ZENNOR
ASSET MANAGEMENT

# ACTIVE OWNERSHIP REPORT

H1 2023

# VOTING BEHAVIOUR

Zennor believes that voting is one of the fundamental responsibilities of stewardship. It is an opportunity to formally support the management or not to support their policy.  In Japan even modest levels of non-support can be sufficient to drive an internal reassessment. These details are provided in the charts attached.

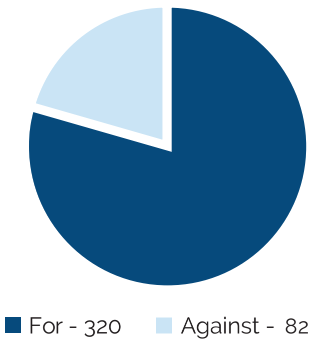
We have voted all our positions - 36 out of 36 securities where there were votes. There were a total of 453 management and shareholder proposals. We did not support management on 82 of 402 management proposals and supported 13 of 51 shareholder proposals. In total there were 453 proposals and we voted against 95 of them.

Looking explicitly at voting against management, our most frequent area of concern that we express through voting is with Board level governance – usually double hatting, and independence of directors. This is one area where we are often aligned with other shareholder proposals. M&A – with poorly specified or unchallenging targets is another area of ongoing frustration. There was no explicitly environmental votes.

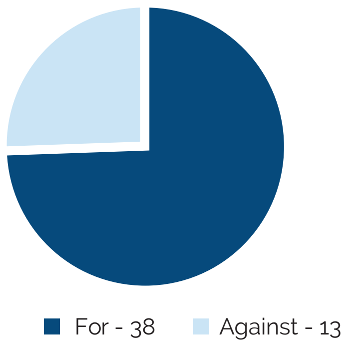
## PROPOSAL STATISTICS

| | Management Proposals | Shareholder Proposals | Total Proposals |
|---|---|---|---|
| For | 320 | 38 | 358 |
| Against | 82 | 13 | 95 |
| Abstain | 0 | 0 | 0 |
| Unvoted | 0 | 0 | 0 |
| Totals | 402 | 51 | 453 |

Management Proposals — Votes Cast




Shareholder Proposals — Votes Cast



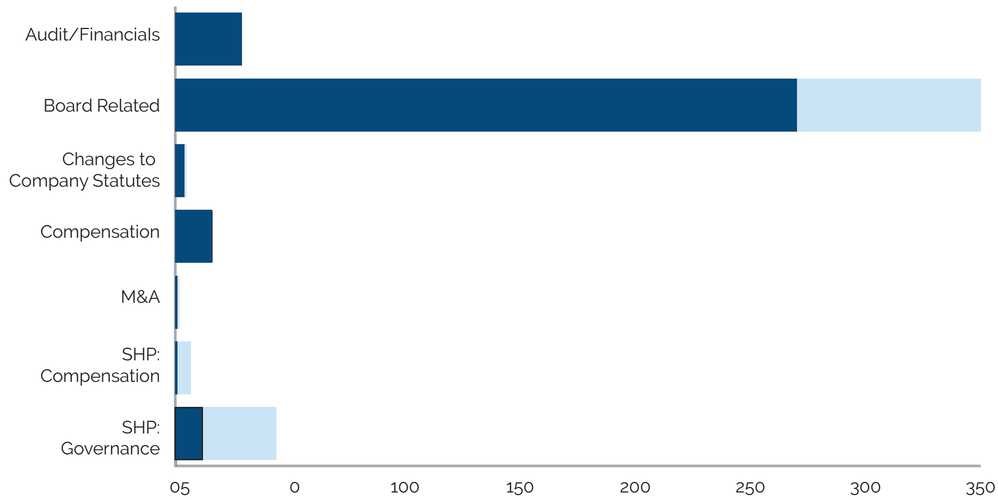

## PROPOSAL CATEGORIES

The overwhelming majority of votes are about appointment of directors and approval of financial reports. The number of expressly Environmental (0) or Social (0) proposals was very low!

