ZENNOR
ASSET MANAGEMENT

ACTIVE OWNERSHIP REPORT

H2 2023

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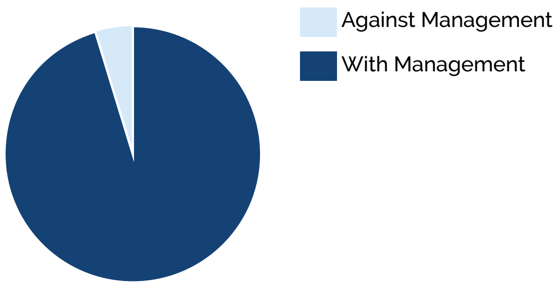
1. VOTING

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.

PROPOSAL STATISTICS

We have voted all our positions. Typically, most Japanese companies have their AGM in H1 and so relatively few (2) proxy events occurred. There were a total of 22 management proposals, all board related. In this reporting period we voted against one manager due to his double hatting/independence.



	Management Proposals	Shareholder Proposals	Total Proposals
For	21	0	21
Against	1	0	1
Totals	22	0	22

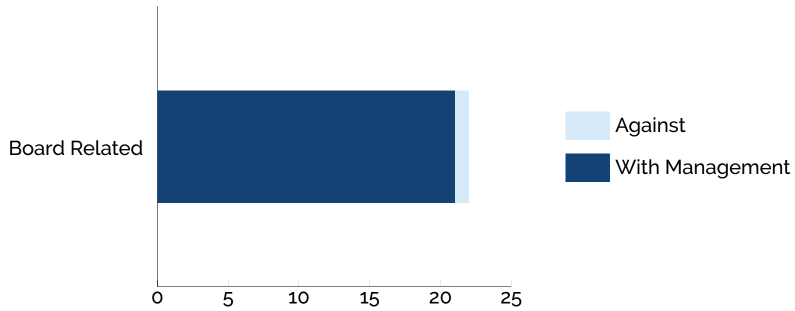
The overwhelming majority of votes were board related: about appointment of directors and board committees and auditors. The number of expressly Environmental (0) or Social (0) proposals was very low!

PROPOSAL CATEGORIES

Proposal Category Type	For	Against	Total
Board Related	21	1	22
Totals	21	1	22

VOTES VERSUS MANAGEMENT

Proposal Category Type	With Management	Against Management	Total
Board Related	21	1	22
Totals	21	1	22



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 0 times. This is not always the case as we frequently differ in our implementation of governance. Often their rules-based systems neglect the specifics of the situation – or where we feel continued constructive engagement by supporting management could be more effective. In general, we do not disagree with their principles but rather the application.

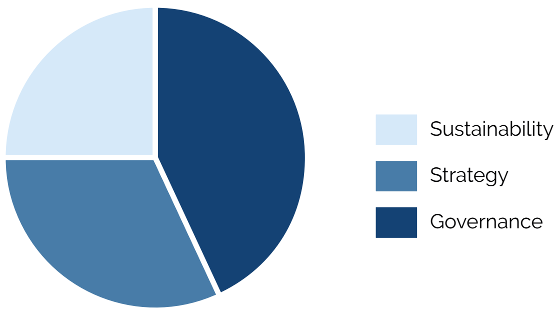
VOTES VERSUS POLICY

Proposal Category Type	With Policy	Against Policy	Total
Board Related	22	0	22
Totals	22	0	22

2. ENGAGEMENT

The nature of our focus is on very undervalued and under researched companies and this 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 during H2 2023. Strategy is an operating focus; whilst Governance captures board activity, corporate culture, and balance sheet reform; Sustainability is more than just carbon focused but this is a focus area of interaction with companies for us.

Zennor has had 44 engagement contacts regarding investments or potential investments over the period under review, covering both the Zennor' flagship Japan fund and the recently launched Japan Income fund as well as companies we do not own. 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 key engagement areas continue to be on encouraging compliance with TSE requests around thinking about cost of capital and addressing material undervaluation."

This is a major focus within Japan and of our fund which the TSE has made constant upgrades to such as publishing case studies and a monthly list highlighting those firms in compliance with their requests. This pressure will continue. We have also focused on several cultural issues at firms that may express itself as Governance or Sustainability. For instance, at Toyota Group there have been several compliance issues which are broad enough that this reflects a systemic cultural issue rather than a specific challenge at one firm. With hindsight we have probably undervalued corporate culture as a source of value creation/destruction. Good cultures create good behaviours and can address short term challenges – bad cultures sometimes bury this negative news and leads to more serious longer term failings and costs.

We are increasing our efforts to understand culture better – but it is hard to quantify. Some firms having come under shareholder pressure have radically reduced their engagement with shareholders. Fundamentally this is about the principal-agent problem, the alignment between managers and owners of the business - are they thinking about how to create long term value or about their own salary?

