



Strategic Capital

This campaign website is an abbreviated reference translation of the original in Japanese.

In the event of any differences between the original Japanese version and the English translation, the original Japanese version shall prevail

Proposal to Reform the Governance of Japan Securities Finance Co., Ltd





Executive Summary

Executive Summary

Strategic Capital, Inc.’s (SC) goal is to unlock enterprise and shareholder value through dialogue with the Company’s Executive Management (“Management”) and the exercise of shareholder rights.

SC and the funds managed by our company are shareholders of Japan Securities Finance (“JSF” or the “Company”). In order to increase shareholder value, we are planning to submit the following proposals to JSF by exercising our right to make a shareholder proposal

- i. Abolish the position of “Executive Chairman¹”
- ii. Prohibit the rehiring etc. of former Company presidents
- iii. Disclose the circumstances of the rehiring etc. of a person who has served as Company president
- iv. Disclose the remuneration of the Representative Executive Officer & President
- v. Disclose material proposals received from the largest shareholder (Symphony Financial Partners) who owns more than 20% of the Company

¹ *Executive Chairman* (執行役会長) – while JSF’s English site says Chairman, for other companies, the Chairperson of the Board is written 取締役会長. As there is no known English equivalent for 執行役会長, we have used the term Executive Chairman to denote the difference.








*amakudari*¹ that is an open secret

JSF has a long history of being continuously run by executives from the Bank of Japan (BOJ), Ministry of Finance (MOF) and the Tokyo stock Exchange (TSE). The following is a list of some of the *amakudari* executives at JSF since the firm listed in 1950.

¹ *amakudari* – (天下り, literally "descent from heaven") is a metaphor for the institutionalized practice where Japanese senior bureaucrats retire to high-profile positions in the private and public sectors.

Amakudari from BOJ/MOF/TSE to JSF

Main executives from BOJ				Main executives from MOF	Main executives from TSE
Former Executive Directors		Former Non-Executive-Directors			
1950	白根 清香 (Shirane)	President	1950	高山 廣 (Takayama)	Mg. Ex. Director
	谷口 猛 (Taniguchi)			篠崎 英夫 (Shinozaki)	Director
	鎌田 正美 (Kamata)			矢島 美嶋 (Yajima)	ME Director
	岡田 健一 (Okada)			川嶋 節夫 (Kawashima)	ME Director
	鎌田 正美 (Kamata)			佐藤 静 (Sato)	Sr. ME Director
	多島 達夫 (Tajima)	Representative Director & President		木村 文穂 (Kimura)	ME Director
	青木 昭 (Aoki)			林 敏雄 (Hayashi)	ME Director
	小島 邦夫 (Kojima)			堀口 助 (Horiguchi)	ME Director
	増淵 稔 (Masubuchi)			橋本 泰久 (Hashimoto)	ME Director
2012	小林 英三 (Kobayashi)	Representative Director & President	2012	織立 敏博 (Oritate)	ME Director
				"	"
				"	"
				"	"
				"	Sr. ME Director
				"	"
2019	榎田 誠希 (Kushida)	Representative Executive Officer & President	2018	岡田 豊 (Okada)	ME Director
					ME Officer
				"	"
2022			2022		"
					Sr. ME Officer

Amakudari ends
March 2023

Amakudari ends
June 2023

Stay in office or scheduled to continue beyond 2023





amakudari that is an open secret cont'd

As seen in the table to the right, it appears that even the positions within JSF are fixed according to the post from which the *amakudari* was from:

BOJ Exec. Director → President

BOJ Director General → Sr Managing Director

MOF → Vice president

TSE → Auditor/Audit committee member

We note that it has been announced that, Mr. Higuchi, a former executive VP at the MOF will retire at the end of March and Mr. Imura, a former executive VP at the TSE will retire in late June and at current it appears that their replacement will not be from either the MOF or TSE.

