

HC Cadira Japan Sustainable Equity Fund



A sub-fund of the Harrington Cooper UCITS funds ICAV

Fact sheet as of 30 August 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 August, the Fund returned -2.15%, outperforming the TOPIX Total Return Index which declined by -2.90%.^{*2}

The Japanese market was very volatile in August. It plunged early in the month amid uncertainty over the U.S. economy, domestic interest rate hikes, and the rapid appreciation of the yen due to the unwinding of the yen carry trade, among other factors. However, BOJ Deputy Governor Uchida commented that interest rates would not be raised amid unstable financial and capital markets, and the market quickly rebounded.

Healthcare and Communication Services were positive contributors to the Fund's performance. Among individual companies, Sunwels Co., Ltd. (9229), Hitachi, Ltd. (6501) and Insource Co., Ltd. (6200) were the largest contributors. On the other hand, Consumer Staples and Information Technology were negative contributors. Among individual companies, Horiba, Ltd. (6856), Nissin Foods Holdings Co., Ltd. (2897) and Hitachi Zosen Corporation (7004) were the largest detractors.

The positive impact of the strong yen scenario will be felt by domestic demand-driven companies, which will benefit from lower prices for imported raw materials. As the current labor shortage in Japan triggers a shift in consumers' deflationary mindset and understanding of rational price increases, companies with strong product competitiveness will be able to expand their profit margins more easily. While we do not make investment decisions based solely on the macroeconomic environment, we constantly monitor changes in the market environment as they affect the performance and valuation of individual companies. For the time being, we will manage our investment activities by closely monitoring changes in the market environment following the market decline.

Portfolio Managers	Yu Shimizu Toshiyuki Matsushita
Strategy AUM (JPY billion) ^{*,*3}	7.3
Fund AUM (Net, JPY billion) ^{*3}	7.3
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

Time Period	1 Month	3 Month	6 Month	1 Year	Cumulative			
					3 Year	5 Year	10 Year	Since Inception
GBP Founder ACC Class ^{*2}	-2.15%	1.11%	4.51%	-	-	-	-	8.54%
TOPIX Total Return ^{*5}	-2.90%	-2.02%	2.57%	-	-	-	-	8.65%

ESG & CLIMATE CHANGE * 6

	Fund	TOPIX ^{*5}
ESG Risk Score	20.76	23.08
Carbon Intensity (C/R) Scope 1+2	33.12	57.31
Carbon Intensity (C/R) Scope 3	409.72	774.78

FUND CHARACTERISTICS *

Annualized turnover	20.23%
Number of holdings	55
Cash	1.76%

*: 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.

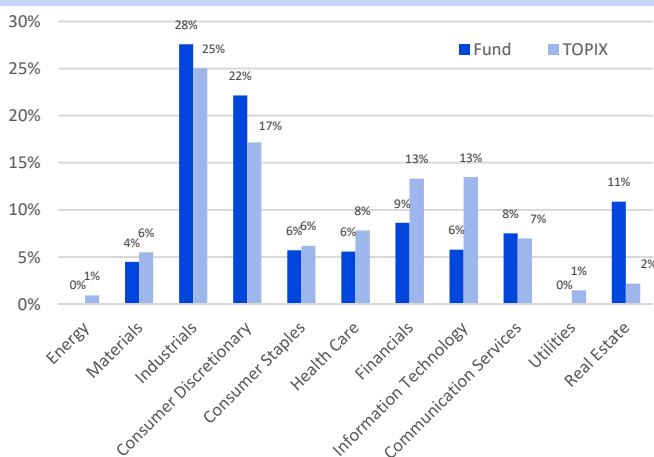
*5: TOPIX Total Return Index is a broad index of the Japanese equity market used for reference purposes only and does not necessarily represent the risk characteristics of the Fund.

*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	8801 JP	MITSUI FUDOSAN	4.69%	Real Estate	4,424	Social Order	8
2	1928 JP	SEKISUI HOUSE	4.66%	Consumer Discretionary	2,506	Environment	11
3	1911 JP	SUMITOMO FORESTRY CO	4.62%	Consumer Discretionary	1,324	Environment	15
4	4063 JP	SHIN-ETSU CHEMICAL CO	4.46%	Materials	13,507	Environment	9
5	8766 JP	TOKIO MARINE HOLDINGS INC	4.04%	Financials	11,912	Environment	13
6	6501 JP	HITACHI LTD	3.61%	Industrials	15,245	Environment	7
7	7267 JP	HONDA MOTOR CO	3.52%	Consumer Discretionary	8,696	Social Order	11
8	8802 JP	MITSUBISHI ESTATE CO	3.27%	Real Estate	3,409	Social Order	8
9	6098 JP	RECRUIT HOLDINGS CO LTD	3.16%	Industrials	14,284	Quality of Life	1
10	5108 JP	BRIDGESTONE CORP	2.99%	Consumer Discretionary	4,414	Environment	9
Total			39.03%				

