



11 JAPAN STEWARDSHIP CODE

Introduction

The Japan Stewardship Code (“the Code”), first published in 2014 and updated in May 2017, sets out the principles for effective stewardship by institutional investors in respect of their equity holdings in Japan listed companies. The purpose of the Code is to enhance the medium- to long-term investment return for clients by improving and fostering the investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment. The Code is overseen by the Financial Services Agency in Japan.

Pelargos supports the seven principles of the Code.

1. Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

Pelargos publicly discloses its commitment to the Code and how it fulfills its stewardship responsibilities via its website as well as in the normal course of business, including through its dealings with investee companies. Our approach to stewardship has three parts. Firstly, good stewardship is a key part of our investment process. Pelargos is a long-term investor and detailed, fundamental research of the companies in which we invest, including their corporate governance, is a core part of our investment process. Secondly, we engage with the companies in which we invest, and regular meetings with their management are a key part of that process. Doing so allows us to create a constructive dialogue that helps us not only to understand the company’s long-term strategy, earnings drivers and risks, but to assess whether the company’s standards of corporate governance are likely to support long-term growth, and how well aligned they are with the interests of shareholders. Thirdly, when we think that our opinions on corporate governance will help to improve the company’s long-term performance, we will seek to make these clear to management, both during our meetings with them, and when appropriate, through thoughtful proxy voting.

The policy and the activities based on the policy will be monitored on a periodic basis by Compliance and/ or Risk of Pelargos.

2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Pelargos seeks to act in the interests of all its clients when considering matters such as engagement and voting. We understand that conflicts of interest may arise in the pursuit of stewardship responsibilities. The firm maintains a compliance policy to identify, manage and monitor any potential conflicts of interests, and pays particular attention to considering potential for conflicts of interests when considering its voting policies.

The firm also maintains a Register of Conflicts of Interest with all potential conflicts of interest. The Register is on the agenda of the Compliance & Risk Committee and is reviewed on an annual basis. In the Compliance & Risk Committee the compliance officer and risk officer discuss the potential

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conflicts of interest with board members and take appropriate actions if necessary to mitigate the conflicts of interest.

We explain our approach to managing conflicts of interests in the Conflict of Interest Policy, which is available on request.

3. Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

The continuous monitoring of the performance of the companies in which the fund invests with particular consideration of the potential for long-term sustainable growth is a fundamental part of the investment process at Pelargos. Pelargos' analysts and portfolio managers consider a wide range of resources when completing their research and analysis including company reports and publications, third-party research, and academic studies. Detailed financial analysis includes the regular analysis of company annual reports, financial statements but also non-financial factors e.g. strategy, business risks and opportunities. In addition, Pelargos conducts hundreds of meetings each year with company management both in Japan and at our offices, as well as meeting with independent research analysts, industry experts and attending shareholder meetings if necessary.

4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Our experience has shown that a constructive dialogue with investee companies is the most effective way to ensure that management pursue a strategy that not only targets the long-term sustainable growth of earnings for the business, but also reflects the interests of shareholders; the creation of long-term shareholder value and capital efficiency. Pelargos therefore carefully considers when it is necessary and appropriate to enter into an active dialogue with an investee company's management and the most effective method of voicing our opinion.

Prior to opening any dialogue, Pelargos will formulate a strategy on how to structure the dialogue with the investee company under various scenarios. We are prepared for discussions to form part of a multi-stage process, over the long-term if necessary, depending on how our opinions are received by the management.

The level of engagement that Pelargos will enter into with an investee company is evaluated on a case-by-case basis on its own merits. Pelargos may choose to use proxy voting as part of our strategy for engagement with an investee company, but this alone might not be the most constructive way of engaging with management and will typically be part of a broader strategy. Pelargos does not object in principle to collective actions by investors, but normally seeks to engage individually with the companies in which we invest. In our experience, using a private dialogue to engage individually is more likely to lead to mutually beneficial outcomes.

In all cases, Pelargos seeks to reach a common understanding with investee companies. Pelargos believes that constructive engagement should be valuable for both parties, even if differences of opinion remain.

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5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

Pelargos has a clearly laid out proxy voting policy to support our stewardship policy. Our proxy voting policy is available on request. In addition, we report and disclose our voting records each year. This information can also be made available on request.

Pelargos always gives due consideration to the recommendations of the investee's management. However, the fund will only support this if to do so is in the best interests of the shareholders. Pelargos seeks to vote in all proxies where our portfolio managers deem the fund's level of ownership or the material impact of the proposals to be of significance to either the fund or the investee company, and where our investment managers believe that voting comprises an important part of the fund's stewardship responsibilities. Our investment managers make all voting decisions independently based on their in-depth knowledge of each investee company. We believe that our voting plays an important role in helping improve business operations and governance at investee companies and that these improvements lead to higher corporate value in the long-term.

We disclose our voting activity to the extent required by any applicable regulatory authorities and we provide our clients with periodic updates on our voting activities, including an explanation why Pelargos voted for or against an agenda item. If there is a reason that it is inappropriate to disclose company-specific voting records on an individual agenda item basis, we will proactively explain the reason.

6. Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Pelargos believes that it is important to give our clients and beneficiaries a clear understanding of our stewardship activities because we believe that they lead to higher investment returns in the medium to long-term. Pelargos discloses how it proposes to fulfill its stewardship responsibilities under the Japan Stewardship Code on its website. This is reviewed regularly and updated as necessary. We report regularly to our clients on our stewardship activities and our voting record.

7. To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.

Pelargos' portfolio managers know both from decades of experience investing and from our statistical analysis of historic investment factor returns, that an investment strategy that focuses on value is the most effective at generating positive investment returns in the long-run. When making investment decisions we take the view that we are buying a share of the whole business and ask if we would buy the whole business at this price. We buy stocks when they are trading with a healthy margin of safety below their conservatively estimated intrinsic value. We take a long-term approach to our analysis and we are willing to hold position for as long as we think that the upside to fair value presents an attractive risk-reward, for years if necessary. To achieve this we

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conduct fundamental, bottom-up analysis of individual companies in order to build an in-depth knowledge of investee companies and the environments in which they operate.

The same portfolio managers have been involved in the investment decisions of the fund since its inception in 2008. All members of the investment team have many years of investment experience in their own right. Some of the team are Japanese speakers, and we work closely with our strategic partners who are based in Japan full-time. All of the team regularly meets with the management of investee companies, as described under Principle 3 above, and Pelargos fosters an inclusive culture which seeks to leverage all of their input to investment decisions. Management, CIO and CEO of Pelargos, have appropriate capability and experience to effectively fulfill their stewardship responsibilities, and review Pelargos' stewardship policies regularly, and at least annually.

Pelargos undertakes its engagement with investee companies on an independent basis, but we recognize that discussion with other investors may foster better engagement with investee companies, and do not exclude the possibility of engaging in such discussions in the event that this is likely to enhance the quality of our stewardship responsibilities.