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Institutional Investors Collective Engagement Forum

June 26th, 2026
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Public Comment from Institutional Investors Collective Engagement Forum to Ministry of Economy, Trade and Industry's "Growth Investment Guidance"

Institutional Investors Collective Engagement Forum (IICEF) submitted the following comments as public feedback on the "Growth Investment Guidance" issued by the Ministry of Economy, Trade and Industry (METI) on June 26th, 2026.

The participating investors of IICEF are major domestic institutional investors engaged in passive investment and long-term, stable asset management. As the participating investors hold broad investments across the Japanese equity market as a whole, they maintain the perspective of a "Universal Owner" of "Japan Inc.," supporting the sustainable growth of companies from an ultra-long-term investment standpoint. While IICEF's investor base is diverse and individual opinions regarding specific corporate managements vary, such ultra-long-term investors generally hold consistent views regarding general corporate management. Therefore, IICEF believes that these comments represent the prevailing opinions of general institutional investors, both domestic and international. Furthermore, hereinafter, the term "general investors" refers to domestic and international institutional investors that account for the majority of the capital market, as represented by the participating investors of IICEF.

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1. Overall Impressions of the "Growth Investment Guidance" draft

IICEF supports the direction of the "Growth Investment Guidance", as the principles regarding growth investment in Japanese companies set forth in the "Growth Investment Guidance" are expected to lead to the enhancement of medium- to long-term corporate value through the strengthening of growth potential. For general investors, the primary objective of equity investment is to achieve high long-term investment returns while accepting a certain level of risk. Therefore, when companies undertake growth investments that carry a reasonable probability of success, it aligns with investors' objectives and is strongly encouraged. General investors do not prioritize shareholder returns over growth investments; rather, they expect companies to clarify their management strategies—including growth investments—in a manner that leads to sustainable enhancement of corporate value. Furthermore, IICEF highly appreciates that the "Growth Investment Guidance" adopts the concept of Economic Profit (EP= Invested Capital x (ROIC-WACC) to emphasize that not only capital efficiency (where ROIC exceeds the cost of capital, WACC) but also the scale of invested capital is crucial, and that growth investment is essential to achieve this. On the other hand, regarding the contents, there are several descriptions based on factual misunderstandings, imprecise logic, or catchy wording that does not accurately reflect actual situations. In particular, certain expressions seem to portray investors as obstacles to growth investment—such as viewing shareholder returns or investor behaviors negatively by implying that investors pressure companies solely for shareholder returns, or suggesting that voting is exercised only in a formalistic and mechanical manner. These negative depictions of overall investor behavior and expression of views are unacceptable from the perspective of general investors. Leaving such descriptions unrevised risks causing domestic and international investors and experts to question the appropriateness of the "Growth Investment Guidance"; therefore, IICEF strongly requests that these points should be amended.

In addition, to promote the widespread adoption of the EP framework and to encourage further refinement of investor engagement and proxy voting (preventing them from becoming formalistic or mechanical), urging companies to significantly enhance disclosure—such as ROIC by business segment—to foster deeper and more constructive dialogue with investors would elevate the value of the "Growth Investment Guidance". This is an outcome that IICEF, as investors, strongly advocate.

2. Comments on the Proposed "Growth Investment Guidance" draft for Growth Investment (hereinafter referred to as "the Main Text")

2-(1) Page 1 of the Main Text: "New Paradoxes Faced"

Regarding the heading and content of "New Paradoxes Faced" on page 1 of the Main Text, IICEF requests that the entire passage be revised as follows, by changing the term "paradoxes" to "challenges" and deleting the phrase "the results of which":

"New Challenges Faced

However, Japan is now facing new challenges. Specifically, while corporate earnings and stock prices have risen significantly, capital efficiency has improved to a certain extent, and shareholder returns have expanded substantially, these developments have not necessarily led to sufficient wage increases or growth investments. In fact, although the objective of corporate governance reform was to enhance the earning power of

Japanese companies, nearly a decade later, the Return on Sales (ROS) of Japanese companies remains at approximately half the level of U.S. companies, and wage growth in Japanese companies continues to lag compared to European and U.S. peers."