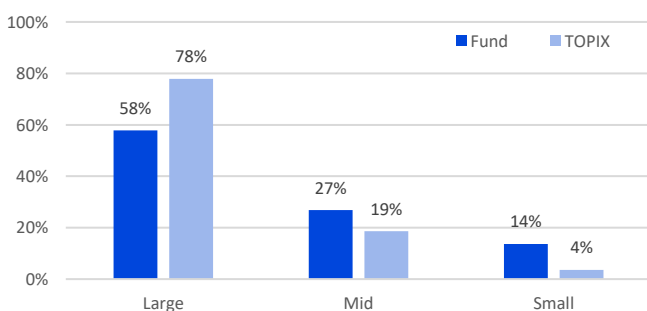
GICS SECTOR WEIGHT (% OF NAV) ^{*,*1}



SDGs BREAKDOWN (% OF NAV) ^{*,*1,2}

SDGs	%NAV
1. No poverty	3.16%
2. Zero hunger	0.00%
3. Good health and well-being	10.57%
4. Quality education	4.76%
5. Gender equality	0.00%
6. Clean water and sanitation	2.37%
7. Affordable and clean energy	7.95%
8. Decent work and economic growth	12.77%
9. Industry, innovation and infrastructure	16.66%
10. Reduced inequalities	0.00%
11. Sustainable cities and communities	24.76%
12. Responsible consumption & production	1.20%
13. Climate action	5.88%
14. Life below water	0.73%
15. Life on land	4.62%
16. Peace, justice, and strong institution	2.81%
17. Partnerships for the goals	0.00%

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



THEME ALIGNMENT (% OF NAV) ^{*,*1,2}

Theme	%NAV
Environment	41.06%
Climate	22.61%
Ecosystem	18.45%
Social Order	26.05%
Fairness	10.07%
Economy	11.87%
Security	4.12%
Quality of Life	31.13%
Public Health	7.36%
Living Condition	19.14%
Working Condition	4.64%

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

The Japanese market was very volatile in August. It plunged early in the month amid uncertainty over the U.S. economy, domestic interest rate hikes, and the rapid appreciation of the yen due to the unwinding of the yen carry trade, among other factors. However, BOJ Deputy Governor Uchida commented that interest rates would not be raised amid unstable financial and capital markets, and the market quickly rebounded. Over the month, the TOPIX Total Return fell by -2.90%.

The Fund returned -2.15%.^{*1} Healthcare and Communication Services were positive contributors to the Fund's performance. Among individual companies, Sunwels Co., Ltd. (9229), Hitachi, Ltd. (6501), Insource Co., Ltd. (6200) were the largest contributors. On the other hand, Consumer Staples and Information Technology were negative contributors. Among individual companies, Horiba, Ltd. (6856), Nissin Foods Holdings Co., Ltd. (2897), Hitachi Zosen Corporation (7004) were the largest detractors.

Contributors

Sunwels: The company operates nursing homes specializing in Parkinson's disease. There is a strong demand from patients who are not receiving adequate treatment, and there is significant room for growth as the company continues to open new locations. On August 8th, the company announced its first quarter results and the market responded positively, with sales up 43.5% and operating income up 53.8% YoY. The share price also benefitted from the strong performance of small and mid-cap stocks on the Tokyo Stock Exchange.

Hitachi: We look forward to higher margins from Lumada, a solution service that leverages digital technology. The company is also improving its competitiveness in railways and power grids. On July 31st, the company announced its first quarter results, and the market responded favorably to the strong results, with adjusted operating income up 51.4% YoY.

Insource: The company provides adult education and consulting services. We like the fact that the company's business model is getting stronger amid the tailwind of human capital empowerment. In July, the company raised its full-year earnings forecast for the fiscal year ending September 30, 2024, and the share price continued its rise on the back of the company's strong performance. The resilience of the TSE's emerging mid- and small-cap stocks was also a positive factor.

Detractors

Horiba: Horiba has a corporate structure that emphasizes the development of a comfortable working environment for researchers. As a result, the company has a high market share in niche areas, which we like. On August 8th, the company announced its second quarter financial results. Although recurring profit was up 6.3% YoY, the market was not happy with the results as there were concerns that the company would fall short of its full year guidance.