H2 2023 ENGAGEMENT EXAMPLES:

Tohoku Electric Power Co., Inc.

TOHOKU ELECTRIC POWER

ENGAGEMENT POINTS	LEVEL	QUARTER
Environment: Coal, Net Zero energy transition	Director	Q3

We do not own Tohoku Electric Power as we avoid coal-based energy generators but recognise that Japan's coal intensive energy mix needs to change. We challenged Tohoku Electric Power on their 2050 Net Zero target. Their plan relies on using large scale CCS and biomass co-firing to offset coal-based carbon emissions. Our concerns are two-fold-: firstly, that this technology at scale is unproven and secondly, that the cost level may be very high. Tohoku's strategy for gas is similarly light on a clear trajectory and relies on as of yet undeveloped technology. The company's own plan for renewables does not see more than 10% mix by 2030. This leaves the company very exposed to regulatory risk if stronger carbon trajectory compliance is required or to any carbon charges. A $15 carbon tax would wipe out their profit base ceteris paribus.

We suspect that Tohoku EP is not unique among Japanese utilities in having an ambitious long term goal but taking very little short term action. Our engagement with them was to encourage a more granular path that got them to Net Zero but without relying on "Hail Mary" technology solutions at some point in the future. Getting them to confront business risks around carbon charging did cause them to commit to look again at this risk. However, they remain confident that their strategy of carbon offsetting will work and is accepted by Japanese regulators. We are not opposed in principle to this strategy but are much less sure about the technical viability and the economics of it.

WEST HOLDINGS

ENGAGEMENT POINTS	LEVEL	QUARTER
Environment: Wind, Biomass	Founder/CEO	Q4

Having previously rejected West as a potential investment on valuation grounds the very large decline in share price was a reminder that valuation matters. Several factors had also negatively impacted the stock: construction challenges on several biomass boilers causing start up to be delayed; and the very aggressive bid by Mitsubishi Corp in Japan Offshore Wind that removed a powerful potential growth opportunity for West. The company has also been hit by some volatility in wood chip pricing, as well as lower than average solar operating rates. Given these negative impacts AND operational delays AND loss of Offshore Wind it is unsurprising shares have derated 50%. This is also a reminder that these risks are intrinsic to such assets.

With the company now trading at close to DCF of existing projects, no future growth is priced in. Given the government objective, no growth seems very unlikely. However, it is not clear today where the additional projects will come from. Globally required Cap Rates for these projects have risen as well. West is now getting to an interesting level but not YET to a compelling one where even the current projects are trading at bargain levels.

TRANSCOSMOS

ENGAGEMENT POINTS	LEVEL	QUARTER
Governance	Independent Director	Q4

We are continuing to regularly engage with Transcosmos. They have made good progress on improving disclosure of underlying trends and by segment. We have, so far, made less progress with their capital strategy. We asked to speak to an external director. The company readily facilitated this meeting. We exchanged views on capital structure, longer term value creation and appropriate valuation frameworks for the company. We also pushed them to hold the Chairman to account over the below potential ROIC and lack of clarity in medium term capital strategy. Finally, we challenged them on their poison pill. This was the first meeting with foreign investors and we provided them with very useful insight into what their investor base was really thinking.

HIRANO TECSEED

ENGAGEMENT POINTS	LEVEL	QUARTER
Social	Independent Directors	Q4

This call was a follow on after we held several calls with other shareholders that culminated in a meeting with both independent board members. Execution at Hirano has been very poor, and they shared our, and other shareholders', frustration that the very strong demand and fantastic engineering were not being matched by their capability to supply equipment and ramp the supply chain as needed. We shared our insight that this resembled the smaller size SPE companies such as Screen of some years ago. These firms had improved remarkably and converted engineering capability into robust business models. However, to do so the senior management had to change. Culture had to be realigned from overly high sales volume, which led to the profit driven culture. Excessive and unpaid for customisation, led to extremely complex supply chains, inefficient production lines and volatile profitability. We stressed to them that this was a cultural issue that urgently needed addressing – and they agreed. They pushed back to some extent by arguing that the supply chain issues were slowly being overcome but acknowledged that leadership change was necessary. They asked for a little more time – we suspect/hope that the incumbent CEO will see his tenure cut short. We are happy to lend our voice and votes to other shareholder proposals around this topic. Currently we cannot support the incumbent CEO and have let the company know this.

KURIMOTO

ENGAGEMENT POINTS	LEVEL	QUARTER
Governance: TSE request for cost of capital & addressing persistent undervaluation	CEO	Q3 & Q4

We have engaged repeatedly with Kurimoto in meetings, in person and via letters. The company has a very low valuation and is almost uncovered by analysts. The CEO, Mr Yagi, is keen to spread the word about their business and to listen to input from shareholders. They are involved with pipes/valves including for social infrastructure. They also have good exposure to EV battery CapEx but may lose some business in their press segment. Trading remains strong.

