

HC Cadira Japan Sustainable Equity Fund



A sub-fund of the Harrington Cooper UCITS funds ICAV

Fact sheet as of 30 April 2024

FUND DESCRIPTION

The Fund aims to achieve long term sustainable capital appreciation by investing primarily in equity securities issued by Japanese companies participating in the transition to a more sustainable economy, and by extension those capable of capturing sustainability-related value. The Fund is classified as SFDR article 9 and invests primarily in sustainable investments by acquiring a selection of equity securities based on the companies issuing these equity securities' compliance with environmental, social and/or governance criteria.

MONTHLY COMMENTARY *1

In April, the Fund posted a loss of -0.57%, underperforming the TOPIX Total Return Index which fell -0.27%.^{*2}

The Japanese stock market, which has been resilient so far, was affected by currency volatility, with the yen temporarily falling to the 160-yen level against the dollar as the Bank of Japan maintained its current monetary policy and speculation of an early U.S. interest rate cut receded.

Real Estate and Financials contributed positively while Healthcare and Materials contributed negatively. As for individual companies, Mitsubishi Estate Co., Ltd. (8802), Sekisui House, Ltd. (1928) and Tokio Marine Holdings, Inc. (8766) were positive contributors. On the other hand, Sunwels Co., Ltd. (9229), Shin-Etsu Chemical Co., Ltd. (4063) and Nippon Telegraph And Telephone Corp. (9432) were negative contributors.

The yen-dollar exchange rate hit a 34-year low of 160 yen on April 29, 2024. The Bank of Japan's cautious approach to interest rate hikes amidst a 2% inflation rise is seen as pressuring the yen to weaken. A weaker yen has positive effects such as increased earnings for export-oriented companies and manufacturing shifting back to Japan, exemplified by TSMC's semiconductor facility in Kumamoto. However, it also brings negative effects like declining value of yen-denominated assets and higher import prices, risking earnings deterioration for some companies and potentially fueling public discontent. At CCM, our approach to currency fluctuations is to focus on analyzing the impact on company earnings rather than taking a top-down view that adjusts the entire portfolio based on predictions of currency trends.

Portfolio Managers	Yu Shimizu Toshiyuki Matsushita
Strategy AUM (JPY billion) ^{*,*3}	2.40
Fund AUM (Net, JPY billion) ^{*3}	2.40
Fund Inception	26-Oct-23
SFDR Classification ^{*4}	Article 9
Legal Structure	UCITS ICAV
Investment Style	All Cap, Core, ESG, Engagement, Impact
Reference Index ^{*5}	TOPIX (Total Return)
Dealing Frequency and Cut-off	Daily, T-1 at 12:00 (Ireland)
Investment Manager	Cadira Capital Management ("CCM")
Share Classes Available	JPY, USD, GBP, EUR

FUND PERFORMANCE

30 January 2024 = 100

Time Period	1 Month	3 Month	6 Month	1 Year	Cumulative			
					3 Year	5 Year	10 Year	Since Inception
GBP Founder ACC Class ^{*2}	-0.57%	7.56%	-	-	-	-	-	8.23%
TOPIX Total Return ^{*5}	-0.27%	8.58%	-	-	-	-	-	9.62%

ESG & CLIMATE CHANGE ^{*6}

	Fund	TOPIX ^{*5}
ESG Risk Score	20.76	23.33
Carbon Intensity (C/R) Scope 1+2	32.04	61.39
Carbon Intensity (C/R) Scope 3	525.19	773.75

FUND CHARACTERISTICS ^{*}

	Fund
Annualized turnover	15.05%
Number of holdings	53
Cash	2.29%

*: Source: Cadira Capital Management Co. Ltd, internal Estimates.

*1: For additional commentary, please see page 3. Please also visit our website for more information at <https://cadiracm.com/#news>.

*2: GBP Founder ACC Class Shares. Performance shown is net of fees and in Japanese yen. Performance inception is as of January 31, 2024.