The intent of this section is to illustrate that while it would ideally be expected that earnings growth and improved capital efficiency would result in higher stock prices, expanded shareholder returns, increased wages, and robust growth investments, only about half of these outcomes have been realized in practice.

However, from the perspective of "results," stock price appreciation, expanded shareholder returns, wage increases, and growth investments stand on equal footing. If the core message is that wage increases and growth investments have not yet materialized, it is more appropriate to straightforwardly address this as a "challenge" rather than a "paradox." This is the rationale for requesting the revision.

Furthermore, the statement within the main text of this section indicating that "the Return on Sales and wage levels of Japanese companies pale in comparison to those in Europe and the U.S." also clearly demonstrates that a "challenge" exists in this regard..

2-(2) Page 2 of the Main Text: Regarding "Second" under "Structural Factors Behind Stagnant Growth Investments and Wage Growth"

On page 2 of the Main Text, regarding "Structural Factors Behind Stagnant Growth Investments and Wage Growth," it states that "three main structural factors can be identified," presenting "First," "Second," and "Third" elements. Among these, IICEF requests that the phrase "coupled with formalistic proxy voting by a segment of investors" under the "Second" element be deleted, and that the passage as a whole be revised as follows:

"Second, an intense focus on short-term improvements in capital efficiency has rendered companies hesitant to engage in growth investments, including wage increases. Consequently, the reallocation of capital and strategic expansion of invested capital have not necessarily been carried out to a sufficient degree. In particular, expanding invested capital requires a certain period of time before results materialize, and during the initial phase of investment, metrics such as capital efficiency and profit margins may temporarily deteriorate. As a result, even when investment opportunities that exceed the cost of capital exist, necessary capital is not adequately deployed, making it difficult to accumulate funds for reallocation toward future wage increases and growth investments."

The rationale for this request is that it is unclear what specific facts "formalistic proxy voting by investors" refers to, and there is no evidence indicating that proxy voting hinders corporate wage increases or growth investments. Descriptions suggesting that "investors are obstructing wage increases and growth investments" constitute factual misunderstandings and represent content that is entirely unacceptable from the perspective of institutional investors.

2-(3) Page 2 of the Main Text: Regarding "Third" under "Structural Factors Behind Stagnant Growth Investments and Wage Growth"

Similar to section 2-(2) above, regarding the "Third" element, IICEF requests that the entire passage be revised as follows. This revision emphasizes that while investors are consistent in expecting medium- to long-term enhancement of corporate value with the ultimate goal of earning investment returns, the frequent lack of a clear strategy on the corporate side serves as a primary driver of misaligned perceptions and an obstacle to constructive dialogue:

"Third, there is a lack of alignment in perception between companies and investors regarding the appropriate balance between growth investments and shareholder returns, taking into account the company's growth stage and business performance. While investors remain consistent in their expectation of medium- to long-term corporate value enhancement with the ultimate objective of achieving investment returns, companies frequently lack a clear and rational growth strategy for long-term value creation—exhibited by a weak awareness of the cost of capital, business investments made without addressing this issue, and haphazard shareholder returns. Consequently, this fails to foster the constructive dialogue that both companies and investors desire."

The rationale for this request is that general investors are consistent in their expectation of long-term corporate value enhancement to secure investment returns, seeking additional shareholder returns primarily when companies hold excess cash reserves. Conversely, the current reality is that companies frequently lack a clear and rational growth strategy for medium- to long-term corporate value enhancement—characterized by a weak awareness of the cost of capital, business investments conducted while leaving this unaddressed, and inconsistent, ad-hoc shareholder returns. Therefore, an appropriate revision grounded in these factual realities is required.

