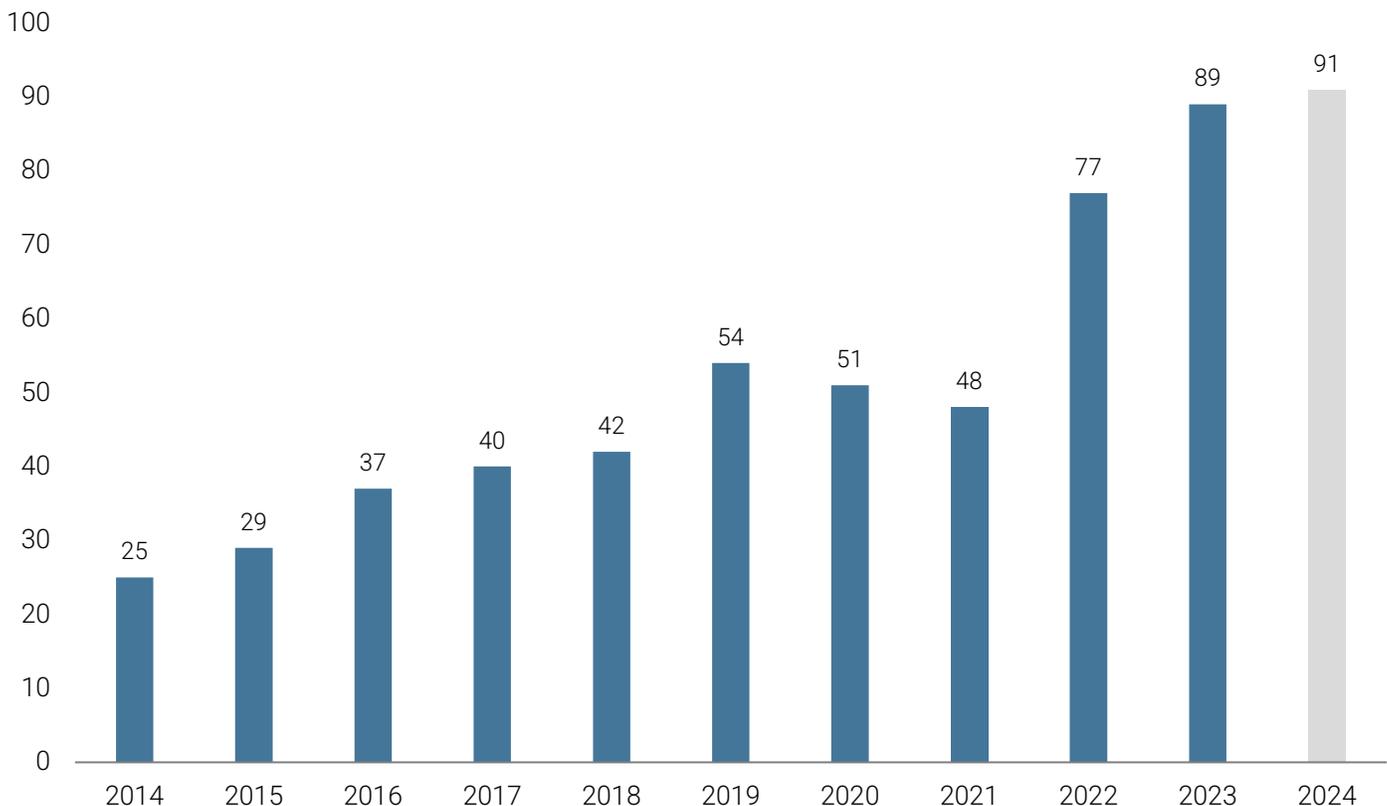


Annual General Meeting (AGM) Review – August 2024

With the bulk of 2024's AGMs in Japan now behind us, we believe it's important to reflect on the successes and challenges that emerged, both within the Japanese market and in Dalton's portfolios.

According to Sumitomo Mitsui Trust Bank's tally, a record 91 Japanese companies received shareholder proposals at their general shareholder meetings in June this year, marking the highest number ever recorded (see Chart 1 below). While many proposals focused on shareholder returns, such as increasing dividends and cancelling treasury stock, there were also several proxy fights aimed at altering the composition of the board of directors. Dalton sent shareholder proposals to nine companies, adding a new request for companies to respond to the Tokyo Stock Exchange's (TSE's) call for business improvement plan disclosures. We also continued to advocate for better alignment of interests, more effective capital allocation and enhanced board diversity and independence. Notably, we withdrew our proposals at two of the nine companies after management took positive action prior to the AGM.