| Proposal Category Type | For | Against | Total |
|---|---|---|---|
| Audit/Financials | 29 | 0 | 29 |
| Board Related | 270 | 80 | 350 |
| Changes to Company Statutes | 4 | 1 | 5 |
| Compensation | 16 | 0 | 16 |
| M&A | 1 | 1 | 2 |
| SHP: Compensation | 6 | 1 | 7 |
| SHP: Governance | 32 | 12 | 44 |
| Totals | 358 | 95 | 453 |

# VOTES VERSUS MANAGEMENT

| Proposal Category Type | With Management | Against Management | Total |
|---|---|---|---|
| Audit/Financials | 29 | 0 | 29 |
| Board Related | 270 | 80 | 350 |
| Changes to Company Statutes | 4 | 1 | 5 |
| Compensation | 16 | 0 | 16 |
| M&A | 1 | 1 | 2 |
| SHP: Compensation | 1 | 6 | 7 |
| SHP: Governance | 12 | 32 | 44 |
| Totals | 333 | 120 | 453 |



# INVOLVEMENT OF THE FUND MANAGEMENT TEAM IN THE DECISION HOW TO VOTE

The votes are always decided by the fund management team on an individual case by case basis in line with our voting principles. We voted against the recommendation of our Proxy Company 89 times. 66 of these relate to the board and 1 to Governance and additional 22 were shareholder proposals. Often their rules-based systems neglect the specifics of the situation – we are less forgiving of management and much less likely to accept that they have changed under duress. In general, we do not disagree with their principles but rather the application.

# VOTES VERSUS POLICY

| Proposal Category Type | With Policy | Against Policy | Take No Action | Unvoted | Total |
|---|---|---|---|---|---|
| Totals | 364 | 89 | 0 | 0 | 453 |
| Audit/Financials | 29 | 0 | 0 | 0 | 29 |
| Board Related | 284 | 66 | 0 | 0 | 350 |
| Changes to Company Statutes | 4 | 1 | 0 | 0 | 5 |
| Compensation | 16 | 0 | 0 | 0 | 16 |
| M&A | 2 | 0 | 0 | 0 | 2 |
| SHP: Compensation | 4 | 3 | 0 | 0 | 7 |
| SHP: Governance | 25 | 19 | 0 | 0 | 44 |

# ESG TRANSPARENCY, ANALYSIS & ENGAGEMENT

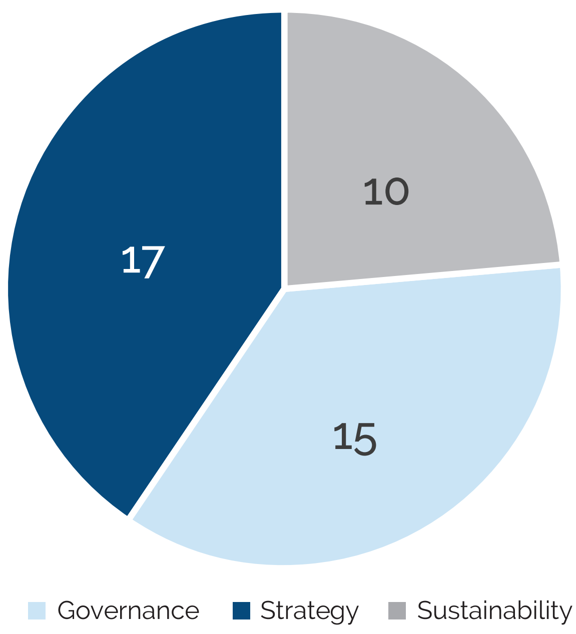
The nature of our focus on very undervalued, under researched companies, it usually means that engagement of some kind is required to help unlock the value that we see. Consequently, a very high percentage of our portfolio is subject to engagement on governance, operational performance, and sustainability (ESG). The ongoing revolution in Corporate Governance in Japan is coincidental with the global focus on Sustainability. Frequently, these go hand in hand. Without good governance we do not believe that a company can ever be sustainable, so this remains a critical focus for us. One of our key objectives is to work with management teams and to help them think and act like owners of the business – oriented towards long run, per share value creation – for us this is consistent with good Sustainability. We keep track of these activities in our Engagement Tracker.

