

Feature Articles

This month's focus: Engagement and Stewardship : Where Do We Stand Today?

A Decade of the Japanese Stewardship Code

Shoichi Tsumuraya

Ten years have passed since the establishment of the Stewardship Code. During this time, Japanese institutional investors have tightened their voting procedures, engaged in dialogue with investees, and addressed ESG and sustainability issues. The positive effects of these efforts are steadily emerging, as evidenced by the improved reputation of Japanese companies in Asia and the results of various corporate surveys. This paper outlines the outcomes of these efforts over the past decade based on questionnaires and empirical studies, and offers personal insights on future prospects.

How Proxy Voting Policies Have Changed and the Changes in Voting Behavior

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I analyzed how proxy voting policies have changed and whether there have been any changes in voting behavior since the 2017 revision of the Stewardship Code, which recommended that institutional investors disclose the results of their voting rights exercise for each individual investee company and proposal. I found that the number of qualitative proxy voting policies was decreasing, while the number of quantitative proxy voting policies was increasing. The ratio of votes against proposals for the appropriation of retained earnings and shareholder proposals was decreasing, while the ratio of votes for proposals for the election of directors was increasing.

The Current Status of Activist Funds' Investment in Japan and the Impact on Share Price and Operating Performance of Their Target Firms

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This paper summarizes the current investments in Japanese companies by activist funds and surveys academic research on their impact on the stock price returns and operating performance of target companies. There are two active periods in activist fund activities in Japan, the first wave (2001-2009) and the second wave (2017 to the present). According to academic research, the stock price returns of activist fund investments are significantly positive in both short-term CAR (cumulative abnormal returns) and long-term BHAR (buy-and-hold abnormal returns) throughout the first and second waves. On the other hand, in terms of operating performance, a deterioration in performance (e.g., ROA) was observed in the first wave, and there is no clear evidence that shows that performance has improved in the second wave. In the second wave, activist demands are shifting from simply increasing payout to shareholders to those related to the board of directors and corporate management, which may lead to longer-term performance improvement. It will be necessary to continue to examine whether activist fund investments will contribute to improved corporate performance.

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Empirical Analysis of the Impact of Earnings Announcement Date Concentration on Analyst Forecast Timeliness

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This paper examines the impact of the clustering of earnings announcement dates for firms covered by sell-side analysts on the timeliness of analysts' forecasts. The results show that the timeliness of analysts' forecasts declines when earnings announcements are concentrated, with this effect being particularly pronounced for smaller firms. These findings suggest that the clustering of earnings announcement dates may strain analysts' information processing capacity, leading to selective prioritization of focus among covered stocks.

Articles

The Relationship between Fund Size and Manager Stock Selection: Evidence of Diseconomies of Scale in Actively Managed Mutual Funds

Hitoshi Takehara

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In this study, we first show that the performance of actively managed mutual funds is negatively related to fund size. Then, using data on Japanese equity mutual fund holdings, we analyze how fund managers select stocks for inclusion in their funds and how this is related to investment performance. The empirical results show that when the fund size is large, it is difficult to achieve risk-adjusted returns even if the fund managers are skilled in stock selection.
