

JAPAN: THIS TIME REALLY IS DIFFERENT

Drew Edwards, Rick Friedman, Ben Inker | September 6, 2023

OVERVIEW

After a strong rally in Japanese stocks year to date, investors are asking whether this really is the turning point for Japanese equities that has been decades in the making. GMO believes the answer is a strong yes, due to a combination of factors which extend beyond valuations alone. In this webcast, Ben Inker, co-head of GMO Asset Allocation, considers the durability of improvements in Japanese company fundamentals and where continued dislocations in valuations make the opportunity ahead compelling. Drew Edwards, Head of GMO Usonian Japan Equity, explores the significant shift in corporate reforms and how engagement is a particularly effective tool to unlock shareholder value in Japan.

KEY POINTS

- The Japanese equity market is reflecting the results of improving fundamentals due to years of effort to make local companies more competitive, profitable, and shareholder-focused.
 - **Our bullishness on the opportunity in Japanese equities stems from a combination of factors** including:
 - The economy's exit from deflation, healthy fundamental growth, and improving EPS and shareholder distributions.
 - Attractive valuations, particularly for small and value leaning equities, which are trading at steeper than normal discounts relative to history.
 - The potential for currency appreciation and/or better relative fundamental growth due to the near historic cheapness of the yen.
 - Committed policymakers who have launched multi-dimensional reforms to address shortcomings in corporate governance, growth, and capital efficiency. Two recent initiatives are (and will be) particularly impactful:
 - The announcement of the Tokyo Stock Exchange's less than 1.0x price-to-book initiative.
 - The Ministry of Economy, Trade, and Industry (METI)'s Fair Merger & Acquisition Guidelines, designed to drive consolidation and a more active market for corporate control.
 - A rich set of companies with which to engage and unlock shareholder value by increasing distributions from overcapitalized balance sheets.
 - **GMO's Usonian Japan Equity team** has a long history of finding and investing in undervalued Japanese companies, working directly with management teams to help expedite improvements in profitability and shareholder returns.
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Drew Edwards

Mr. Edwards is the Head of GMO's Usonian Japan Equity team and a partner of the firm. Prior to joining GMO in 2020, he served as Portfolio Manager, Chief

Investment Officer (CIO), and Chief Executive Officer (CEO) at Usonian Investments LLC. Mr. Edwards has been a member of the Usonian team since 2008. Prior to founding Usonian, he was Managing Director and Portfolio Manager at Advisory Research, Inc. Previously, Mr. Edwards had also been an investment professional at Taiyo Pacific Partners, an activist fund backed by CalPERS and W. L. Ross that focuses on Japanese equities, an investment banker at Lehman Brothers, and a finance executive in the health care industry. He earned his BA in International Business from Sophia University (Tokyo) and his MBA and JD from Northwestern University. Mr. Edwards is proficient in Japanese.



Rick Friedman

Mr. Friedman is a member of GMO's Asset Allocation team and a partner of the firm. Prior to joining GMO in 2013, he was a senior vice president at

AllianceBernstein. Previously, he was a partner at Arrowpath Venture Capital and a principal at Technology Crossover Ventures. Mr. Friedman earned his bachelor's degree in Economics from the University of Pennsylvania and his MBA from Harvard Business School.

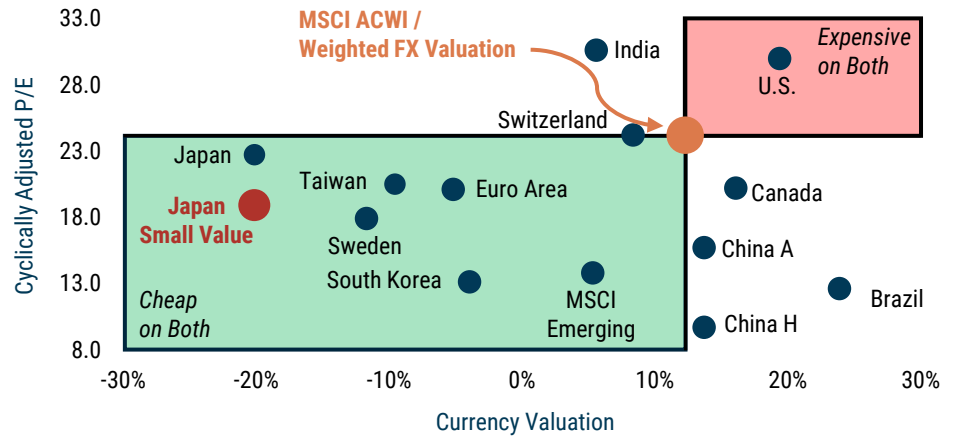


Ben Inker

Mr. Inker is co-head of GMO's Asset Allocation team, a member of the GMO Board of Directors and a partner of the firm. He joined GMO in 1992

following the completion of his bachelor's degree in Economics from Yale University. In his years at GMO, Mr. Inker has served as an analyst for the Quantitative Equity and Asset Allocation teams, as a portfolio manager of several equity and asset allocation portfolios, as co-head of International Quantitative Equities, and as CIO of Quantitative Developed Equities. He is a CFA charterholder.

EQUITY MARKET VALUATION AND CURRENCY VALUATION



As of 6/30/2023 | Source: GMO

Currency valuations are measured relative to MSCI ACWI ex-U.S.

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- Usonian Concentrated portfolio (please ask your RM for more information)

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- [Japan Equities: Entrenched Perceptions Ignore Improving Reality](#)
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