*3: Source: Northern Trust International Fund Administration Services (Ireland) Limited

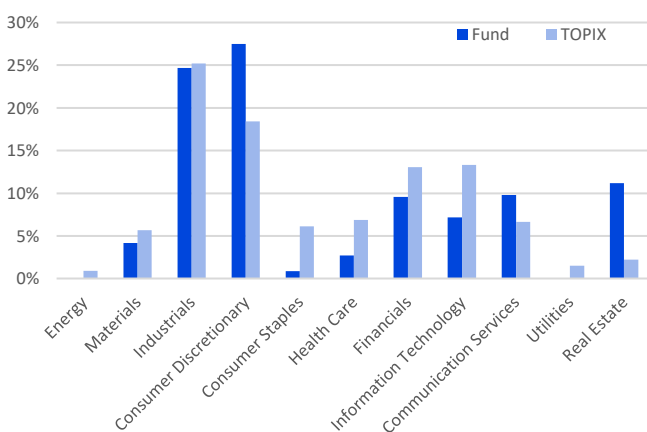
*4: Sustainable Finance Disclosure Regulation ("SFDR") is part of the EU financial policy framework of regulatory measures aimed at providing consistent disclosure requirements in relation to sustainability.

*5: TOPIX Total Return Index is a broad index of the Japanese equity market used for reference purposes only and does not necessarily represent the risk characteristics of the Fund.

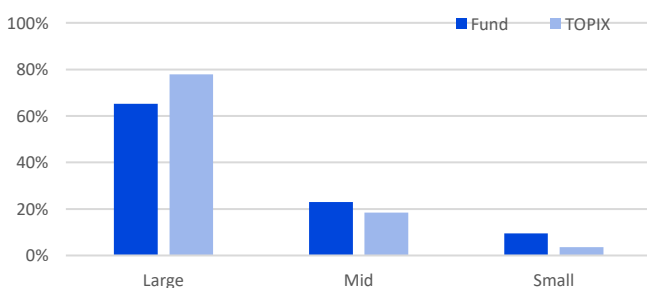
*6: Source: Sustainalytics. ESG Risk Score corresponds to the Sustainalytics ESG Risk Exposure Category of the Fund. This score is defined by Sustainalytics and considers a company's sensitivity or vulnerability to ESG risks. C/R is Carbon Emission to Revenue in Tonnes CO2e/JPY 100mn. These data providers may retroactively correct their data.

TOP 10 HOLDINGS (% OF NAV) * , * 1, 2

	Ticker	Name	% NAV	GICS Sector	Market Cap (JPY Billion)	Theme	SDGs
1	5108 JP	BRIDGESTONE CORP	5.00%	Consumer Discretionary	4,750	Environment	9
2	8766 JP	TOKIO MARINE HOLDINGS INC	4.91%	Financials	9,303	Environment	13
3	7267 JP	HONDA MOTOR CO	4.84%	Consumer Discretionary	9,984	Social Order	11
4	8801 JP	mitsui fudosan	4.80%	Real Estate	4,631	Social Order	8
5	1928 JP	SEKISUI HOUSE	4.67%	Consumer Discretionary	2,330	Environment	11
6	8802 JP	MITSUBISHI ESTATE CO	4.63%	Real Estate	3,687	Social Order	8
7	9432 JP	NIPPON TEL & TEL CORP	4.30%	Communication Services	16,281	Environment	9
8	1911 JP	SUMITOMO FORESTRY CO	4.28%	Consumer Discretionary	1,013	Environment	15
9	4063 JP	SHIN-ETSU CHEMICAL CO	4.18%	Materials	13,179	Environment	9
10	6501 JP	HITACHI LTD	3.90%	Industrials	12,892	Environment	7
Total			45.52%				