# ENGAGEMENT BY CATEGORY

This chart shows the breakdown by primary engagement focus for each meeting. Strategy is an operating focus; whilst Governance captures Board activity, corporate culture, and balance sheet reform; Environmental is more than just carbon focused but this is a focus area of interaction with companies for us.

Zennor has had 63 contacts regarding investments or potential investments over the period under review. We have had calls and contacts with companies beyond this that are not rated as being specifically targeted 'engagements' but where we also look at Sustainability in those meetings. We do not usually record contact with analysts as engagements although this can sometimes be a 'back channel' to companies and a way of understanding other investor concerns. The TSE push on Cost of Capital and addressing persistent underperformance led Strategy to be somewhat more of a focus area for our engagement than usual.

We have been very engaged with several stocks where governance remains a challenge notably Fujitec, Katakura and Seven&I. We have seen good progress in reporting by Transcosmos and Nippon Soda.



## Q1 2023

**LEVEL:** CEO
**ENGAGEMENT POINTS:** CARBON STRATEGY AND FOLLOW UP CAPITAL POLICY

Sintokogio has been engaging actively with us. We wrote in April following up their inaugural integrated report. In this Sintokogyo committed to a -40% reduction in parent $CO_2$ emissions intensity and -25% at a group level. The company's disclosure remains non-standard and we are pushing them to embrace the Scope 1/2/3 more cleanly. We also flagged to them the lack of diversity in management and board and asked them to review this given their increasingly global footprint. They accept that internal management candidates are overwhelmingly male but are actively trying to promote more women to management roles. This will be a long process. At the board level they have one female director (also a Board member at NTT). They have decided to bring our consultant Yumi Yamamoto on as a paid adviser to help them shape their investor relations and messaging following our extensive engagement with them.

They have fully heard the TSE request concerning cost of capital and wrote back saying that they understood our points on their overly strong balance sheet and cost of capital applying to all assets including cash. They have responded by deploying some of their cash to buy a business with high share in Europe and India. This deepens their footprint and converts cash earning nothing into operating earnings. Our pro forma estimate is that it will increase Cash EPS by around 50%. Like the TSE we do not have a prescriptive approach that demands a large capital return. Rather we ask companies to devise a proper capital strategy and to then follow through and utilise the resources they have to create the most per share value. In some cases this will be a capital return whilst in others M&A may offer a better strategy. In either case the company recognises the capital cost of cash is high and that moving this into assets that generate cash is a marked improvement. We do not believe that the market yet understands this change as the guidance has not been made clear nor will it impact this years earnings. This catalyst is yet to come.

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## Q2 2023

**LEVEL:** CEO
**ENGAGEMENT POINTS:** DISCLOSURE, GOVERNANCE AND CAPITAL STRATEGY

TransCosmos is an excellent family-controlled business. Industrial RoIC is very high, but the balance sheet has become bloated through time. The board lacks genuine independence, and the firm retains a poison pill. Furthermore, the disclosure of operating performance is confusing and prevents investors from realising what a strong business this is. We have engaged with them on several of these issues. The first that is being addressed is the issue of disclosure. As of the last quarter they now show operating segment performance including organic growth ex COVID – a vast improvement. So far this is just for one quarter YoY, but I am assured that fuller disclosure will probably be. In a change from the past the CEO also attended the results meeting and contact with investors has increased.

