

MORANT WRIGHT
MANAGEMENT LIMITED

Engagement Report 2019



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MORANT WRIGHT MANAGEMENT LIMITED

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Introduction

Morant Wright seeks to engage actively in a constructive and beneficial way with the companies in which we invest on our clients' behalf. We believe this to be in the best interests of our clients, the companies themselves and the wider community. We place particular importance on corporate governance with the aim of contributing to the sustainable, long-term value creation of investee companies. We do this through a continuing dialogue with our companies and through having a clear and publicly disclosed policy on voting.

We are long-term investors following a bottom-up, fundamental investment approach. A core part of our approach is to identify the financial and operational risks of the companies in which we invest. By analysing operational risks in particular, we aim to recognise the impact of environmental and social factors on our holdings.

Morant Wright is a signatory to the Japan Stewardship Code. Our statement of compliance with the principles of the Code is available on our website: www.morantwright.co.uk/regulatory-documents

Summary for 2019

- In 2019, Morant Wright held 164 meetings and conference calls with Japanese companies, both in Japan and in London
- The number of votable stocks held was 124
- We participated in votes at 117 companies
- We voted against the election or re-election of directors at 11 companies
- We voted against anti-takeover measures at 10 companies

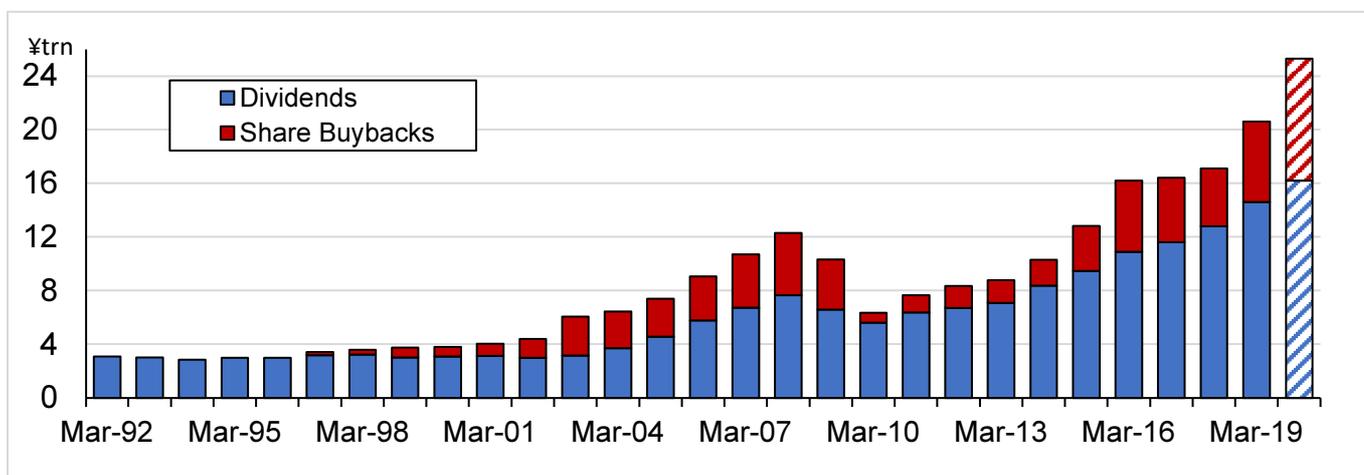
Corporate Governance is changing in Japan

Morant Wright considers that the most effective governance arrangements are those which align the interests of shareholders and management, while taking account of wider interests including other stakeholders, as well as environmental and social factors.

We remain very encouraged by the ongoing changes in governance standards in Japan. The adoption of the Japanese Stewardship Code in 2014, and the widespread and growing support it is receiving, has the potential to make a positive contribution to the sustainable, long-term growth of Japanese companies. Similarly, the adoption of the Japanese Corporate Governance Code in 2015 has encouraged companies to improve their governance by emphasising issues such as the need for independent directors and questioning the necessity of cross-shareholdings. Both codes are revised every three years to further enhance standards.

The regulatory changes put in place by the government have helped contribute to the continued decline in cross-shareholdings, the reduction in the prevalence of poison pills and the increase in the number of independent directors at Japanese companies. These are all positive steps to realising the value we see in our portfolios.

We invest in financially strong companies and, in some cases, these balance sheets are excessively strong. On average, our companies have around 50% of their market capitalisation in net cash and investments¹. In such cases, one of our aims is to improve the use of cash on companies' balance sheets. There is a growing awareness in Japan of the need for shareholder returns, which has resulted in dividends and share buybacks reaching record levels:



We believe that the increased attention on corporate governance and stewardship is very positive for the Japanese stock market. Given our investment focus on companies with high levels of cash and financial assets, we believe that these changes could be particularly beneficial for our portfolios.

¹ As at 31 December 2019 based on portfolio holdings excluding financials. Net cash is the sum of cash and investment securities less debt.

