



# Asian takeaways

## Sushi special



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We're proud to present our 'Asian takeaways' series, where we'll share local insights on what's happening across Asia-Pacific. From India to Indonesia, from Taiwan to Thailand, we give our views on the dynamic changes across the region, while showcasing our learnings from being 'on the ground' at company and site visits.

In our first piece, we talk about a recent trip to Japan, including the 'new normal' of everyday life as Covid recedes and inflation rises, the changing attitudes of company management towards investors, and the government's push to transform the country into a financial hub.

### **Renewed international investor interest in Japan**

Foreign investors seemed unperturbed by Tokyo's heatwave as they descended on the city for various conferences towards the end of August. The country's equity market has been a strong performer year-to-date against a backdrop of rising global inflation, investor interest has been piqued as corporates appear to be making strides when it comes to governance reform and raising wages, and the yen depreciation has been an additional catalyst for foreign inflows, as well inbound tourism.

### **Inflation and consumer spending**

For residents, the knock-on effects have primarily come in the form of price hikes, although there has been a notable shift in mood since my last visit in May. Whilst the cost of electricity dominated conversations with locals previously, there appears to have been an adjustment recently as inflated prices across both services and goods form a part of this 'new normal'...and particularly as the need for air conditioning, cold drinks and ice creams becomes more urgent in the face of rising temperatures!



Indeed, the general feel on the ground is one of optimism as Covid restrictions start to become a distant memory. Whilst outbound travel has slowed in the face of the weak yen and higher airline fuel prices, domestic travel is seeing strong momentum as people are keen to move around again. Japanese tourists are swapping Hawaiian holidays (a particularly popular destination) for domestic resorts, funneling money that would otherwise have been spent overseas back into the economy. At the bustling Haneda Airport in Tokyo, it felt like business as usual with domestic tourists queuing up to buy *omiyage* – souvenirs and edible treats that are traditionally given to co-workers, friends and family when travelling from home – a sign of the pent-up demand and an undiminished appetite to spend.



## “Earlier in 2023, the Tokyo Stock Exchange implemented its “PBR1x” slogan, encouraging companies to disclose their initiatives to improve capital efficiency.”

A trip to the supermarket near my parents’ house offered another glimpse into how inflation is taking shape, with the price of vegetables rising from double to triple digits over the course of a year. Imported vegetables, in particular, have seen significant hikes, with some rising by over 30% since 2022. However, whilst these increases may seem dramatic, especially to the Japanese consumer, when benchmarked against other global developed markets, they can still be considered relatively reasonable. This poses the question of whether we are likely to see further cost increases. With this in mind, the future rate of consumer spending will rely heavily on potential wage hikes, and whether these can keep pace with inflation.



Groceries at a local supermarket. The price of imported asparagus has risen by 39% in the past year.



Conducting meetings and site visits - new TSMC factory in Kumamoto.

## Governance reform

Back in Tokyo, wage increases are just one item on Japan Inc’s agendas at present, as low price-to-book ratio companies (in January 2023 this accounted for around half of all listed Japanese companies) are waking up to the need to increase shareholder value<sup>1</sup>. Earlier in 2023, the Tokyo Stock Exchange implemented its “PBR1x” slogan, encouraging companies to disclose their initiatives to improve capital efficiency. The difference is palpable when speaking with company management; where previously they would often refuse to speak on stock price-related questions, they now actively seek advice from investors as to how they can increase ROE and PER.

<sup>1</sup> [Measures to improve the effectiveness of market restructuring: Tokyo Stock Exchange.](#)

My meetings with companies throughout my visit focused heavily on just this, with CEOs and CFOs requesting meetings to discuss topics ranging from how to ease volatility within their business, to how to become competitive in a global context. The latter, in particular, reflects a significant shift from a preoccupation with the domestic peer group to a desire to match up to the standards of high quality international competitors. Elsewhere, companies are making moves to bolster their businesses in the face of a national labour shortage; I had a meeting with a software engineering company who took a unique approach to this, hiring non-skilled part time workers and training them up to become full time skilled engineers. For the company in question, employee satisfaction and productivity are amongst its KPIs and are considered central to driving growth over the long term. Transparency appears to be another key focus, with one retail company even going so far as to broadcast a recent board meeting on YouTube.

**“For active, bottom-up investors such as ourselves, these developments are particularly exciting as high quality companies across all sectors are demonstrating their willingness to progress.”**

Management teams across sectors seem more focused than ever on setting and meeting effective targets, in line with both stakeholder and shareholder goals. This will be key for investors as some skepticism remains over the potential for Japanese corporates to improve corporate governance, previously resisting investor activism and labelling these shareholders *monoiu* (noisy) investors. There is some way to go, and it will not stop with below 1xPBR companies, but an improvement in the relationship between corporates and shareholders, including a reduction in the information gap between the two, can help to drive meaningful change here. For active, bottom-up investors such as ourselves, these developments are particularly exciting as high quality companies across all sectors are demonstrating their willingness to progress.



Investors were welcomed at a new factory site visit.

These advances reflect government-led efforts to attract foreign capital and transform the country into a global financial hub, along with initiatives to reduce regulatory bottlenecks, ease language barriers and improve market entry applications for overseas asset managers<sup>2</sup>. The government's schedule of conferences and events – “Japan Weeks” – specifically targeted at foreign investors to promote Japan's attractiveness as an international financial centre, further illustrates this determination.

What is clear is that there is still significant progress to be made; whilst the TOPIX is up by nearly 30% year-to-date, at the end of August, some 189 companies in the index continue to trade below book value, compared to just 17 in the S&P500<sup>3</sup>. It certainly feels as though change is just beginning, and with the additional tailwinds of inflation (if this can remain relatively steady) and the government's willingness to open up the country to overseas investment, the opportunities for stock pickers in the region seem abundant.

<sup>2</sup> [International Financial Center Initiatives: Japan as an International Financial Center.](#)

<sup>3</sup> [Japan's Simplex launches first ETFs focused on stocks below book value | Reuters](#)



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