We believe that fuller disclosure will help investors re-appraise the company which trades on a low single digit EBITDA multiple. The company has also agreed to arrange a meeting with the external board members for us. These are all positive engagement signs. We have not, yet, received positive news on our request for a coherent RoIC oriented capital strategy and cancellation of the 23% Treasury stock and deployment of group cash. We have warned them that we will not be able to support the Chairman if the poison pill is not removed. This is slow but steady progress at ultra-low valuations.

## Q1 2023

**LEVEL:** HEAD OF INVESTOR RELATIONS
**ENGAGEMENT POINTS:** GOVERNANCE

We initiated a Secom position in January unaware that the Founder had died. This awakened the company from the stasis that his presence had exerted on several non-core assets which failed to cover their cost of capital. We made the point to them that at least half their asset base was not generating any return (not just low return). This coincided with the TSE push to consider the cost of capital. We have used this to engage with them around their core vs. non-core assets. To date no major capital change has taken place. However, the company HAS conducted 2 buybacks this year whereas they have only ever done one previous buyback. Several activists have taken a position based on balance sheet strength and we anticipate that Secom will face tremendous pressure from shareholders to simplify their business and return excess capital. The company is VERY sensitive to this, and we sense some movement in their thinking on cash position, and the insurance business.

FUJITEC

## Q1 2023

**LEVEL:** CHAIRMAN, BOARD MEMBERS, COUNSEL, IR
**ENGAGEMENT POINTS:** FOLLOW UP ON PRIOR ENGAGEMENT, GOVERNANCE.

Follow up on prior engagement. Fujitec is an ongoing engagement where egregious acts by the previous management had led to their partial removal but where many senior executives still supported the old team. This manifested itself in obstruction of external counsel in investigating the previous team and in the reappointment in a non-board role of the old, deposed CEO as Chairman. He tried to come back with his own slate of candidates. We met with them and heard his new strategy – if he had proposed this three years ago there would be no challenge to him.

We spoke to both members of the incumbent board and the challenger board to hear their views. It was clear that the ancien regime obstruction had continued, and several executives would be leaving the company including the CEO at the new boards request. This challenger board would mean a return to the weak governance period which we could not support.

Consequently the senior management and board have been purged of the old ancien management regime and the shares have appreciated. We are concerned by the trading outlook in China and do not see enough upside potential to retain a position.

# KATAKURA: Q2 2023

**LEVEL:** REPRESENTATIVE DIRECTOR
**ENGAGEMENT POINTS:** LOW PERFORMANCE CULTURE. GOVERNANCE. LETTERS AND CALLS

We engaged with Katakura several times. So far without success. Katakura is an old company sitting on a highly valuable landbank. The management attempted an MBO which was rejected by shareholders as being inadequate. Subsequently management has retreated from engaging with shareholders and refuses to meet investors outside very limited public forums. Having known them for 30 years and been long-term supporters of the company this is highly frustrating and disappointing. We initially wrote to their spokesman and also communicated via our consultant Yumi Yamamoto more informally. This did not elicit any proper response. We then escalated our engagement with them by writing to the CEO. This also failed to create positive engagement.

Finally, we sent hard copies of a letter drafted by counsel in Tokyo highlighting the deficiency in governance given the TSE guidelines, the poor attitude towards shareholders and our long-term support for their strategy and engagement with the company. This was sent by registered mail to the entire board. We await feedback from the company. We have been advised that this may take 1-2 months given the legally drafted letter and their likely desire to seek their own counsel and reply in kind.

# JAPAN REGULATORY UPDATE

The Tokyo Stock Exchange (TSE) is frustrated that so many Japanese companies do not match global corporate governance standards, and is gradually introducing updated guidance and suggestions for listed companies to improve their disclosure, reporting and governance structures. So far this has included reorganising the listing into Prime and Standard markets, encouraging Task Force on Climate-Related Financial Disclosures (TCFD) reporting and requiring companies to start sharing their Environmental, Social and Governance (ESG) Information. The TSE has also required increased independent directors and that companies should disclose the rationale for owning cross-shareholdings.