2-(4) Page 10 of the Main Text: Regarding "Primary Target Audience of the "Growth Investment Guidance"

On page 10 of the Main Text, under "Primary Target Audience of the "Growth Investment Guidance"," it is stated that "Corporate Group ① is not the primary target of the "Growth Investment Guidance"." IICEF requests that a detailed rationale for why Corporate Group ① is excluded be provided (either in the main text or in a footnote).

On page 21 of the "Growth Investment Guidance", Corporate Group ① is defined as "Low Growth Expectations x Low Capital Return." However, generally speaking, individual business units within a single company can similarly be categorized across these four quadrants. When considering business portfolio management, including improving overall capital efficiency and allocating growth investments, how to address "Group ①: Low Growth Expectations x Low Capital Return" businesses cannot be ignored in corporate strategy. This is the rationale for requesting an explanation regarding the exclusion of Group ①. Articulating a clear reason for excluding Group ① would serve to enhance the overall substance of the "Growth Investment Guidance".

2-(5) Page 26 of the Main Text: Regarding "Shareholder Returns Do Not Directly Contribute to the Expansion of Medium- to Long-Term Value Creation (EP)"

Regarding the heading on page 26 of the Main Text, "Shareholder Returns Do Not Directly Contribute to the Expansion of Medium- to Long-Term Value Creation (EP)," IICEF requests that it be revised to: "Formulation of Management Strategies Balancing Shareholder Returns and Expansion of Medium- to Long-Term Value Creation (EP) Is Required."

Furthermore, within the main text, IICEF requests that the phrase "Although it may bring about short-term increases in stock prices," be revised to: "Returning excess funds to shareholders through share buybacks or dividends improves capital efficiency, but..."

The rationale is that the heading "Shareholder Returns Do Not Directly Contribute to the Expansion of Medium- to Long-Term Value Creation (EP)" unnecessarily disparages shareholder returns relative to the actual intent and conclusions of the body text, creating a significant risk of misunderstanding.

Similarly, the phrasing beginning with "However..." in the main text conveys the impression that companies prioritize shareholder returns because investors unnecessarily demand them—even when they do not lead to corporate value enhancement. This unilaterally disparages shareholder returns and constitutes content that is entirely unacceptable from the perspective of institutional investors; therefore, it must be amended.

General investors expect medium- to long-term enhancement of corporate value with the ultimate goal of earning investment returns, and they do not demand that shareholder returns always be prioritized. It should be noted that if a company holds assets such as cash that are not being effectively utilized (hereinafter referred to as "excess assets"), returning these excess assets through shareholder distribution enables re-investment by investors or stimulates consumer spending via returns to ultimate beneficiaries, thereby contributing to broader economic revitalization.

2-(6) Pages 26–27 of the Main Text: Regarding "3.1.2.1 Conflicts/Interests Inherent in Value Creation Between Companies and Investors"

In "3.1.2.1 Conflicts/Interests Inherent in Value Creation Between Companies and Investors" on page 26 of the Main Text, IICEF believes that the passage starting from line 7 at the top of page 27 overemphasizes the conflict of interest between investors and companies. Originally, this section should be a part that emphasizes expectations for a "co-creative relationship" between companies and investors.

Therefore, IICEF requests that the term "Conflicts/Interests" (rigai kankei) in the heading be revised to "Gaps in Perception" (ninshiki no gyappu) or a similar phrase, and that the expression "may act as a factor causing a potential confrontational structure" be deleted from the main text. Furthermore, IICEF requests that the content be revised as follows to emphasize the importance of companies sincerely explaining their decisions to gain investor understanding in order to bridge the information gap:

"While companies make investments with a view toward building competitive advantages and securing future markets, they should sincerely explain to investors how these investments will lead to medium- to long-term enhancement of corporate value. In expanding value creation, it is crucial to strategically expand invested capital while ensuring that capital efficiency exceeds the cost of capital. To foster this fundamental understanding as a shared concept between companies and investors, companies must make sincere efforts to explain the expansion of invested capital and obtain investor understanding."