Summary of *amakudari*

Since	Originally from	Position title?		Key points
		Previous	JSF	
1950~	BOJ	Executive Director	<ul style="list-style-type: none"> President Chairperson Advisor 	<ul style="list-style-type: none"> ✓ 10 <i>amakudari</i> till now ✓ All JSF presidents are BOJ alumni since going public
1980~	BOJ	Director - General	<ul style="list-style-type: none"> Executive Director Sr. Managing Director President of subsidiary 	<ul style="list-style-type: none"> ✓ 7 <i>amakudari</i> till now ✓ All 7 became managing directors within one month of hire
1960~ 03/2023	MOF	Various	<ul style="list-style-type: none"> Vice president Vice Chairperson 	<ul style="list-style-type: none"> ✓ 10 <i>amakudari</i> till now ✓ All 10 became executive director or higher within one month of hire
1974~ 06/2023	TSE	Department head level	<ul style="list-style-type: none"> Outside Director (Audit committee member) Outside corporate auditor 	<ul style="list-style-type: none"> ✓ 7 <i>amakudari</i> till now ✓ Since 1994 always served as an “outside” director of JSF





More information regarding *amakudari*

For more information on the *amakudari* problem at JSF, please see our special website [Take action to stop the *amakudari* and end the ESGwashing of JSF](#). In addition, below are the major media reports covering the *amakudari* at JSF

Date	Title	Site	Lang.
2022.04.25	An Activist Fund Manager Takes Aim at Japan's Revolving Door	Bloomberg	Eng.
2022.06.21	10 Consecutive Presidents are BOJ Alumni – the Pandora's Box opened by the shareholder who questions amakudari (paywall)	Asahi Shinbun	Jpn.
2022.07.24	<NewsNotes> “BOJ's amakudari”- JSF, use the findings as an opportunity for reform (paywall)	Asahi Shinbun	Jpn.
2022.11.21	Japan's proposed strengthening shareholding disclosures get mixed reception	Dealreporter	Eng.
2022.11.22	Strategic Capital demands an EGM at JSF (paywall)	Nikkei	Jpn.
2022.12.01	Objection to the <i>amakudari</i> from BOJ and MOF! The real aim of the Activist who demanded a fact-finding investigation at JSF (paywall)	Diamond Online	Jpn.

Date	Title	Site	Lang.
2022.12.04	Fuji Soft proxy fight the latest test of Japan Inc board independence	Reuters	Eng.
2023.01.15	Amakudari? Coincidence? It was an Activist who raised the issue of a Company that was headed by 10 straight BOJ alumni	Tokyo Shinbun	Jpn.
2023.02.01	<Capitalism NEXT, Who is a Company For> Activist, Poison or Pill? (paywall)	Asahi Shinbun	Jpn.
2023.02.01	Activist discusses amakudari – questioning the meaning of JSF's listing (paywall)	Nikkei Business	Jpn.
2023.02.02	All Presidents are for the BOJ – An Activist who has issued a challenge to JSF (paywall)	Mainichi Shinbun	Jpn.
2023.02.08	The growing presence of Activists: “Nuisance” or “Bitter Good Medicine”? [KeizaiHyakei] (paywall)	Jiji.com	Jpn.
2023.02.24	Undervalued Japanese stocks are about to strike back (Paywall)	Nikkei	Jpn.