Morant Wright's Engagement Record

As a matter of deliberate policy we are very selective about the meetings and conference calls that we organise. We normally only hold meetings with companies which meet our strict investment criteria, and are therefore potential investments, or in which we are already invested. We believe this to be the most efficient use of our resources. For many companies we hold meetings or conference calls at least annually.

In 2019, we held meetings and conference calls with 164 Japanese companies, broken down as follows:

	London meetings	Conference calls	Meetings in Japan	Total
2019	48	40	76	164

In addition, meetings were held during the year with the Bank of Japan, GPIF and the Tokyo Stock Exchange.

Meetings with companies, either in person in London or Japan or via conference calls, provide an invaluable opportunity to question management. Discussions include specific aspects of their business and strategy but also allow us to assess management attitude to other issues which are important to us. In particular, we always focus on a company's use of cash on its balance sheet and its plans for shareholder returns.

We have evolved a rigorous process for the preparation and conduct of each meeting or call in order to maximise the value we derive from them. Key financial data is sourced from a reliable external provider and customised for our requirements.

Each meeting or call is recorded in detail. As a result, we have an extensive history of our contact with more than 700 Japanese companies. In some cases, this history goes back twenty years.

Our report on each company includes an assessment of its corporate governance, which forms the basis for our voting at shareholder AGMs. All of our holdings are formally scored against a number of criteria including, but not exclusively, share buybacks, dividend policy, progress in unwinding cross shareholdings and management. Scores in each area are re-assessed and updated after each meeting or call.

An example of our governance scores is shown below:

	Share buybacks (1-5)	Dividend (1-5)	Cross-holdings unwinding (1-5)	Management (1-5)	Total (4-20)
Company A	5	5	3	5	18
Company B	1	2	1	1	5

Voting Policy

Morant Wright will always vote against measures which we consider to be contrary to shareholders' interests, such as anti-takeover measures ("poison pills"). Our general stance is to be supportive of those managements which we consider prioritise good governance and shareholders' interests. While all shareholder votes are considered individually, we will generally vote in favour of proposals put forward by management which we consider score highly in this regard.

Conversely, where we consider that management pays insufficient attention to these issues, we will vote appropriately. This may include, for example, voting against the re-appointment of directors. Morant Wright portfolio managers remain directly responsible for proxy voting decisions and we do not subscribe to any shareholder advisory services.

Full internal records are kept of all our meetings and other interactions with company management and of all our proxy voting activity.

Morant Wright uses the Proxy Edge electronic voting platform to receive, submit and record all voting decisions. We do not undertake stock lending and so we are always in a position to be able to exercise voting rights at the determination date.

Vote Summary for 2019

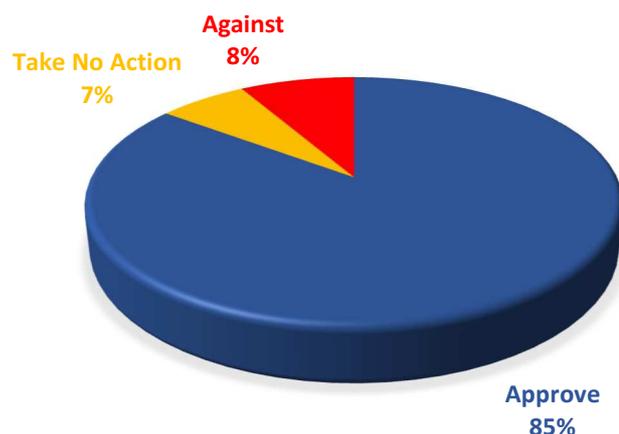
Category	Number	Percentage %
Number of Votable Stocks	124	
Number of Stocks Voted	117	94
Number of Stocks for which voluntary voting was not exercised	7 ²	6

Number of Agendas Voted	372	
Number of votes 'FOR'	317	85
Number of votes 'AGAINST'	31	8
Number of votes 'TAKE NO ACTION'	24	6

Number of votes on Shareholder Proposals	1	1
Number of Stocks with Negative Re-election of Directors	11	9
Number of Stocks with Poison Pills	10	9

² We failed to receive an AGM notification from a custodian of two segregated accounts for 7 stocks. We have made changes to ensure this does not re-occur.