The rationale is that general investors expect medium- to long-term enhancement of corporate value (with the ultimate goal of achieving investment returns), and in this respect, IICEF believes that their interests are always aligned with those of companies. Descriptions suggesting a structural conflict of interest between companies and investors constitute a factual misunderstanding and risk creating misconceptions.

If differences exist regarding the time horizon of a company's growth investments, they are mostly attributable to an "information gap." Provided that an investment leads to medium- to long-term corporate value creation, investors are highly likely to accept management decisions—such as the expansion of invested capital—once they receive necessary and sufficient explanations from the company and fully understand them. Investors consistently request that companies formulate and execute business strategies that lead to medium- to long-term enhancement of corporate value, accompanied by necessary and sufficient explanations.

2-(7) Page 28 of the Main Text: Regarding the Phrase "Rather Than Making Investment Decisions on Behalf of Management"

IICEF requests the deletion of the phrase "rather than making investment decisions on behalf of management," located in lines 9–10 from the top of page 28 of the Main Text.

The rationale is that general investors, who account for the majority of the capital market, engage in dialogue in compliance with "Principle 4, Guidance 4-1" of Japan's Stewardship Code (Financial Services Agency, June 26, 2025), which states that institutional investors "should endeavor to share common understanding with investee companies through constructive dialogue aimed at enhancing the medium- to long-term corporate value and capital efficiency of the investee companies and encouraging their sustainable growth." They do not engage in dialogue for the purpose of making growth investment decisions in place of corporate management, and this phrasing risks causing misunderstanding. Furthermore, investors recognize that "making investment decisions on behalf of management" is an element that properly falls under the oversight functions of the board of directors or outside directors.

2-(8) Page 28 of the Main Text: Regarding "Distinguishing Between 'Good Deficits' and 'Bad Deficits'"

Regarding the heading on page 28 of the Main Text, "Distinguishing Between 'Good Deficits' and 'Bad Deficits'," IICEF requests that it be revised to: "Distinguishing Between Temporary Stagnation in Capital Efficiency and Persistent Stagnation in Capital Efficiency."

The rationale is that general investors expect companies to invest in businesses that generate profit margins exceeding the cost of capital, while simultaneously requesting that companies refrain from investing in businesses whose profit margins remain below the cost of capital—even if they are profitable (in the black). Whether a business is in deficit or not is not the core underlying logic; rather, it is catchy wording that fails to accurately reflect the actual situation.

For the same reason, within the main text, IICEF requests that the phrase "distinguishing between ① 'temporary deficits (good deficits)' accompanying growth investments aimed at future value creation, and ② 'structural deficits (bad deficits)' continuously generated by businesses that persistently fall below the cost of capital" be revised to: "distinguishing between ① temporary stagnation in capital efficiency, and ② persistent stagnation in capital efficiency."

2-(9) Page 45 of the Main Text: Regarding "3.1.6 Establishing Executive Management and Oversight Systems Supporting Value Creation"

IICEF requests that both the section heading on page 45 of the Main Text, "3.1.6 Establishing Executive Management and Oversight Systems Supporting Value Creation," and the corresponding internal heading be revised to "Establishing Executive Management Systems Supporting Value Creation," by deleting the phrase "and Oversight."

The rationale is that within Section 3.1.6, there is no text corresponding to the establishment of oversight systems, and retaining this phrase in the heading risks causing misunderstanding. In addition, since matters regarding oversight systems are already addressed in "3.3 Roles Expected of the Board of Directors," the phrase "and Oversight Systems" should be deleted from the heading of Section 3.1.6.