This year the TSE has turned their attention to the very large number of companies that trade below liquidation value and are 'persistently undervalued'. The changes to guidance in January, reiterated in March and being followed up in the autumn,  are aimed directly at encouraging companies to address this.

| | | |
|---|---|---|
| Require that management and the board of directors properly identify the company's cost of capital and capital efficiency, evaluate those statuses and its stock price and market capitalization, and disclose policies and specific initiatives for improvement and the progress thereof as necessary.<br>➢ Especially for companies that clearly need to improve, such as those with a PBR consistently below 1x. | Spring 2023 | Prime and Standard |

https://www.jpx.co.jp/english/equities/improvements/follow-up/b5b4pj000004yqcc-att/dreu250000000uqm.pdf

We met with the President of the TSE in London to understand their thinking better. His perspective is that it is better to lead companies to a better level of governance and performance through positive incentives rather than try and be prescriptive and compel changes. Those changes may require legislation and would become cumbersome and be hard to change. Social pressure to be a 'good company', investor feedback and the threat of control challenge are all tools that he sees as playing a vital role in driving companies towards better governance. His aim is to steadily raise the bar for TSE Prime membership so that each change is incremental but that the cumulative impact is large. His second aspiration is to get Japanese firms to properly think about the cost of capital. In his mind many managers have treated capital in a way that suggests it is very cheap – inefficient balance sheets, low hurdle rates for investments and ill-conceived M&A have sapped Japanese corporates of focus and led to low returns and low valuations. He believes that if managers cannot cover their cost of capital, then those assets ought to be reallocated to higher and better uses – or the management of those assets changed. This has led to a new phrase 'best owner' as in 'are you the best owner of X any longer?' And many firms will be reviewing their portfolio, scrutinising low performing assets, and asking themselves this question. It augurs for a period of substantial asset movement within Japan that is already becoming visible.

# ESG ORGANISATIONS MEMBERSHIP AND DISCLOSURES UPDATE

Zennor formally achieved SFDR Article 8 status utilising the PAI routes (for details of the PAIs applied - 10 Climate and other environment related indicators and 6 Social indicators - please see our Prospectus: https://zennorassetmanagement.com/the-zennor-japan-fund/

This means that each security faces a PAI check for compliance whilst we have also committed to maintaining a minimum level of Sustainability score as defined by our internal ZQS ratings. This process is monitored monthly by Zennor utilising Clarity AI. This system can also produce analysis on our carbon trajectory and many other exposures.

Zennor has also become a supporter and subscriber to of the Board Director Training Institute (BDTI) of Japan https://bdti.or.jp/en/about-bdti/, that allows us to support their work in training a cohort of independent directors who are equipped to carry out the task in an informed manner. Many external directors do not understand their power and in stress situations are likely to defer to insiders. BDTI was set up by Mr Benes who inspired the Japanese Corporate Governance code and with whom we can now consult on governance issues. DBTI also has a wealth of governance data that is accessible in a way that is not possible via existing databases. This has helped us understand which firms have a high level of allegiant shareholders and this may be resilient to pressure and those where boards are less independent than they may seem on paper.