Chart 1 – The Number of Companies Receiving Shareholder Proposals in June AGMs is Increasing



Source: Sumitomo Mitsui

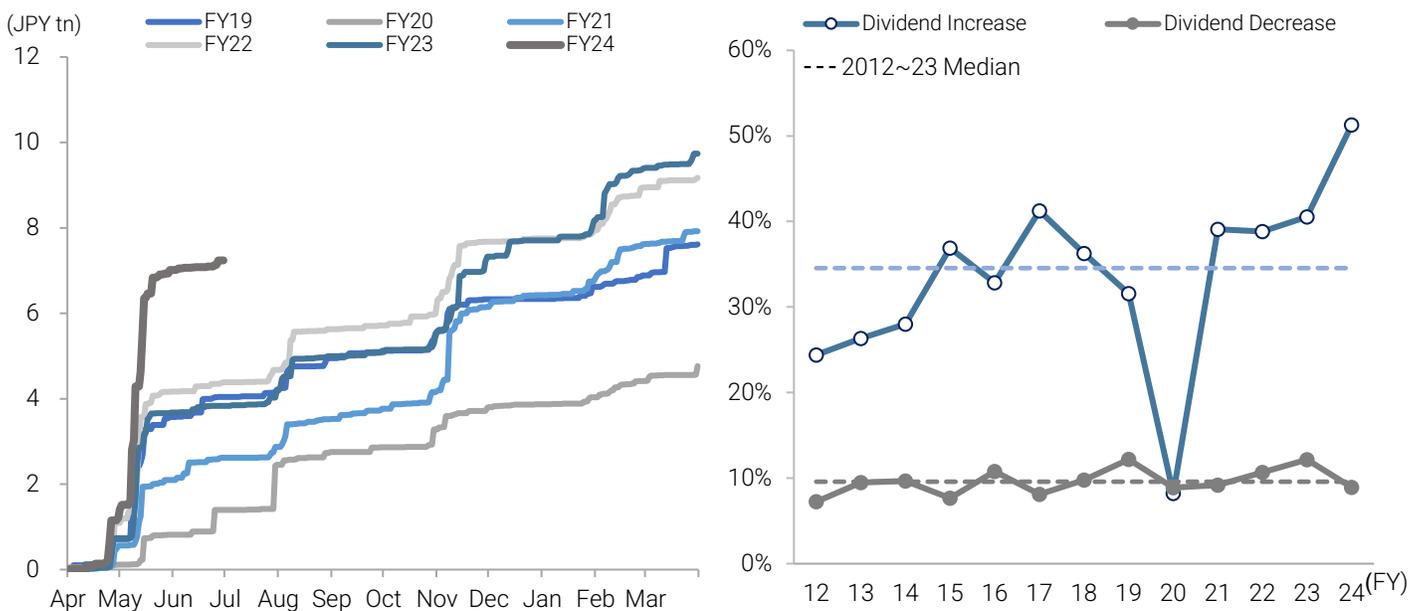
The continued rise in the number of AGM proposals is a clear positive, signaling the deepening of shareholder democracy and stewardship in the Japanese market. We were particularly encouraged to see several asset management firms submitting shareholder proposals for the first time, expanding the conversation beyond long-standing Japanese activists like Dalton. The more the merrier!

However, despite this growth, almost all shareholder proposals in Japan continue to be rejected, which has led to some disappointment among market participants. Many had anticipated increased support for activist proposals and even hoped that some proposals might pass. While there are a few instances where shareholder proposals resulted in what could be considered a "draw," these were unique situations where the proposing shareholder held around 30% of the shares. In reality, there were no real successes where an open shareholder base determined the outcome.

So what are we to make of this seemingly poor result? At Dalton, we believe the main reason that shareholder proposals did not receive greater support is that target companies have significantly improved their responses to shareholder proposals ahead of the vote. As shown in the chart below, companies were actively and positively responding to shareholder pressure, and shareholders tend to support the management when they see tangible progress. Therefore, we believe there's no need for undue concern about the low approval rates for shareholder proposals in Japan, as long as we continue to witness positive changes from Japanese management teams.

Additionally, shareholders have demonstrated a willingness to act decisively against management teams that fail to make positive changes. A prime example is the outcome of Ezaki Glico's AGM in March, where a shareholder proposal from Dalton garnered 43% support – a clear warning to the company's management team!

Chart 2 – Accelerated growth of shareholder return (share buyback budget in the left, dividend growth in the right)



Source: QUICK, Okasan Securities

As mentioned previously, Dalton withdrew two shareholder proposals during this year's AGM season – a strategy Dalton frequently employs to reward management when improvements are made in areas addressed by the proposals. Over the past 5 years, Dalton has sent 137 draft proposals, withdrawing 48 and formally proceeding with 89. We believe one instance of proposal withdrawal in 2024 deserves further discussion, as it highlights the rapid changes occurring in Japan. This case involves Toyota Industries, which received three proposals from Dalton:

- Comply with the TSE request to disclose business improvement plans
- Implement a share buyback equivalent to around 10% of market capitalization
- Increase equity compensation for management

In response, the company:

- Presented a “Corporate Value Enhancement Initiative” consistent with the framework of the TSE request
- Announced a shareholder return plan of JPY 700 billion over three years - more than four times the previous level of shareholder returns and larger than our proposed JPY 500 billion share buyback
- Introduced an equity compensation proposal for management (albeit smaller than we would have liked)

Toyota Industries is known as one of the most conservative companies in Japan. If a company like this can take such unprecedented actions in response to shareholder engagement, we are truly excited about the future of the Japanese market in the years to come.

Shareholder proposals offer Japanese company boards healthy pressure and an opportunity to seriously consider new ideas, often leading to positive action by the company. Shareholders who engage in this way are becoming a vital part of the value-enhancing cycle for listed companies in Japan, as reaffirmed during this year's general shareholders meetings.



Shiro Hayashi

Partner, Director of Research

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