2-(10) Pages 52–54 of the Main Text: Regarding "3.3.2 Roles Expected of the Board of Directors"

IICEF requests that item ⑥ be added to the end of "3.3.2 Roles Expected of the Board of Directors" on pages 52–54 of the Main Text as follows:

"⑥ Explanation to Investors

Based on the contents of items ① through ⑤ above, companies must make sincere efforts to explain to investors how growth investments will lead to medium- to long-term enhancement of corporate value, and strive to obtain investor understanding."

The rationale for this request is similar to the requested revision for Section "3.1.2.1 Conflicts/Interests Inherent in Value Creation Between Companies and Investors" on pages 26 and 27 of the Main Text mentioned above: investors consistently expect companies to formulate and execute management strategies that lead to medium- to long-term corporate value enhancement, and to properly evaluate companies based on accurate information awareness fostered through necessary and sufficient explanations.

2-(11) Page 55 of the Main Text: Regarding "Required to Play a Role as a 'Co-Creator' Working Alongside Companies Toward Value Creation"

Within the main text of "4.1.2 Purpose of the Stewardship Code and the Role of Investors" on page 55 of the Main Text, IICEF requests that the statement in lines 6–7 from the top, "required to play a role as a 'co-creator' working alongside companies toward value creation," be revised to: "required to encourage investee companies to enhance corporate value and capital efficiency from a medium- to long-term perspective and promote their sustainable growth."

The rationale is that general domestic and international institutional investors comply with "Principle 4, Guidance 4-1" of Japan's Stewardship Code (Financial Services Agency, June 26, 2025), aiming to "enhance the corporate value and capital efficiency of investee companies from a medium- to long-term perspective and encourage their sustainable growth." Describing investors as " 'co-creators' working alongside companies toward value creation" over-expands and misinterprets the role of investors beyond the intent of the Stewardship Code.

While certain investors, such as so-called activists, may act as "co-creators" working directly alongside companies in value creation, the reality is that general investors—who constitute the vast majority of the capital market—engage in dialogue strictly for the purpose of "enhancing the corporate value and capital efficiency of investee companies from a medium- to long-term perspective and encouraging their sustainable growth."

2-(12) Page 57 of the Main Text: Regarding "4.3.2 Adverse Effects of Formalistic and Mechanical Proxy Voting"

Regarding "4.3.2 Adverse Effects of Formalistic and Mechanical Proxy Voting" on page 57 of the Main Text, IICEF believes it is appropriate to delete this subsection/heading and integrate its body text into "4.3.1 Making Proxy Voting Substantive."

Furthermore, within the main text, IICEF requests that the phrase in line 1 from the top, "mechanical judgment based on proxy voting guidelines," be revised to: "mechanical judgment not based on actual track records such as earnings and stock prices, or on dialogue."

The rationale is that, in proxy voting, when shareholders are dissatisfied with past performance such as corporate earnings or stock prices, it is logically sound to vote against management-proposed resolutions in accordance with established guidelines. Insofar as such decisions are based on historical performance, they do not constitute "formalistic or mechanical proxy voting."

General domestic and international institutional investors comply with "Principle 5" and "Guidance 5-2" of Japan's Stewardship Code, establishing and disclosing proxy voting guidelines while engaging in constructive dialogue toward corporate value enhancement; proxy voting is always executed based on actual track records (such as earnings and stock prices) and dialogue. More specifically, proxy voting guidelines are formulated and disclosed as standards of governance expected of companies by investors, based on codes set by oversight authorities in domestic and international capital markets. When companies submit proposals without meeting these standards and fail to provide sufficient explanation to gain investor understanding, it is logical for investors to make voting decisions based on publicly available information up to that point, resulting in votes against management proposals.

To prevent investors from being forced to vote without obtaining necessary disclosures, companies are urged to provide the requested information disclosures, offer thorough explanations, and, above all, maintain an attitude of listening to investor opinions. Therefore, descriptions that misleadingly imply that many investors simply engage in formalistic or mechanical proxy voting—contrary to actual practice—are entirely unacceptable from the perspective of institutional investors and must be amended.