Eizo Kobayashi: Doubts about the significance of the Executive Chairperson

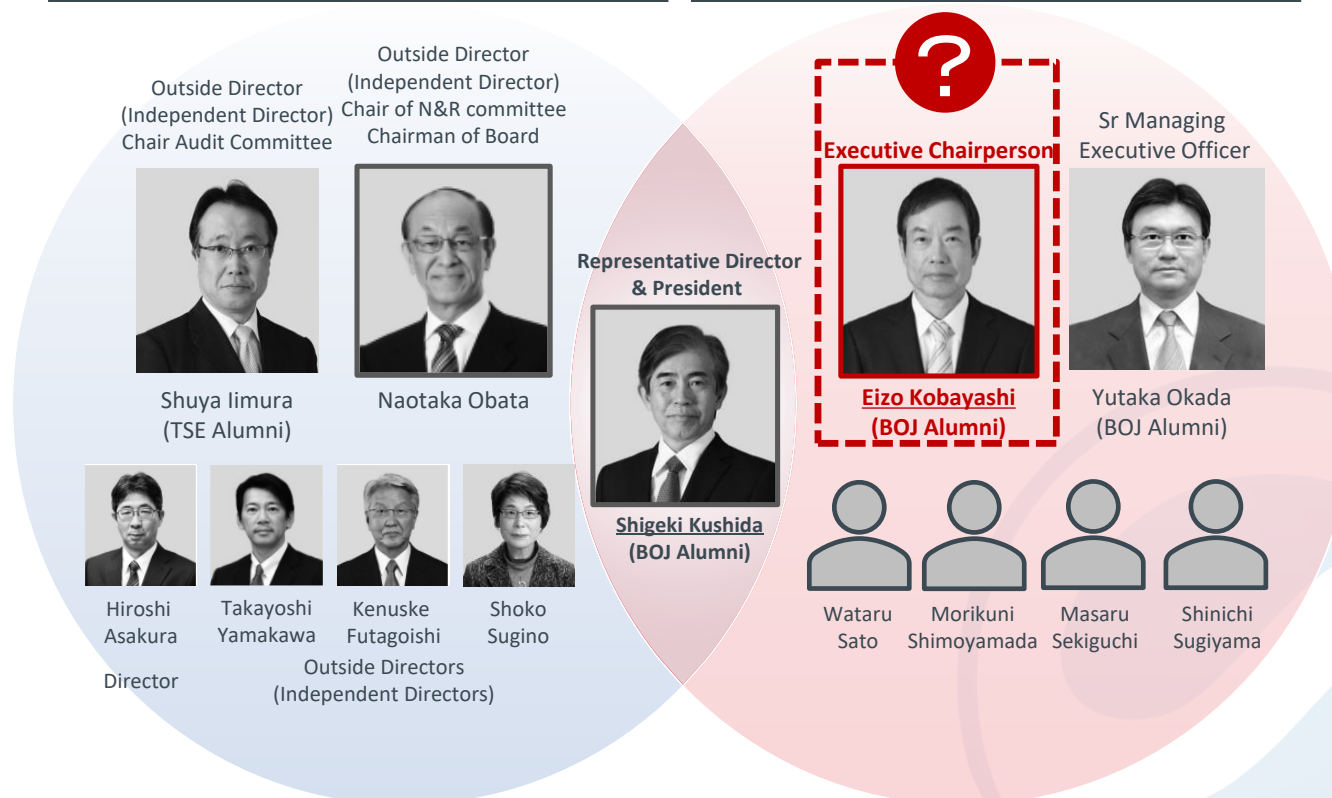
JSF is a company with a nominating committee, which means the supervision by the Board of Directors and the execution by Executive Officers are clearly separated.

In terms of structure, Naotaka Obata, as Chairperson of the Board and Chairman of the Nomination and Remuneration Committee is in charge of the Supervisory function, while Shigeki Kushida as both Representative Director and President is in charge of the Executive function.

Composition of Board of Directors and Executive Officers

Supervisory (Board of Directors)

Execution (Executive Officers)



Data Source: Notice of Convocation of General Meeting of Shareholders and JSF Annual Securities Report





Eizo Kobayashi: Doubts about the significance of the Executive Chairperson cont'd

The structure does not indicate what kind of responsibility Eizo Kobayashi has a “Executive Chairman” of the Executive Officers. He is not in charge of any specific business.

