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JAPAN'S NEXT PHASE OF CORPORATE GOVERNANCE REFORM

An excerpt from Usonian's Quarterly Client Letter

Drew Edwards and Colin Bekemeyer | June 2026

Each quarter, Head of GMO's Usonian Japan Equity Drew Edwards and Co-Portfolio Manager Colin Bekemeyer write to Japan Value clients to share the team's latest views. The letters cover portfolio performance and positioning alongside analysis of Japan's equity market, macro backdrop, and individual company developments, drawing on direct company engagement. They also explore the themes shaping the team's long-term investment outlook.

Corporate governance reform is reshaping Japan's equity landscape in ways we believe are creating substantial investment opportunities. This theme felt important enough to share with the broader GMO audience, so we are releasing this excerpt as a standalone piece.

Please contact your GCR representative for access to the full Q1 2026 letter or to learn more about Usonian Japan Equity.

Japan is entering a new phase of corporate governance reform aimed squarely at capital allocation. In April, the Financial Services Agency and the Tokyo Stock Exchange released draft revisions to the Corporate Governance Code that sharpen expectations around how listed companies deploy balance-sheet resources, particularly cash.¹

After decades of deflationary risk aversion, Japanese companies remain exceptionally cash-rich, even as nominal growth, inflation, and wages have begun to normalize, prompting regulators to view idle cash increasingly as a drag on long-term productivity rather than a source of resilience.

The proposed revisions reinforce a shift from form-based governance toward substance. Boards are expected to continuously assess whether management resources—including cash, deposits, and other assets—are being used effectively to support long-term growth rather than accumulating by default.

Importantly, the reforms do not mandate higher payouts or prohibit cash holdings; instead, they raise the bar for explanation. Companies are expected to articulate how retained capital supports a coherent growth strategy, whether through investment in R&D, human capital, or portfolio restructuring.

Structurally, the Code itself is being simplified, with the number of “comply or explain” principles reduced and detailed expectations moved into newly introduced interpretive guidance. This redesign is intended to curb box-ticking and boilerplate disclosures while encouraging earlier and more substantive engagement between boards and investors.

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[Japan's Corporate Governance Code: Seeking Sustainable Corporate Growth and Increased Corporate Value over the Mid- to Long-Term—Proposed Revisions \(JPX 2026\).](#)



Drew Edwards

Mr. Edwards is the Head of GMO's Usonian Japan Equity team and a portfolio manager

for the team's products. Mr. Edwards is 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.



Colin Bekemeyer

Mr. Bekemeyer is engaged in portfolio management and research for GMO's Usonian Japan Equity

team. Prior to joining GMO in 2021, he was a portfolio manager at Oaktree Capital Management. Previously, he was an analyst at Taiyo Pacific Partners, and prior to that was an investment banking associate at J.P. Morgan Securities. Mr. Bekemeyer earned a bachelor's in East Asian Studies from Harvard University, a master's in International Studies from the University of Pennsylvania, and an MBA in International Financial Economics from the Wharton School of the University of Pennsylvania. Mr. Bekemeyer is fluent in Japanese.

At the same time, the evolution of Japan's governance and policy framework is not uniformly shareholder-friendly. Recent Ministry of Economy, Trade and Industry (METI) guidance on fair M&A practices has clarified board discretion in contested transactions, which may at times tilt outcomes toward managerial judgment. In parallel, the government's application of the Foreign Exchange and Foreign Trade Act (FEFTA) in sensitive cases signals an increased willingness to intervene where national interest considerations are invoked. While these measures provide clarity and protect strategic assets, they also introduce an additional layer of policy risk that investors must navigate carefully.

All in all, the reforms reflect a broader policy agenda: shifting Japan's corporate sector from capital preservation toward capital productivity while preserving flexibility for boards and the state in strategic areas. For investors, the implication is less about near-term payouts and more about sustained pressure on boards—especially at cash-rich companies—to justify capital allocation choices with greater clarity.

As nominal growth strengthens and the economic regime continues to normalize, governance reform remains a critical lever for improving returns on capital, even as selective policy constraints reinforce the importance of active engagement and company-specific judgment.

Outlook

We remain constructive on the medium- to long-term outlook for Japanese equities, even as near-term volatility has increased. Structural reforms that we have highlighted over many years—greater shareholder engagement, a more active market for corporate control, and rising expectations for capital efficiency—continue to gain traction. Importantly, these forces operate at the company level and are not dependent on a benign macro or geopolitical environment.

Japan's transition toward a more normal nominal regime is unlikely to be smooth. Rising interest rates, currency volatility, and geopolitical shocks—including the recent conflict involving Iran—are contributing to noisier markets and shorter investor time horizons. In this environment, our focus is unchanged: concentrate capital in high-quality, cash-generative businesses purchased at sensible valuations, and maintain balance-sheet strength so that macro swings do not dominate long-term outcomes.

We also remain committed to active, engagement-driven ownership. Priorities continue to include clearer capital-allocation frameworks, disciplined reinvestment and shareholder returns, board refresh and succession planning where needed, and improved transparency around strategic decision-making. Our experience reinforces that patient, relationship-driven engagement can meaningfully influence outcomes over time, particularly during periods when external uncertainty encourages caution or inertia.

In short, while the macro backdrop has become louder, our playbook remains consistent. We will remain patient and selective, resist reactive repositioning in response to short-term shocks, and continue to build a pipeline of company-specific catalysts—some operational, some strategic—that can unlock value independent of the broader market environment.

Disclaimer

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