# PRINCIPAL ADVERSE IMPACT (PAI) DISCLOSURES UNDER THE SFDR

## Environmental Indicators

| Principal Adverse Impact | | ZJF Portfolio | Units |
|---|---|---|---|
| M1 | Total greenhouse gas emissions | 176852.0 | tonne CO2e |
| M1.1 | Scope 1 GHG emissions | 11019.6 | tonne CO2e |
| M1.2 | Scope 2 GHG emissions | 15404.7 | tonne CO2e |
| M1.3 | Scope 3 GHG emissions | 150513.1 | tonne CO2e |
| M2 | Carbon footprint | 560.4 | tonne CO2e / EUR M invested |
| M3 | GHG intensity of investee companies | 431.3 | tonne CO2e / EUR M revenue |
| M4 | Exposure to companies active in the fossil fuel sector | 3.4 | % |
| M5.1 | Share of non-renewable energy consumption | 96.4 | % |
| M6 | Energy consumption intensity per high impact climate sector | 0.6 | GWh / EUR M revenue |
| M6.2 | Energy consumption intensity per high impact climate sector B | 1.0 | GWh / EUR M revenue |
| M6.3 | Energy consumption intensity per high impact climate sector C | 0.6 | GWh / EUR M revenue |
| M6.6 | Energy consumption intensity per high impact climate sector F | 0.1 | GWh / EUR M revenue |
| M6.7 | Energy consumption intensity per high impact climate sector G | 0.1 | GWh / EUR M revenue |
| M6.8 | Energy consumption intensity per high impact climate sector H | 1.0 | GWh / EUR M revenue |
| M7 | Activities negatively affecting biodiversity sensitive areas | 0.0 | % |
| M8 | Emissions to water | 0.0 | tonne / EUR M invested |
| M9 | Hazardous waste | 648.2 | tonne / EUR M invested |
| O2 | Emissions of air pollutants | 0.3 | tonne / EUR M invested |
| O4 | Investments in companies without carbon emission reduction initiatives | 91.1 | % |
| O6.1 | Water usage | 241.5 | $m^3$ / EUR M invested |
| O6.2 | Water recycling | n/a | % |
| O7 | Investing in companies without water management initiatives | 35.1 | % |
| O8 | Exposure to areas of high water stress | 0.0 | % |
| O9 | Investments in companies producing chemicals | 0.0 | % |
| 013 | Non-recycled waste ratio | 2.0 | tonne / EUR M invested |
| 015 | Deforestation | 88.7 | % |

## Social Indicators

| Principal Adverse Impact | | ZJF Portfolio | Units |
|---|---|---|---|
| M10 | Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises | 0.0 | % |
| M11 | Lack of processes and compliance mechanisms to monitor compliance with UNGC and OECD –GME | 9.6 | % |
| M12 | Unadjusted gender pay gap | 21.5 | % |
| M13 | Board gender diversity | 9.6 | % |
| M14 | Exposure to controversial weapons | 0.0 | % |
| O1 | Investment in investee companies without workplace accident prevention policies | 41.0 | % |
| O2 | Rate of accidents | 1.1 | No. of accidents per million hours worked |
| O3 | Number of workdays lost to injuries, accidents, fatalities or illness of investee companies | 608.0 | No. of working days lost per year |
| O4 | Lack of a supplier code of conduct | 39.7 | % |
| O5 | Lack of grievance/complaints handling mechanism related to employee matters | 9.5 | % |
| O6 | Insufficient whistleblower protection | 11.8 | % |
| O7.1 | Number of incidents of discrimination reported in investee companies | 0.0 | No. of incidents |
| O7.2 | Number of incidents of discrimination leading to sanctions in investee companies | 0.0 | number of incidents leading to sanctions |
| O8 | Excessive CEO pay ratio | n/a | - |
| O9 | Lack of a human rights policy | 38.8 | % |
| O10 | Lack of due diligence | 13.1 | % |
| O11 | Lack of processes and measures for preventing trafficking in human beings | 35.0 | % |
| O14 | Number of identified cases of severe human rights issues and incidents | 0.0 | - |
| O15 | Lack of anti-corruption and anti-bribery policies | 42.9 | % |
| O16 | Cases of insufficient action taken to address breaches of standards of anti-corruption and anti bribery. | 0.0 | No. of cases |
| O17.1 | Number of convictions for violation of anti -corruption and anti bribery laws | 0.0 | - |
| O17.2 | Amount of fines for violation of anti-corruption and anti bribery laws | 0.0 | million EUR |

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