Responsibility of executive officers/corporate officers

Title	Name	Responsibilities
Chairperson	Eizo KOBAYASHI	
Representative Executive Officer & President	Shigeki KUSHIDA	
Vice President	Shunichiro HIGUCHI	Internal Audit Dept. Compliance Dept.
Senior Managing Executive Officer	Yutaka OKADA	Corporate Governance Office Business Development Dept. Treasury Dept. International Relations
Managing Executive Officer	Masaru SEKIGUCHI	Risk Management Dept. Human Resources Dept. Corporate Planning Dept. Group Companies Relations
Managing Executive Officer	Morikuni SHIMOYAMADA	Margin Loan Dept. Institutional Sales Dept. Retail Business Dept.
Managing Executive Officer	Shinichi SUGIYAMA	Settlement & Custody Dept. Information System Planning Dept. Osaka Branch
Title	Name	Responsibilities
Corporate Officer	Yutaka OSONOI	General Manager of Compliance Dept.
Corporate Officer	Jun AKABANE	General Manager of Osaka Branch
Corporate Officer	Wataru SATO	General Manager of Human Resources Dept.
Corporate Officer	Yuji YOSHIMOTO	General Manager of Business Development Dept.
Corporate Officer	Ken TODA	General Manager of Risk Management Dept.

“Oversee” the overall execution?
Overall execution

Execution of assigned responsibilities

Data Source: JSF corporate website





What does Eizo Kobayashi “Oversee” in his role?

SC has made numerous requests to meet with Eizo Kobayashi, but he has continually refused. We then asked the following questions during a Q&A regarding Eizo Kobayashi’s responsibilities as Executive Chairperson.



From the outside, it is difficult to understand the significance of the Executive Chairperson's position. Since JSF has a nominating committee, I don't think the Executive Chairperson is necessary from the standpoint of organizational structure and governance. Can you clarify what exactly is the role of the Executive Chairperson?

I as President am responsible for the execution of the Company's business, but the Executive Chairperson, from his experience as President has a broader perspective, so he can provide a **oversight of the entire executive side of the business**. The role is different from a general advisor, and the Board of Directors has discussed the necessity of such a position, so there is no need for shareholders to worry.



President Shigeki Kushida

The response is insufficient language to explain to shareholders the need for Eizo Kobayashi to be Executive Chairperson. Above all, JSF is a company with a nominating committee, and the BoD, not Eizo Kobayashi, is responsible for **oversight of the entire executive side of the business**.





What does Eizo Kobayashi “Oversee” in his role? Cont’d

Eizo Kobayashi, a former BOJ Executive Director descended to President of JSF 11 years ago. Seven years later in 2019, he became “Executive Chairman”. However, SC cannot comprehend the significance of Eizo Kobayashi's existence as “Executive Chairman”.

For our shareholder proposal we seek to abolish the EC position, whose raison d'etre is ROE and Stock Price. In effect, we are requesting Mr. Kobayashi to step down.

In addition to the EC, a Special Advisor position existed until Sept 2022, last held by Masubuchi⑧ who also served as President and EC.

Further other BOJ alumni have been treated as honorary advisors to JSF and its subsidiary JSF Trust.

Therefore, **we propose prohibiting the rehiring etc. of former Presidents as Executive Chairpersons or Advisors.** If rehiring is not prohibited, **we propose the circumstances surrounding such rehiring be disclosed**

Past Presidents/Executive Chairperson (EC) (1950~present)

	Appointed President	Name	Original position	Appointment post President	
				Executive Chairperson	Advisor
①	1950~	白根 清香 (Shirane)	Ex-Exec. Director of BOJ	—	Unknown
②	1962~	谷口 猛 (Taniguchi)	Ex-Deputy Governor of BOJ	—	Unknown
③	1970/83~	鎌田 正美 (Kamata)	Ex-Exec. Director of BOJ	✓	Unknown
④	1979~	岡田 健一 (Okada)	Ex-Exec. Director of BOJ	✓	Unknown
⑤	1985~	多島 達夫 (Tajima)	Ex-Exec. Director of BOJ	✓	Unknown
⑥	1992~	青木 昭 (Aoki)	Ex-Exec. Director of BOJ	✓	✓
⑦	1998~	小島 邦夫 (Kojima)	Ex-Exec. Director of BOJ	✓	✓
⑧	2004~	増渕 稔 (Masubuchi)	Ex-Exec. Director of BOJ	✓	✓
⑨	2012~	小林 英三 (Kobayashi)	Ex-Exec. Director of BOJ	Current	—
⑩	2019~present	櫛田 誠希 (Kushida)	Ex-Exec. Director of BOJ	—	—





Shigeki Kushida: “What does ROE have to do with stock prices?”*

*Above is an actual statement made by President Kushida in a meeting with SC

Below is the dialogue held on February 20 2023 between Kushida and SC when we requested improvements in ROE and PBR.