GICS SECTOR WEIGHT (% OF NAV) * , * 1

SDGs BREAKDOWN (% OF NAV) * , * 1, 2

SDGs	%NAV
1. No poverty	3.19%
2. Zero hunger	0.00%
3. Good health and well-being	5.37%
4. Quality education	6.63%
5. Gender equality	0.00%
6. Clean water and sanitation	2.37%
7. Affordable and clean energy	8.82%
8. Decent work and economic growth	14.26%
9. Industry, innovation and infrastructure	22.53%
10. Reduced inequalities	0.00%
11. Sustainable cities and communities	20.37%
12. Responsible consumption & production	1.10%
13. Climate action	6.22%
14. Life below water	0.60%
15. Life on land	4.28%
16. Peace, justice, and strong institution	1.97%
17. Partnerships for the goals	0.00%

MARKET CAP BREAKDOWN (% OF NAV) * , * 1, 3

THEME ALIGNMENT (% OF NAV) * , * 1, 2

Theme	%NAV
Environment	49.27%
Climate	30.02%
Ecosystem	19.25%
Social Order	27.96%
Fairness	10.51%
Economy	11.71%
Security	5.74%
Quality of Life	20.48%
Public Health	2.57%
Living Condition	13.84%
Working Condition	4.07%

SHARE CLASS DETAILS * 4

SHARE CLASS	ISIN CODE	OCF	Minimum Investment
GBP FOUNDER ACC	IE000IQFAU24	0.55%	GBP Equivalent of USD 300m
EUR FOUNDER ACC	IE000PNAGNK8	0.55%	EUR Equivalent of USD 300m
USD FOUNDER ACC	IE000G4CGOJ8	0.55%	USD 300m
JPY FOUNDER ACC	IE000TQGY8P2	0.55%	JPY Equivalent of USD 300m

*: Source: Cadira Capital Management Co. Ltd. Internal Estimates.

*1: Source: Northern Trust International Fund Administration Services (Ireland) Limited

*2: For the SDG and Theme category classifications, the Investment Management team selects one that best fits each company based on their proprietary research.

*3: CCM defines market size as follows: Small is defined as those with market capitalization less than or equal to JPY 100 billion, Mid is defined as those with market capitalization greater than JPY 100 billion but less than or equal to JPY 1 trillion, and Large is defined as those with market capitalization greater than JPY 1 trillion.

*4: Source: Harrington Cooper Asset Management Limited

Performance Review

In April, the TOPIX Total Return fell slightly by -0.27%. The Japanese stock market, which has been resilient so far, was affected by currency volatility, with the yen temporarily falling to the 160-yen level against the dollar as the Bank of Japan maintained its current monetary policy and speculation of an early U.S. interest rate cut receded.

The Fund returned -0.57%.^{*1} Real Estate and Financials contributed positively while Healthcare and Materials contributed negatively. As for individual companies, Mitsubishi Estate Co., Ltd. (8802), Sekisui House, Ltd. (1928) and Tokio Marine Holdings, Inc. (8766) were positive contributors. On the other hand, Sunwels Co., Ltd. (9229), Shin-Etsu Chemical Co., Ltd. (4063) and Nippon Telegraph And Telephone Corp. (9432) were negative contributors.

Contributors

Mitsubishi Estate: We value their strong asset base in the Marunouchi and Otemachi areas. Due to rising prices and interest rates, we expect the company's free cash flow to increase from its abundant holdings of existing properties and their high utilization rates. The stock price was strong as the real estate sector remained steady, and the market took positively the fact that Mizuho Securities raised its stock rating on April 11.

Sekisui House: This company's growth driver is its aggressive overseas expansion, particularly in the United States. We like the company's sustainability initiatives, such as ZEH and Five Trees. The share price has been strong on the strength of the new housing market in the U.S. and the weak yen.

Tokio Marine Holdings: We have high expectations for their growth, particularly in domestic and overseas specialty insurance, and for their contribution to sustainability and improved capital profitability through the introduction of catastrophe prevention and mitigation solutions. Although there was no particular news, the reduction in strategic holdings seems to continue to be well received.

Detractors

Sunwels: The company operates nursing homes specializing in Parkinson's disease. There is a strong need for patients who are not receiving adequate treatment, and there is significant room for growth as the company continues to open new locations. The decline continues, partly as a reaction to the strong +27% gain in March. The continued underperformance of the TSE Growth Market also had an impact.