The company is drawing up their new Medium-Term Plan which they say will address the TSE concerns. For us this is a good opportunity to try and influence their thinking. We are stressing to them that the current TSR policy is not OK at 30% given net cash balance sheet, the low multiple of book value and large equity portfolio – this should be in excess of 100% across the mid-term plan to shrink excess financial assets and improve returns. To stay compliant with TSE guidelines they need a plan to address both these non-core assets and persistent undervaluation. Whilst the shares have performed well, they still trade at just 0.5x PBR and only a small premium to net financial assets.

3. ESG ANALYSIS & TRANSPARENCY

CARBON ANALYSIS

During the period we also conducted our yearly review of Carbon Intensity and risks around carbon pricing. Our portfolio exposure is far below that of the benchmark on a Weighted average basis. The analysis suggests that we stand at 44 carbon tons emitted per million $ revenue against the benchmark at 89. Looking at a GHG/Revenue basis again shows a lower intensity of 71 and 103 for the Japan benchmark. Once again, the variance across different data vendors was wide depending on their level of granularity and freshness of data. In general, the quality and volume of disclosure is increasing. Often multiple sources including CDP disclosures, peer comps and alt data are required to find even straightforward Scope1/2 data. Our biggest contributors to our footprint are a copper miner Nitettsu Mining – part of the energy transition required metals, Toyota Industries a leading producer of components for EVs, and DaiNippon Printing which makes components for EV battery production. Most of these firms are exposed to these new 'greener' industries that should ultimately reduce carbon emissions downstream.

UN PRI SUBMISSION

We also completed our UN PRI voluntary submission and received feedback in January 2024. Which we are happy to share with you on request.

4. JAPAN CORPORATE GOVERNANCE REFORM

Several events give further support to the ongoing pressure for corporate governance reform. In a pincer movement investors are becoming more active and demanding and the TSE is pressuring firms to improve.

There has been additional news that the former head of private equity firm Carlyle in Japan will launch his own engagement fund – this adds to the growing number of domestic operators investing in the Japanese market raising pressure on all of the listed companies.

The TSE has doubled down on their commitment to enhancing corporate restructuring and publish a list of companies who have responded positively to their request for engagement on cost of capital and shareholder returns.

The TSE has taken additional steps that we believe will increase pressure on Parent-Child/Affiliate structures by writing to over 2,000 listed companies and asking them to review whether their current operational and governance structures are the best solution. Zennor believes that this will focus board attention once more on these issues and given the ongoing pressure to resolve this problem, it is likely to lead to further corporate action. The recent steps at Toyota to slim balance sheets and reorganise the group's capital structure shows that every group is under pressure to take action and undermines many of the excuses given by companies for not taking action.

The positive list approach increases pressure on those who have not made the list. This may not be 'name and shame' but rather 'name and praise' – it would be wrong to underestimate the shame of not being on this list for listed companies as this puts additional pressure on companies who have sat on the fence.

On 15th of January 2024 the TSE published their first list of companies that had responded positively to their drive (announced in January 2023). The good news is that around 40% of companies listed on TSE Prime have made the list up from around 30% in September – clearly the publication deadline has catalysed some additional action to comply. As intended.

> As to the Zennor investment universe, 59% of Zennor portfolio investments are on this positive list. The Zennor Japan fund is 60% exposed, whilst the Zennor Japan Income fund with its even greater governance and value bias stands at 66% exposed.

The bad news is that only 11.5% of TSE Standard companies (with lower disclosure threshold) have complied. There are several notable companies still missing from this list including: Toyota, Keyence, Nintendo, Softbank Group & Corp, Oriental Land, Daikin, Canon, Fast Retailing, Mitsubishi Heavy, Renesas, Jr Central, Nidec, Asahi, Otsuka Holdings, Suzuki, Kubota Corp, Unicharm, Toyota Industries, Nri, Shionogi & Co, Shimano

These comprise many of the highest profile Japanese and well owned Japanese firms and we can expect that their many foreign and domestic institutional investors alongside the TSE will be exerting material pressure on them to comply. The list will be refreshed every month so the pressure will steadily mount as we approach the Spring AGM season. We expect that management teams that do not address this request will suffer. Some of these firms already have low management approval rates and this could easily see the incumbent managers removed. It will certainly be one of the major points of discussion for every investor meeting.

For those firms on the list – congratulations! – but in many cases their steps so far, though welcome, remain inadequate. Our engagement with them will continue but with the more favourable starting position that they have started to recognise that cost of capital and capital policy are important. This logic once conceded is hard to back away from.

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