Under the current management plan, the ROE target is too low, and even if the plan is achieved, PBR will not increase. We request that the management plan be revised.

What does the absolute level of ROE have to do with stock price, or anything else? In finance I learned the stock price was the future CF discounted by the cost of capital, it has nothing to do with ROE or net assets!

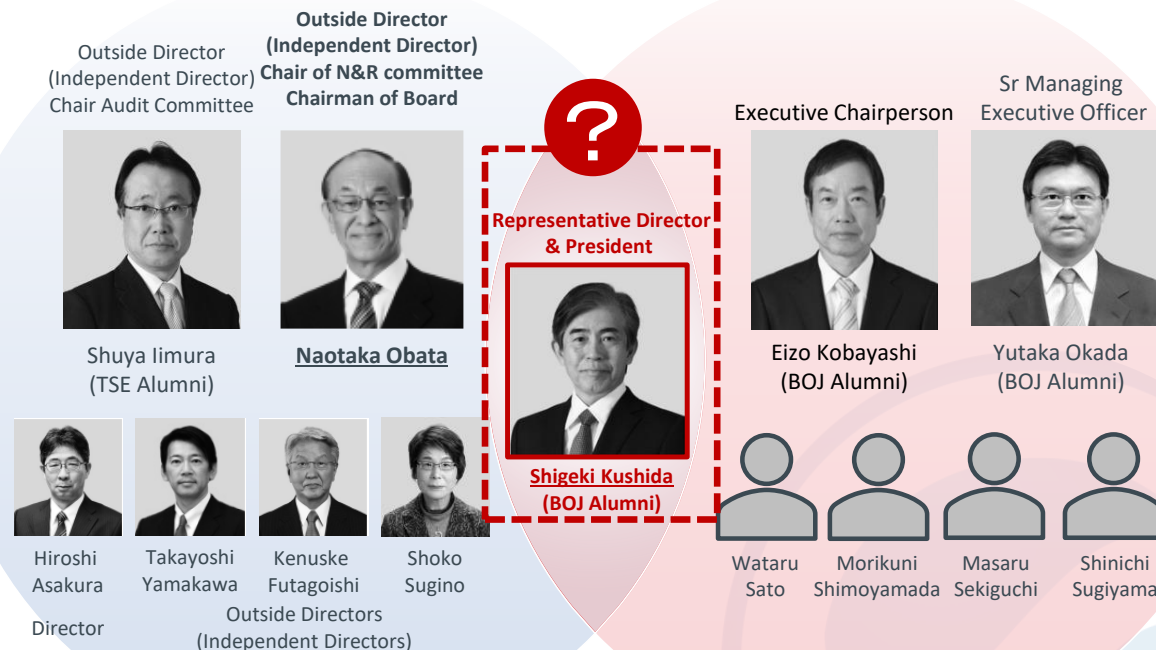


President Shigeki Kushida

Composition of Board of Directors and Executive Officers

Supervisory (Board of Directors)

Execution (Executive Officers)



Data Source: Notice of Convocation of General Meeting of Shareholders and JSF Annual Securities Report





Shigeki Kushida: "What does ROE have to do with stock prices?" cont'd

The third page of the textbook "Financial Analysis (Basics)" published by the Securities Analysts Association of Japan (of which Shigeki Kushida is a board member) states the following. We believe that it is easy to understand that he made an erroneous statement.

(From equation (1-2), it is clear that the higher the ROE, the higher the stock value. ROE, an indicator of financial statement analysis, is directly related to the evaluation of stock value. The skill of financial statement analysis is indispensable as a basis for evaluating investment value.

Excerpt from Financial Analysis (Basics)

One month after the above statement was made, we had another meeting with President Kushida regarding the importance of ROE in order to make him aware of the current situation where the stock price is less than 1x PBR. However, he did not understand and again denied the relationship between ROE and PBR.