Nissin Foods Holdings: The company has a domestic market share of over 50% in the cup noodle business and is expanding overseas mainly within the U.S. We like the company's sustainability perspective in adding high value to its products, and we also like its ability to increase profitability through price hikes and overseas expansion. During the month, the market was not happy about a warning from the Japan Fair Trade Commission for possible violation of the provisions of the Antimonopoly Law regarding instant noodles sold by the company, which the company was suspected of allowing to be sold at retail prices set by the company.

Hitachi Zosen: The company's main business is "environmental equipment and facilities" such as waste incinerators. We also appreciate the revitalization brought about by the change of president. On August 5th, the company announced its 1st quarter results, which showed a narrowing of the deficit compared to the same period last year, but the share price made a slow recovery after the sharp drop across the entire market early in the month.

Our Activities

We initiated positions in two names this month.

Kakaku.com, Inc. (2371): The company's two main businesses are the operation of Japan's largest price comparison site, <https://kakaku.com/>, and the gourmet food site, <https://tabelog.com/>. We feel that the change in president has revitalized the company. In addition, tabelog has become a more comprehensive tool for supporting restaurants, and we believe its importance is growing under the current labor shortage environment.

A manufacturer of sensors for industrial and other applications:^{*2} We invested in this company because of its strength in many top niche products and because, since the change in president, it has strengthened its direct sales structure, which is expected to increase solution sales and improve margins.

We also exited from one name this month.

Fukui Computer Holdings, Inc. (9790): Although sales of BIM and CIM products, which are their growth drivers, have been strong, we have determined that it will take time for the company's business performance to improve due to increased personnel and other costs, and therefore exited the name.

We increased the weight of companies such as Ajinomoto Co., Inc. (2802), SBI Sumishin Net Bank, Ltd. (7163), while decreasing the weight of companies such as Bridgestone Corporation (5108), Nippon Telegraph And Telephone Corporation (9432).

^{*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.

At CCM, 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 Nissin Foods Holdings Co., Ltd.

Nissin Foods Holdings was founded in 1958 by Momofuku Ando, and its core business is the manufacture and sale of instant noodles. Since its founding, the company has strived to create new "foods" by improving its product development and marketing capabilities. Cup Noodle, the company's flagship product, was launched in 1971 and created the instant noodle in a cup, a product genre that had never existed before. Innovations such as easy-to-carry containers and appropriate noodle forming methods have led to the continuous creation of new products.

The company is currently focusing on product development with an emphasis on the environment and health. On the environmental front, the company is promoting the use of vegetable proteins, which have a lower environmental impact than animal proteins. For example, one of the main ingredients in Cup Noodles is diced meat which is made from soybeans to reduce environmental impact. In addition, research and development of vegan and cultured products is underway, with the goal of further reducing environmental impact in the future through technology and marketing opportunities.

On the health front, Nissin Foods Holdings is focusing on the issue of unbalanced calorie and nutrient intake among people today. Specifically, the company has identified increased health risks due to excess calories and hidden malnutrition caused by improper diets as social issues. To address these issues, the company is working to produce and market nutritionally balanced, easy-to-eat foods that are readily available. The most advanced product is a complete nutritional meal. In 2021, the company began serving this as a meal in its cafeteria, and in 2022 it began offering this as a packaged product for the general public under the brand name "KANZEN MEAL" (perfect meal). The "KANZEN MEAL" brand contains 33 nutrients, including vitamins and minerals as defined by the "Dietary Reference Intakes for Japanese" published by Ministry of Health, Labour and Welfare, and is also designed to be delicious. The brand offers a variety of instant noodles and frozen meals, with cumulative shipments reaching 28 million servings in June 2024. Currently, the KANZEN MESHU is only available in Japan, but the company is looking to expand overseas in the future. As nutritional balance issues differ from country to country, the company is considering developing products tailored to local needs.

Nissin Foods Holdings also conducts very unique sustainability disclosure activities. For example, the company discloses the results of its analysis of the relationship between non-financial KPIs and corporate value, where it discloses that "the number of products contributing to social issues" has a 1.0% positive impact on corporate value in the current year.

In terms of communication, the company also uses its marketing capabilities, which is one of its strengths, to implement unique initiatives. In particular, the "VALUE CREATION BOOK" (*1) is a booklet based on the content of the Integrated Report, with an emphasis on clarity and design. This booklet was created in collaboration with the branding and marketing departments and incorporates elements of Japanese culture such as kabuki and anime in its design. The VALUE CREATION BOOK was highly acclaimed by global standards, winning the top award at the International ARC Awards 2023, the world's largest annual report competition, and helping to raise the company's profile.