PROXY VOTE SUMMARY

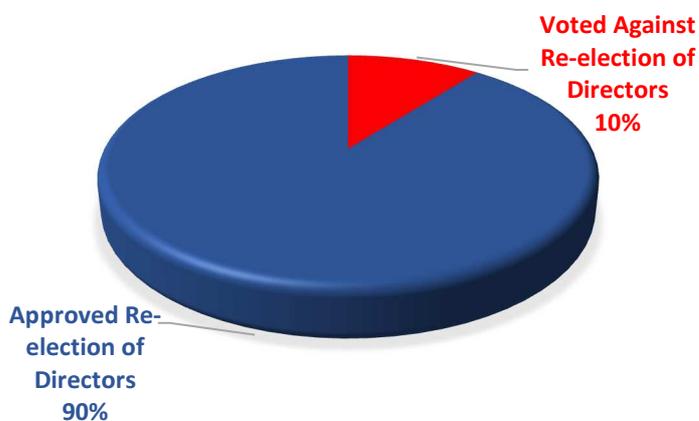


Votes against the re-election of Directors

There were 11 companies where we voted against the appointment or re-appointment of directors. In the majority of cases, our vote against the company was a reflection of weak corporate governance or poor attitude to shareholder returns:

Stock	Company
1944	Kinden
3001	Katakura Industries
4634	Toyo Ink SC Holdings
5161	Nishikawa Rubber
7240	NOK
7911	Toppan Printing
8242	H2O Retailing
9076	Seino Holdings
9401	Tokyo Broadcasting System
9404	Nippon Television
9409	TV Asahi

DIRECTOR RE-ELECTION %



Votes against Poison Pills

In the past year there were 10 proposals for the renewal of anti-takeover measures, all of which we voted against. Poison pills carry three main disadvantages: shares can be diluted by equity issuance, institutional investors are discouraged from investing into corporations with aggressive defences and ineffective managers can remain in place. We believe that they are not in the interests of shareholders and we will continue to vote against them.

Stock	Company
1824	Maeda Corporation
3106	Kurabo Industries
4401	Adeka
6118	Aida Engineering
6349	Komori
6406	Fujitec
6454	Max
6462	Riken Corporation
6737	Eizo Corporation
8098	Inabata

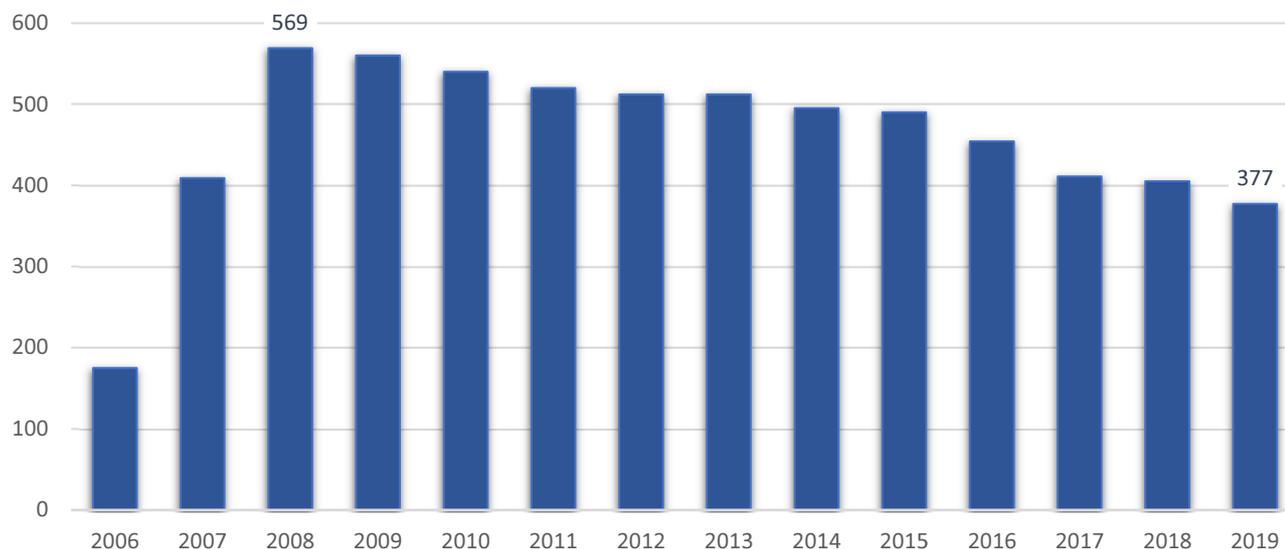
It is worth noting that 8 of our holdings abolished their poison pills in 2019. This is a larger number than the 3 companies which abolished poison pills in 2018, and the 1 company in 2017.

The 8 companies that abolished their poison pills in 2019 were:

Stock	Company
1979	Taikisha
4023	Kureha
4045	Toagosei
5463	Maruichi Steel Tube
7762	Citizen Watch
7911	Toppan Printing
8012	Nagase
9404	Nippon Television Network

We believe that this change is another welcome sign of corporate governance improvement in Japan. This change amongst our portfolio holdings has been reflected more broadly across Japanese companies, which in aggregate have seen a steady fall in the number of poison pills since the peak in 2008.

NUMBER OF JAPANESE COMPANIES WITH ANTI-TAKEOVER MEASURES



Source: Recof

Going forward

We will always seek to engage constructively with the companies in which we invest and will continue to develop and refine the methodologies by which we assess the effectiveness of their governance arrangements.