Shigeki Kushida: “If you use market capitalization as the E in ROE, then ROE will be high”

President Kushida proposed a novel theory at last year’s financial results briefing, saying that “if market capitalization is used as the E in ROE, then (the Company) would be producing a high return”. See [here](#) for details

The following was also said in a meeting with President Kushida on March 23, 2023



A year ago, when the SC pointed out the low ROE, you responded that if market capitalization was used for E in ROE, JSF’s ROE would be higher. That was a very shocking statement to us as shareholders!

WACC is calculated by valuing shareholder value at market and averaging it with the cost of debt. That means even WACC calculation is market value. Even the latest version of McKinsey’s Valuation book describes it that way.



President Shigeki Kushida

Indeed, in calculating WACC, the specific weight of the cost of shareholders' equity is assessed at "market value". We can sort of understand where President Kushida's misunderstanding is occurring and how he misunderstood. However, it is a very unfortunate statement from someone who was supposedly tapped because of his "knowledge of financial and securities markets.”





Our dismay with Shigeki Kushida

In January of this year, JSF announced a nomination policy stating that it would not hire any future president from the public sector. SC believes that there is no need to exclude truly outstanding individuals from the public sector. However, we believe that this nomination policy should be followed for President Kushida.

For our formal shareholder proposal, we propose that President Kushida’s remuneration be disclosed.

SC has repeatedly sought an effective management policy to increase shareholder value. However, we have come to unfortunate conclusion that we have no choice but to ask President Kushida, who has no basic knowledge of stock valuation, to step down from his position if the stock price remains below dissolution value. Even then if President Kushida is to retain his position, we believe that his remuneration be disclosed to show shareholders that what he is being paid as president of JSF is appropriate.





Dialogue with the largest shareholder that is wrapped in a BlackBox

The largest shareholder of JFS is Symphony Financial Partners ("SFP") which holds approximately 22% of the shares outstanding.

SFP has reported to the FSA that it will engage in the same "Acts which constitute the Making of Important Suggestions" as SC and has adopted a “constructive engagement strategy which invests and works closely with willing managements” of investee companies.

(Source [SFP website](#), percent shares held is from the latest change report filed on February 15, 2022.)

However, it is not certain what SFP means by “works closely with willing managements”, and whether it is detrimental to the interests of ordinary shareholders.

For example, SFP's voting is exactly the same as the opinion of JSF’s Board unlike the recommendation of a voting advisory firm. At the EGM, SFP also voted against investing the *amakudari* at the Company proposed by SC.

Exercise of voting rights at general meeting of shareholders

		JSF Board recommends	SFP	ISS recommends	SC
Pct. of shares outstanding		—	21.9%	—	5.0%
Make “Acts which constitute the making of important suggestions”		—	Yes	—	Yes
Vote	Appoint Kushida as Director	FOR	FOR	FOR	AGAINST
	Appoint Iimura as Director	FOR	FOR	FOR	AGAINST
	Disclose Presidents Remuneration	AGAINST	AGAINST	FOR	FOR
	Disclose remuneration of BOJ alumni	AGAINST	AGAINST	FOR	FOR
	Investigate the facts behind <i>amakudari</i> hirings	AGAINST	AGAINST	FOR	FOR

(Source: Change Report)