Cadira Capital Management holds regular meetings with Nissin Foods Holdings. In our meetings, we confirm the corporate thinking behind its unique initiatives while communicating our expectations for its continued promotion of these activities. We believe that using the company's outstanding marketing capabilities to raise consumer awareness of environmental and health issues will bring significant value to society. In response to this expectation, the company said, "We want to make it clear that health promotion leads to results such as reduced medical costs". In this way, Nissin Foods Holdings has a well-functioning dialogue cycle in which feedback on disclosure is sought and reflected in the next disclosure, and this system is highly commendable. In addition, Nissin Foods Holdings has requested our feedback on its upcoming integrated report, which we plan to include as a main agenda item at our next meeting and promote our dialogue.

At the same time, we pointed out areas for improvement. For example, when we became aware that the ESG information provider's data on Nissin Foods Holdings might be incomplete, we contacted the company and the responsible department promptly reviewed and corrected the data. Had this data deficiency been left unaddressed, the company's reputation for health and safety could have been damaged, and we believe that the prompt and appropriate response contributed to increasing corporate value. At our recent meeting, we also reviewed the background and status of the company's response to the Fair Trade Commission's warning that the company may have violated resale price maintenance provisions. The company stated that management is aware of the issue and is working to improve its operations. We expect the company to take appropriate action and will continue to monitor future developments.

(1*) https://www.nissin.com/en_ip/ir/library/annual/

Meeting with Our External Advisors

Since our inception, Cadira Capital Management has held monthly one-on-one meetings with external advisors to exchange ideas and gain multi-dimensional perspectives on our investment and sustainability activities.

We currently have five advisors with diverse backgrounds, including experience as fund managers, academics, and members of environmental NGOs, each providing opinions and discipline based on their expertise. One advisor also lives in western Japan, providing a perspective from a region far from Tokyo. Our network of advisors has also served as a starting point for other engagement activities, such as hosting sustainability seminars for listed companies.

We recently had the very first gathering for all of our advisors and our team members to meet in person to introduce each other and give feedback on what they are working on and what Cadira is doing. While the advisors were impressed that our aspirations and philosophy are beginning to be translated into actual business and that it is playing a market-building role to move the impact investing industry in Japan forward, they noted that they expect further evolution in measuring impact and verifying our contribution to change in the companies in which CCM invests. Afterwards, all participants attended a reception where experts from various fields engaged in an active exchange of ideas, which was a very meaningful opportunity for Cadira members.

We plan to publish an annual report early next year, which will also serve as a report card on the first year of operations, and we plan to feature the voices of advisors in the report.

Outlook

The Japanese stock market plunged in the first half of August, with the TOPIX posting historic declines of -6.1% on August 2 and -12.2% on August 5, briefly exceeding -20% since the beginning of the month. The catalyst for the sharp decline in stock prices was the sudden appreciation of the yen in the foreign exchange market. The interest rate differential between Japan and the U.S. narrowed as long-term interest rates in the U.S. trended lower, and the dollar-yen exchange rate, which had been in the 160 yen/dollar range, fell to the low 140 yen/dollar range, further supported by the Bank of Japan's interest rate hike.

Fortunately, the stock market soon regained its composure, rising 23% from the low to the end of the month, while the dollar-yen exchange rate recovered only 3%. The downward trend in US interest rates is becoming clearer, as Fed Chairman Jerome Powell made clear on August 23rd regarding monetary policy adjustments, and we will need to watch closely for changes in the market situation.

Monetary easing in the U.S. changes the way asset values are viewed around the world, and while undervalued stocks have performed well in Japan during the U.S. monetary expansion since 2021, this situation could change, and blue chip and growth companies could be repriced.

In addition, the weakening of the yen since 2021 has greatly benefited the performance of large global companies, but this trend could be reversed if lower U.S. interest rates lead to a stronger yen. The average exchange rate last year and the assumed exchange rate for the current fiscal year are estimated to be around 145 yen to the dollar. If the yen appreciates from this level, export-oriented companies will see a decline in profits compared with last year's performance or their initial forecasts, and there is concern that the direction of short-term performance will be weak. However, with the purchasing power parity exchange rate at ¥108 (*1), there does not seem to be any concern about serious damage to price competitiveness at the level of ¥140 per dollar.

The positive impact of the strong yen scenario will be felt by domestic demand-driven companies, which will benefit from lower prices for imported raw materials. As the current labor shortage in Japan triggers a shift in consumers' deflationary mindset and understanding of rational price increases, companies with strong product competitiveness will be able to expand their profit margins more easily.

While we do not make investment decisions based solely on the macroeconomic environment, we constantly monitor changes in the market environment as they affect the performance and valuation of individual companies. For the time being, we will manage our investment activities by closely monitoring changes in the market environment following the market decline.

(1*) <https://www.iima.or.jp/en/research/ppp.html>

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Contact

Harrington Cooper LLP

Email: salesteam@harringtoncooper.com

Telephone: +44 (0) 20 7043 0500