

Arcus Investment Limited (“AIL”)

UK Stewardship Code Disclosure Statement

Last updated: September 2019

Arcus Investment Limited (“AIL”), Arcus Investment Asia Limited (“AIAL”) and Arcus Research Limited, Japan Branch (“ARL”) are hereafter collectively referred to as “Arcus” or the “Arcus Group”.

Arcus Japan Fund (“AJF”), Arcus Japan Long/Short Fund (“AJLSF”), Arcus Zensen Fund (“Zensen”), Arcus Genseki Fund (“Genseki”) and Arcus Japan Value Fund (“AJVF”) are collectively referred to as “The Arcus Funds.” Arcus Investment Limited (“AIL”) delegated Investment Management of AJF, AJLSF, Account, Zensen, and AJVF to AIAL during 2016. During April 2019, Investment Management of the Arcus Genseki Fund was transferred to AIAL. Arcus Research Limited, Japan Branch (“ARL” or “Tokyo”) is engaged by AIAL to provide AIAL with research and advice.

Arcus is currently reviewing its engagement policy in the light of the Shareholder's Rights Directive.

Under COBS 2.2.3.R of the FCA Handbook, AIL is required to make a public disclosure in relation to the nature of our commitment to the above code, which was published by the Financial Reporting Council (‘FRC’) in July 2010 and updated in September 2012.

The Code aims to enhance the quality of engagements between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies and is to be applied by firms on a “comply or explain” basis. The FRC recognises that not all parts of the Code will be relevant to all institutional investors and that smaller institutions may judge some of the principles and guidance to be disproportionate. It is of course legitimate for some asset managers not to engage with companies, depending on their investment strategy, and in such cases firms are required to explain why it is not appropriate to comply with a particular principle.

Arcus recognise that, strictly speaking, the Code only applies to UK companies. However, stewardship and Arcus business are not limited to UK. Arcus seeks to apply the UK Stewardship principles globally, taking into account local law and practice, including the emergence of Stewardship Code in other jurisdictions in which Arcus invests e.g. Japan.

The seven principles of the UK Code are that institutional investors should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities;
- Have and publicly disclose a robust policy on managing conflicts of interest in relation to stewardship;
- Monitor their investee companies;
- Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value;
- Be willing to act collectively with other investors where appropriate;
- Have a clear policy on voting and disclosure of voting activity; and
- Report periodically on their stewardship and voting activities.

Principle 1 - Stewardship responsibilities:

Arcus has a duty to act in the best long term interests of its investors and to follow the investment process as outlined in the prospectus and offering memorandum of the funds it manages. However, the investment process goes beyond financial statement analysis, it

includes, but is not limited to, the dialogue with senior management of the investee companies, review of public disclosure and direct communication to investee board. The investment team also conducts detailed research into each of their potential investee companies. Arcus believes that well-managed companies will create long term shareholder value and this aligns with Arcus' investment philosophy of long-term and "bottom-up" in scope and is therefore consistent with best practice in corporate governance at investee companies.

Principle 2 - Conflicts of interest policy:

ALL is authorised and regulated by the Financial Conduct Authority, which requires firms to identify, and mitigate any conflicts of interest between itself, its clients, and between clients that may result in a loss to them. A conflict situation may arise when there is a matter which may impair a person's independence, objectivity or interfere with his/her duties to Arcus and clients. Therefore, investment team should avoid any situation in which personal interest conflicts with duties at Arcus.

Arcus maintains a conflicts of interest policy which specifies Arcus approach to managing potential conflicts of interest the firm may be exposed to. It helps all employees of Arcus to maintain high ethical standards in their conduct both personally and professionally. In addition Arcus maintains a conflicts register, which is subject to management review on an ongoing basis.

Stewardship is subordinate to Arcus' fiduciary duty to its investors, and in any conflict fiduciary duty will prevail. Where conflict arises between stewardship goals, these will be resolved in the light of the best long term interests of our investors.

