease in ROA inhibits zero leverage. We focus on 20 firms seeing zero leverage for 10 fiscal years, the shareholders of which tend to be owner-founders or major Japanese firms and having the intention of continuing zero leverage.

Book Reviews *Hidetaka Kawakita, CMA / Fujio Nakatsuka / Masatami Otsuka* 83

SAAJ News 91