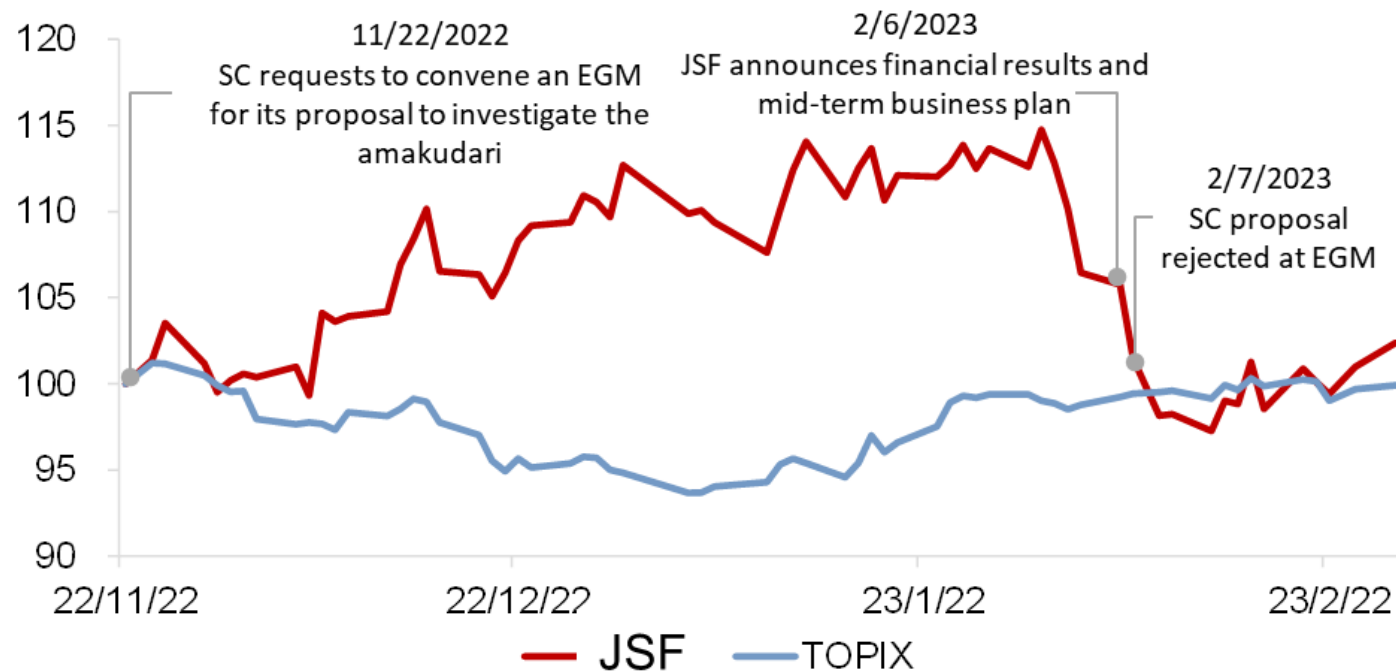




Dialogue with the largest shareholder that is wrapped in a BlackBox cont'd

And on the day of the EGM, the stock price was down significantly by -4.06% (TOPIX: +0.21%). Although the share price movement may be due to a combination of factors, we believe that the rejection of SC's proposal had a significant impact

Exercise of voting right at EGM



(Source: QUICK ASTRA MANAGER, indexed to the closing price on 11/22/2022)





The meaning of holding “20%” of shares outstanding

SFP is JSF’s largest shareholder holdings more than 20%. If SFP were an ordinary company, they would hold enough to be considered an affiliate of JSF and SFP's investment strategy is to "work closely with management team.”

However, the dialogue between SFP and JSF is completely confidential, posing a significant risk to ordinary shareholders.

For our formal shareholder proposal, we propose that JSF disclose details of material proposals made by SFP

JSF should disclose to its shareholders what kind of dialogue it has had with SFP, especially for the dialogue immediately prior to SFP's opposition to the proposal for an investigation into amakudari.

And as an investor with stewardship responsibility, SFP should disclose why it exercised its voting rights in a way that resulted in a decline in the share price.

Although SC holds only about 5% of JSF’s shares, SC believes that its proposals and its thinking around those proposals should be widely shared with other shareholders, something it has already done.





Strategic Capital

Overview

amakudari

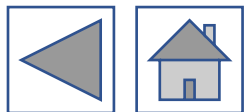
Eizo Kobayashi:
What is an EC?

Shigeki Kushida:
“ROE & Stock Price?”

Dialogue with Biggest
Shareholder a BlackBox

Revision History
Disclaimer

Revisions





Important Legal Disclaimer

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- This presentation is composed of analysis of Strategic Capital, information from our activist activities and release from companies. Information and documents in this presentation are composed of materials we believe to be trusted and latest, however we do not guarantee the accuracy, completeness etc.
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