Principle 3 - Monitoring:

AIAL monitors all investments closely and recognises that monitoring investee companies is at the heart of the investment management philosophy and process. Superior knowledge of our investments is the basis of excess returns. It is our experience that under normal circumstances management are better informed than investors on company strategy, so we do not generally seek to offer advice in this area. If Arcus did not agree with the strategy or philosophy of company management we would be less likely to invest in that company. Having said that, once a position is established in a company, ongoing monitoring and analysis is conducted to ensure that Arcus original investment thesis hold true. The analysis included, but not limited to, financial models, valuation analysis and direct dialogue with management. Arcus keeps comprehensive records of ongoing interactions with investee companies.

Should the monitoring identify any issues or actions by the investee companies are not in the best interest of our clients, Arcus would engage with the company to ensure they understand the position of Arcus and seek resolution which may include divesting.

Principle 4 - Escalation:

Arcus always seeks to protect and enhance shareholder value by the most appropriate means available. The unique social and investment culture of Japan means that this will almost always involve private discussion with management rather than public confrontation. Arcus will escalate issues should it believe an investee company is being unresponsive to matters which it raised in previous discussions. It would consider issuing a formal letter to the Board passed through the Company Secretary to ensure specific concerns has been presented to the entire board of directors including non-executive and independent directors.

If appropriate Arcus may make their concerns known publicly through working with the relevant parties to attend and vote / speak at a company's general meeting.

However, it should be noted that only the beneficial owner of shares held in a Japan Security Depository Centre Inc. (“JASDEC”) account can attend Japanese meetings and vote. Though only the registered shareholder is given legal recognition, beneficial owners can work with the registered shareholder (typically, the sub custodian bank) to request permission to attend from the company. Though beneficial owners are not legally recognized in Japan, Japans Corporate Governance Code¹ encourages companies to give adequate consideration to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders. Beneficial owners can request from sub custodians confirmation regarding meeting attend/observer procedures, as these procedures may vary by company. The completed voting card is submitted at the entrance to the meeting place, so voting in advance electronically and voting via meeting attendance are essentially the same.

Principle 5 - Collective Action:

Public contests for control and investor revolts are extremely rare in Japan. However, in the event that Arcus is in a position to influence decision through collective action with other shareholders the decision will be made in light of the best long term interests of our investors. If it were in the best long term interest of the client; allowable by law and regulation; and considered the most effective approach, then AIAL might seek to engage with other shareholders in collective action. Any such activities would be considered on a case by case basis.

When determining whether to participate in a collective action, Arcus would consider such factors as the materiality of the issue of concern, position size, the need for confidentiality, and the compatibility of investor viewpoints and probability of a successful outcome.

Arcus never abdicates stewardship responsibilities to any other party in any collective action. It is not the policy of Arcus to allow others to convey our views.

Principle 6 - Proxy Voting and Disclosure:

Arcus has adopted formal policies and procedures for proxy voting that can be found in the Arcus Group Compliance Manual. In so far as it is practical AIAL will make best efforts to vote ensuring that it votes client securities in the best interests of its clients and that proxy voting activities adhere to the requirements of all applicable rules and generally fiduciary principles.

Principle 7 - Reporting:

Arcus keeps detailed records of interactions with investee companies. These records include stewardship and voting activities. The Compliance monitors to ensure detailed records are kept in line with policy and regulation. AIAL reports periodically on AIAL’s stewardship and voting activities to the governing bodies of the Funds.

Arcus intends to review its stewardship and voting activities annually, as suggested by the UK Stewardship Code. Given the size of the firm, it does not currently seek independent external assurance with regards to stewardship activities. For further information regarding the UK Stewardship Code, please contact Arcus via email info@arcusinvest.com

Japan Stewardship Code

The original Japan Stewardship Code was published in February 2014 and revised on 29 May 2017. It contains seven principles, the first six of which are comparable to the UK stewardship code:

¹ https://www.jpx.co.jp/english/news/1020/b5b4pj000000jvxxr-att/20180602_en.pdf

1. Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
3. Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.
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.
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.
6. Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

With respect to Japan Code Principle 7, it adds an extra layer of depth to the UK code by encouraging investors to contribute positively to investee companies' sustainable growth, by having in depth knowledge and the companies, and their business environment.

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.

Arcus has a long track record of investing in the Japanese market on behalf of our clients, and our fund manager(s) and analysts have a wealth of experience in engaging with Japanese companies. As a Japan specialist, knowledge, skills and resources are central to our investment process. Our experienced team have built up a deep knowledge and understanding of the companies in the Japanese market.

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