Shin-Etsu Chemical: We like the company's abundance of cash and its potential to improve its competitiveness by promoting environmental initiatives, such as decarbonizing its manufacturing processes. On April 25, the company reported financial results for the first quarter. Both the actual results and the guidance for the first quarter were below market expectations, which was not well received by the market.

Nippon Telegraph and Telephone Corporation: We value the company's telecommunications and power infrastructure network, customer base, and basic research capabilities in its laboratories. We are particularly interested in the company's strength in improving energy efficiency through IOWN. There has been no news on the company this month, but the information and telecommunications sector overall has been soft.

Our Activities

In April, we initiated a position in a company that offers unique cloud solutions in the legal field.^{*2} We sold all our position in RION because the value gap narrowed as the stock price rose, and their hearing aid business, which we believe is important from a social impact perspective, slowed and its share within the company's business declined. We increased the weight of Katitas and Hitachi Zosen and decreased the weight of Rohm and Sony.

At Cadira Capital Management, our mission is "Connecting the Investment Chain and Beyond". Collaborative relationships with internal and external stakeholders are essential to achieving our mission. We therefore seek to deepen the relationship of trust with our stakeholders by disclosing specific details of our activities, including dialogue with the companies in which we invest.

Our Dialogue with SBI Sumishin Net Bank

SBI Sumishin Net Bank is a company owned 34% each by Sumitomo Mitsui Trust Bank, Limited ("SMTB") and SBI Holdings, Inc. Originally established as a trust bank management company, SBI Holdings invested in the company in 2006 and began operating as a bank in 2007. The company continued to grow as an online bank and went public about a year ago in March 2023.

What piqued our interest in SBI Sumishin was the company's top message:

With technology, in the spirit of integrity, we will create a society where affluence circulates.

Why does technology continue to evolve?

It must not be used to create monopolies or increase the uneven distribution of wealth. Rather, it must be to create opportunities for all who are in need. To inspire a world of diversity and dynamism, leading to a vibrant cycle of abundance in society. We believe that technology should only exist to serve these purposes.

Our mission is to carry on the spirit of public service and integrity, which is the very reason for the existence of banks. Moving away from monopolies to fair competition. Moving toward a society where affluence circulates. Based on our DNA, which is fortified with creativity and innovation. With technology, in the spirit of integrity we will create an infrastructure where wealth can be more evenly shared with all people.

Be brave and act without fear.

President and CEO
Noriaki Maruyama

^{*1}: GBP Founder ACC Class Shares. Performance shown is net of fees and in Japanese yen. Performance inception is as of January 31, 2024.

^{*2}: Please note that we do not disclose the names of companies with a market capitalization of 100 billion yen or less.

Technology and financial development make the world more convenient, but if we are not careful, they can have the side effect of increasing inequality. We asked ourselves, "What kind of company is SBI Sumishin, whose top management is aware of this issue?"

Leveraging its cost competitiveness as an online bank and its ability to build IT systems, SBI Sumishin has become the leading lender in the core mortgage loan market in terms of the amount of new transactions (the company estimates its share to be 7.4% in 2023). The company's high operational efficiency has enabled it to offer competitive loan rates and attract more customers. The company's strategy is also to avoid competing on interest rates by improving its services, such as face-to-face interaction. The company has indicated that it will continue to grow by increasing its market share to 10% by 2025 and 20% beyond that. The current upward trend in interest rates is favorable to the company's profit outlook, as the company's business structure allows it to increase its profit level as interest rates rise.

An important part of face-to-face customer service is the relationship with partner companies. SBI Sumishin provides banking functions through a business model called "Bank as a Service" (BaaS), in which SBI provides banking functions to companies that already have customer contact. For example, Japan Airlines, Takashimaya and Yamada Denki all have partnerships with SBI Sumishin. As the company has no branches of its own, it has been able to build good partnerships by working as a platform.

Growth in corporate accounts has also been strong. On average, the number of corporate accounts has grown by 35% over the past three years. Strengths of the company's corporate services include the speed of account opening, the ease of loan approval, and the convenience of the mobile app. In fact, we have heard from start-up business owners that it takes a very long time to open an account at a large bank, and that SBI Sumishin's quick vetting process has saved them time and money.