2-(13) Page 61 of the Main Text: Regarding "5.3.1 Making Investors' Proxy Voting and Engagement Substantive"

In "5.3.1 Making Investors' Proxy Voting and Engagement Substantive" on page 61 of the Main Text, IICEF requests the deletion of the following passage:

"Currently, many investors have accepted the Stewardship Code. However, it is important to consider measures to periodically verify whether investor dialogue and proxy voting diverge from the content set forth in the Stewardship Code and the "Growth Investment Guidance", or whether they remain merely formalistic. Within this context, it is desirable to encourage behavioral change among investors so that long-term, substantive judgments are made taking into account the company's growth stage, business characteristics, and the time horizon of growth investments, rather than leaning toward short-term, formalistic proxy voting."

The rationale is that this passage conflates dialogue and proxy voting, rendering its core intent unclear. Furthermore, the text is ambiguous as it lacks a clear subject specifying who would conduct such verifications. While establishing measures to verify the status of investor dialogue based on the Stewardship Code—similar to the UK Financial Reporting Council (FRC) mentioned in the footnote—would be understandable, regarding proxy voting, investors that have declared acceptance of the Stewardship Code already disclose their voting results alongside their respective guidelines, thereby providing existing means for companies to verify these outcomes.

Moreover, regarding the statement starting with "Within this context," general investors accounting for the majority of the capital market already engage in dialogue that takes into account growth stages, business characteristics, and growth investment time horizons; thus, there is no need for "behavioral change."

Regarding proxy voting, under the fundamental premise of financial theory—that value is created by strategically expanding invested capital while ensuring capital efficiency exceeds the cost of capital, whereas expanding growth investment when capital efficiency falls below the cost of capital leads to value destruction—general investors exercise their voting rights based on clear capital efficiency thresholds. Furthermore, in reality, investors make flexible voting decisions tailored to specific circumstances based on dialogue with companies, and do not make formalistic voting decisions on a routine basis. Logic grounded in such factual misunderstandings should be corrected.

3. Comments on the Executive Summary Draft

3-(1) Page 2 of the Executive Summary: Regarding "② Coupled with short-term means of improving capital efficiency and formalistic proxy voting by a segment of investors, growth investments as well as the reallocation and expansion of capital have not been conducted to a sufficient degree" and "③ A shared understanding between companies and investors regarding the consideration of an appropriate balance between growth investments and shareholder returns, taking into account the company's growth stage and business performance, has not been adequately formed"

Regarding "② Coupled with short-term means of improving capital efficiency and formalistic proxy voting by a segment of investors, growth investments as well as the reallocation and expansion of capital have not been conducted to a sufficient degree" and "③ A shared understanding between companies and investors regarding the consideration of an appropriate balance between growth investments and shareholder returns, taking into account the company's growth stage and business performance, has not been adequately formed" on page 2 of the Executive Summary, IICEF requests that these passages be revised as follows, consistent with the revisions requested for page 2 of the Main Text:

"② Intense focus on short-term improvements in capital efficiency, resulting in growth investments as well as the reallocation and expansion of capital not being conducted to a sufficient degree"

"③ A lack of alignment in perception between companies and investors regarding the appropriate balance between growth investments and shareholder returns, taking into account the company's growth stage and business performance"

The rationale for this request is identical to the reasons set forth for the revisions to page 2 of the Main Text.

3-(2) Page 10 of the Executive Summary: Regarding "(4) Making Proxy Voting Substantive"

Within the main text of "(4) Making Proxy Voting Substantive" on page 10 of the Executive Summary, regarding the phrase in line 4 from the top, "formally deciding on the appointment or dismissal of management based on a single metric," IICEF requests that it be revised as follows, consistent with the revision requested for page 57 of the Main Text:

"Formally deciding on the appointment or dismissal of management without relying on actual track records such as earnings and stock prices, or on dialogue"

The rationale for this request is identical to the reasons set forth for the revision to page 57 of the Main Text.

End

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