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## Trump Tariffs are Effectively Postponed but Lets Focus on the Record Number of Recent Shareholder Proposals Approved

On July 7, President Trump presented new reciprocal tariff rates for 14 countries, including Japan. Although Japan's new tariff rate was proposed at 25%, slightly higher than the reciprocal tariff rate of 24% announced in April, the deadline for negotiations was extended by three weeks to August 1. With the Japanese House of Councillors election scheduled for 20 July, U.S. Treasury Secretary Bessent has demonstrated some understanding of Japan's difficult position in tariff negotiations with the U.S. (promising to expand agricultural imports before the election could hurt the ruling Liberal Democratic Party's approval ratings among farmers). It appears that Japan-U.S. tariff negotiations will conclude in late July, after the Upper House elections.

Although the Japanese government's goal of completely abolishing tariffs on automobiles is unrealistic, we expect that Japan and the U.S. will reach an agreement on tariff negotiations after the Upper House election, with the Japanese government promising to expand imports of U.S. rice, which President Trump strongly desires. We believe that the 25% new tariff rate will be avoided (even if the 25% new tariff rate is applied, it will be lowered within a short period of time). If the new tariff rate of 25% is applied, a decline in TOPIX EPS for FY2025 is inevitable, however, if the reciprocal tariff rate is reduced to 10%, TOPIX EPS for FY2025 is likely to increase by +2-3% YoY. The Japanese stock market has not shown a particularly strong reaction to Trump's new tariffs, and is calmly monitoring to see how the new tariffs will play out. Since the Trump tariffs have been the biggest focus for the Japanese market, it is easy to lose sight of notable moves towards improving governance in Japan - we believe that more attention should be paid to Japan-specific factors.

Shareholder engagement in Japan continues to become more active. 113 companies (+24% year-on-year) received shareholder proposals at their June 2025 general shareholders' meetings, the highest number ever, and the number of cases in which shareholder proposals were approved is increasing. At the general shareholders' meeting in June 2025, seven companies approved shareholder proposals, surpassing the previous record of four companies in 2022-23 and setting a new record (Exhibit 1).

Among the shareholder proposals that passed, shareholder proposals for the appointment of directors stood out. Hogi Medical, a leading manufacturer of medical kit products, received a shareholder proposal from Dalton Investment, a U.S. investment fund, to appoint one of its executives as an outside director, and the proposal was approved with 52.1% of votes in favor. This marks the first time a U.S. investment fund will directly participate in the management of the company. Meanwhile at Tokyo Cosmos Electric, an auto parts manufacturer, the election of eight directors recommended by shareholders was approved, while the company's proposal for five directors was

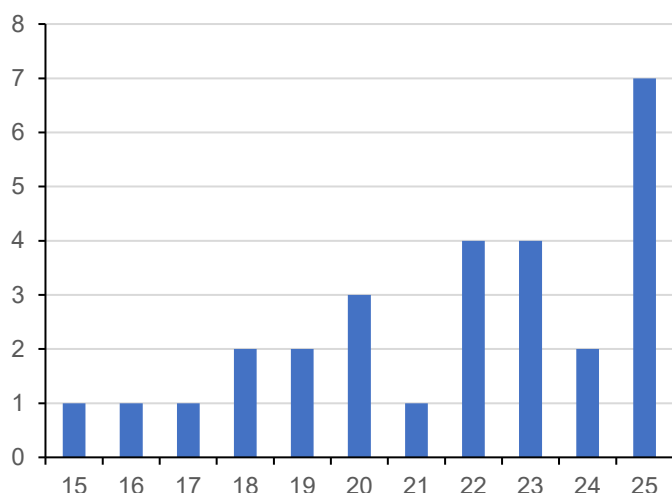
rejected, resulting in the resignation of the current management team.

Shareholder proposals are becoming more active, and the number of cases in which shareholder proposals are approved is gradually increasing. This is due to the reduction of policy-held shares and the elimination of cross-shareholdings, which have weakened the presence of stable shareholders such as operating companies and metropolitan/regional banks in the stock market. The shareholding ratio of city/regional banks was 1.8% (-0.3% YoY), a decline for the ninth consecutive year (Exhibit 2). In the past, many companies relied on stable shareholders, making to shareholder meetings mere ceremonial formality, however we are seeing a significant changes emerging.

Conversely foreign investors (including activists) and pure investors such as investment trusts are increasing their presence in the stock market. As of the end of FY2024, the percentage of shares held by foreigners rose for the second consecutive year to 32.4% (+0.6% YoY), while the percentage of shares held by investment trusts rose to 10.7% (+0.3% YoY), also making two consecutive yeas of increase. The environment is undergoing significant changes, making it easier for activists and Japanese institutional investors to have their shareholder proposals approved.

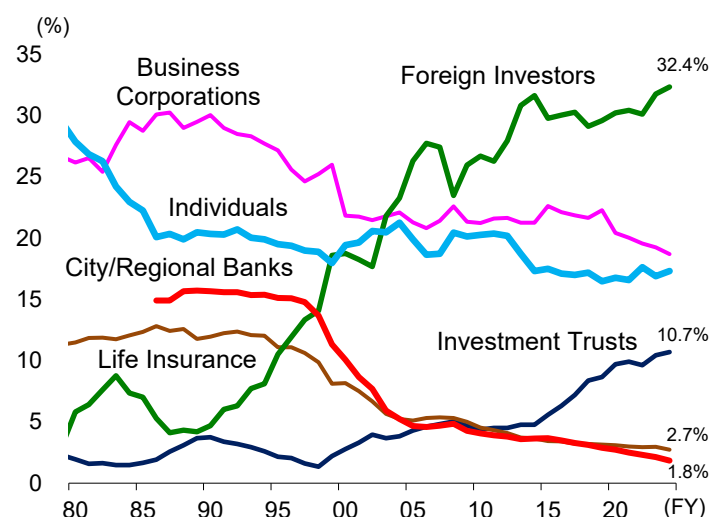
In Japan, management that ignores shareholders is no longer viable, and we believe that more and more companies will continue to implement measures aimed at enhancing corporate value (such as proactive shareholder returns) while listening to the voices of shareholders.

**Exhibit 1: Number of shareholder proposals approved at the June General Meeting of Shareholders**



Source: Nikkei, MUFG: Trust Bank

**Exhibit 2: Share Ownership Ratio by Investors**



Source: Tokyo Stock Exchange, MUFG: Trust Bank

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