When looking at SBI Sumishin from an investor's perspective, two things should be noted. One is the parent-subsidary listing and the other is the fact that the company has only recently gone public.

Regarding the parent-subsidary listing, we are cautious about investing in companies where the major shareholder is a listed company, i.e. a "subsidiary" of a parent-subsidary listing. The main reason for this is that there are concerns about weak governance. For example, the parent company may put its own interests first and sacrifice the interests of minority shareholders. Even more worrying, if the subsidiary's management team is assigned to the subsidiary from the parent company, they may lack the ability to manage a listed company.

In the case of SBI Sumishin, we believe there is no need to be overly concerned about the above issues. In terms of shareholder composition, SMTB and SBI are equally invested in the company, making it difficult for either party to prioritize only its own interests. Rather, the balance between SMTB, a traditional company, and SBI, a company with a strong growth orientation, has created a structure that combines governance and business promotion capabilities, which has had a positive effect on management.

In addition, the current top management, President Noriaki Maruyama, was involved in launching businesses within SBI Group in the early 2000s, including a loan comparison website and a mortgage bank, and has served as President of SBI Sumishin since 2014. He has experience in starting and growing businesses, and his ability to effectively manage and build a growth model for SBI Sumishin over the past 10 years is worthy of recognition.

Secondly, as the company has just gone through an IPO, it may be more difficult to research such a company than a regular stock due to the lack of historical data. There is risk that the composition of shareholders may not be stable, resulting in greater volatility in price movements. Even in such a situation, if a company has a competent management team, a superior business model and is making a positive impact on the world, but for some reason its value in the market is low, it can be a very good investment opportunity. In the case of SBI Sumishin, the company has already built a strong business foundation as a corporation and has a solid disclosure record, which makes it worthy of investment consideration.

We appreciate SBI Sumishin's Investor Relations team's willingness to gather information. When we requested a visit to one of their partner offices, they immediately arranged it. On the day of the visit, the director in charge of IR accompanied us, and the team showed a willingness to actively seek input from the sales managers of the branches we visited. Both the speed with which the company responded to the investor's request and its willingness to link the opportunity for a site visit to its own improvements were seen as examples of how the company runs its business with a healthy sense of urgency.

We have also asked SBI Sumishin to strengthen its sustainability response. The company has already made some disclosures on its website, but these are not yet systematic. The company is aware of this issue and has stated that it will strengthen its disclosure. The company has stated that it will not only list ESG risks, but also work on the positive impact it creates. We would like to continue dialogue with the company after the disclosure is completed.

Our Dialogue with Mitsubishi Research Institute, Inc.

Cadira Capital Management participated in the "MRI DEMO DAY 2024" (DEMO) held by the Mitsubishi Research Institute (MRI) and the Initiative for Co-Creation of the Future (ICF). It was a very unique event from the perspective of the world becoming more impact-oriented.

Established in 1970 by Mitsubishi Group companies as a pioneering think-tank in Japan, MRI's two main businesses today are think-tank consulting services and IT services. The consulting service has a competitive edge in the government sector, while the IT service focuses on the financial and credit card sectors. The company is focused on developing and monetizing recurring-revenue businesses, such as public-private co-creation solutions that leverage the knowledge it has developed in the public sector and wholesale energy trading. The company aims to solve societal problems through its business activities, with the goal of achieving a prosperous and sustainable society in the age of "10 billion people, 100 years old". To achieve this goal, MRI promotes sustainable management, which is a business model with a very strong impact-oriented approach, by promoting the dissemination and expansion of the three values: social value, non-financial value and financial value.

ICF is a membership organization operated by MRI that aims to solve social problems through business, using innovative technologies and open innovation. It has identified 31 social issue themes, grouped into 6 areas, as the starting point for its activities. MRI aims to create collective impact through multi-stakeholder co-creation and social implementation of solutions to social problems.

This year's DEMO showcased various efforts to create greater social impact, including examples of MRI's co-creation efforts, with each company using social issues as the starting point for their activities. More than 400 people attended the event, both in-person and online, and it was an exciting opportunity to find partners and learn how to create innovation.

The cases of collaboration from start-ups to large corporations to create social impact were instructive, and we realized that the involvement and support from different angles of MRI and ICF helped solve problems that would be difficult to achieve through the efforts of each company alone. At CCM, we believe that these activities can be an important factor for companies participating in DEMO when considering a Theory of Change.

We have been in regular dialogue with MRI, including participation in these events and our feedback, and we have been able to evaluate MRI's positioning as a think tank that consistently works to solve social problems, from proposals to social implementation through consulting and IT services, as well as their efforts to realize social value. We also expect that these activities will lead to an increase in the value of the company and strengthen the explanations of the social value KPIs.

Outlook

The yen-dollar exchange rate reached 160 yen on April 29, 2024. This is the yen's weakest level in 34 years. The Bank of Japan's policy of not raising interest rates too quickly in the face of a 2% rise in prices can be seen as putting pressure on the yen to weaken.

Looking at the real effective exchange rate, which is an index of currencies, the current exchange rate level is the weakest since the introduction of the floating exchange rate system in 1973.^{*1} As of the end of March 2024, the real effective exchange rate is ¥70.94, continuing a steady decline from its previous peak of ¥194.15 in April 1995. The pace of depreciation has accelerated, especially after 2021, with a 27% decline in the thirty-eight months from January 2021 to March 2024.

Looking at the relationship between the dollar and the yen, we can see the degree of undervaluation: as of the end of January 2024, the consumer price-based purchasing power parity (PPP) is worth ¥108.02 (0.926 cents per yen) to the dollar, but the real effective exchange rate is ¥146.92 (0.681 cents per yen)^{*2}. This means that the yen is 26.5% undervalued against the dollar. This means that visitors bringing US dollars to Japan feel that things in Japan are quite undervalued, which can help explain the remarkable increase in the number of foreign tourists. In April 1995, the PPP was ¥197.90, and the real effective exchange rate was ¥83.53, making the dollar 2.4 times more expensive. If we assume that export prices are based on the real effective exchange rate and costs are based on the PPP, this would mean costs of ¥197 and selling prices of ¥83, which is by no means a profitable level. Therefore, Japan lost its export competitiveness and was forced to move its production bases overseas and cut costs drastically.

A weaker yen is expected to have several positive effects on the Japanese economy. The biggest impact will be an increase in the earnings of export-oriented companies. In addition, manufacturing is beginning to move to and move back to Japan, which is expected to stimulate the local economy. The establishment of TSMC's semiconductor manufacturing facility in Kumamoto is a symbolic event. The nominal GDP of Kumamoto Prefecture in 2020 is 6.1 trillion yen, but according to Kyushu Financial Group, the 10-year economic impact of TSMC's establishment is estimated at 6.9 trillion yen (including a GDP impact of 3.4 trillion yen), indicating the magnitude of the impact.^{*3,4}

On the other hand, a weaker yen also has negative effects, such as a decline in the value of yen-denominated assets and higher import prices. Companies that are poorly positioned, such as retailers that sell imported goods, face an increased risk of margin compression. In addition, public discontent will increase if the yen's depreciation leads to higher import prices. Given that the government's approval rating is already low, in the 20% range, there is a risk that rising discontent could lead to political instability.

At CCM, we build our portfolio through a series of investment decisions made by analyzing the fundamentals of each individual company. Therefore, our approach to currency fluctuations will focus on analyzing the impact on company earnings rather than a top-down approach that adjusts the entire portfolio based on predictions of currency trends.

*1: <https://www.boj.or.jp/en/statistics/market/forex/jikko/index.htm>

*2: <https://www.iima.or.jp/en/research/ppp.html>

*3: https://www.esri.cao.go.jp/jp/sna/data/data_list/kenmin/files/contents/main_2020.html

*4: https://ssl4.eir-parts.net/doc/7180/ir_material32/212938/00.pdf

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