

HC Cadira Japan Sustainable Equity Fund



A sub-fund of the Harrington Cooper UCITS funds ICAV

Fact sheet as of 28 March 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 March, the Fund posted a gain of +4.81%, outperforming the TOPIX Total Return Index which returned +3.76%. *2

During the month, the TOPIX hit a new post-bubble high and the Nikkei Stock Average hit an all-time high, continuing a steady trend on expectations of an end to deflation and the TSE's stepped-up efforts to improve corporate governance. The rise was the third consecutive month of gains, boosted by a higher-than-market-expected rate of wage increases in the spring labor negotiations, diminishing uncertainty about the Bank of Japan's and the Fed's monetary policies, and the yen hitting a 34-year-low against the dollar.

Real Estate and Financials contributed positively while Healthcare and Consumer Staples contributed negatively. As for individual companies, Mitsubishi Estate Co., Ltd. (8802), Mitsui Fudosan Co., Ltd. (8801) and Honda Motor Co., Ltd. (7267) were positive contributors. On the other hand, Sunwels Co., Ltd. (9229), Econavista, Inc. (5585) and INFRONEER Holdings Inc. (5076) were negative contributors.

On March 19, 2024, the Bank of Japan decided to raise its policy rate from -0.1% to 0-0.1%. As the market had already priced in the rate hike, and the BOJ added that "the accommodative financial environment will continue for the time being," the market took the event in stride without any major volatility. We believe this can be attributed to good communication between the Japanese monetary authorities and market participants and should be seen as a strength in terms of increased confidence in the Japanese market.

| | |
|---------------------------------|---|
| Portfolio Managers | Yu Shimizu Toshiyuki Matsushita |
| Strategy AUM (JPY billion) *,*3 | 1.85 |
| Fund AUM (Net, JPY billion) *3 | 1.85 |
| 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 |
| 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 | 4.81% | - | - | - | - | - | - | 8.86% |
| TOPIX Total Return *5 | 3.76% | - | - | - | - | - | - | 9.92% |

ESG & CLIMATE CHANGE *6

| | Fund | TOPIX*5 |
|----------------------------------|--------|---------|
| ESG Risk Score | 20.52 | 23.51 |
| Carbon Intensity (C/R) Scope 1+2 | 33.03 | 60.47 |
| Carbon Intensity (C/R) Scope 3 | 531.80 | 764.00 |

FUND CHARACTERISTICS *

| | Fund |
|---------------------|--------|
| Annualized turnover | 11.73% |
| Number of holdings | 53 |
| Cash | 9.19% |

*: 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

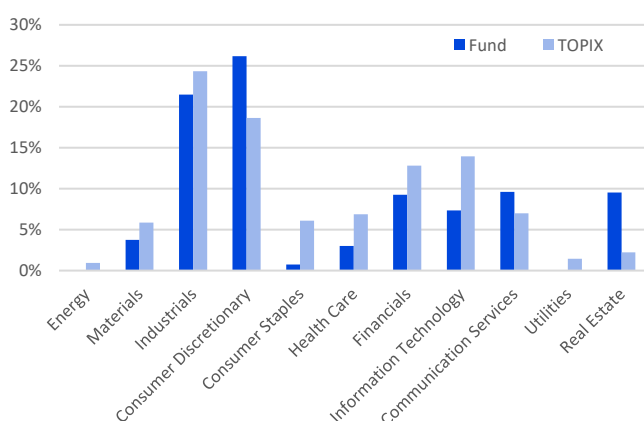
*4: Sustainable Finance Disclosure Regulation ("SFDR") is part of the EU financial policy framework of regulatory measures aimed at providing consistent disclosure requirements in relation to sustainability.

*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.

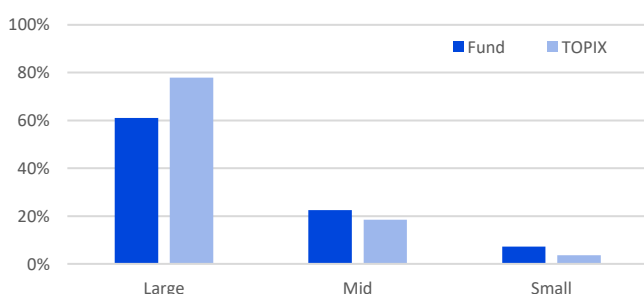
*6: Source: Sustainalytics. ESG Risk Score corresponds to the Sustainalytics ESG Risk Exposure Category of the Fund. This score is defined by Sustainalytics and considers a company's sensitivity or vulnerability to ESG risks. C/R is Carbon Emission to Revenue in Tonnes CO2e/JPY 100mn. These data providers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

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

| | Ticker | Name | % NAV | GICS Sector | Market Cap (JPY Billion) | Theme | SDGs |
|--------------|---------|---------------------------|---------------|------------------------|--------------------------|--------------|------|
| 1 | 8766 JP | TOKIO MARINE HOLDINGS INC | 4.61% | Financials | 8,763 | Environment | 13 |
| 2 | 1928 JP | SEKISUI HOUSE | 4.48% | Consumer Discretionary | 2,214 | Environment | 11 |
| 3 | 8801 JP | MITSUBI FUDOSAN | 4.33% | Real Estate | 3,805 | Social Order | 8 |
| 4 | 8802 JP | MITSUBISHI ESTATE CO | 4.23% | Real Estate | 3,047 | Social Order | 8 |
| 5 | 5108 JP | BRIDGESTONE CORP | 4.15% | Consumer Discretionary | 4,600 | Environment | 9 |
| 6 | 9432 JP | NIPPON TEL & TEL CORP | 4.13% | Communication Services | 16,507 | Environment | 9 |
| 7 | 7267 JP | HONDA MOTOR CO | 4.01% | Consumer Discretionary | 9,409 | Social Order | 11 |
| 8 | 6501 JP | HITACHI LTD | 3.79% | Industrials | 11,743 | Environment | 7 |
| 9 | 4063 JP | SHIN-ETSU CHEMICAL CO | 3.74% | Materials | 12,785 | Environment | 9 |
| 10 | 9433 JP | KDDI CORPORATION | 3.66% | Communication Services | 10,487 | Social Order | 9 |
| Total | | | 41.13% | | | | |

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

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

| SDGs | %NAV |
|--|-------|
| 1. No poverty | 3.3% |
| 2. Zero hunger | 0.0% |
| 3. Good health and well-being | 5.1% |
| 4. Quality education | 7.4% |
| 5. Gender equality | 0.0% |
| 6. Clean water and sanitation | 2.0% |
| 7. Affordable and clean energy | 7.9% |
| 8. Decent work and economic growth | 12.4% |
| 9. Industry, innovation and infrastructure | 22.6% |
| 10. Reduced inequalities | 0.0% |
| 11. Sustainable cities and communities | 16.9% |
| 12. Responsible consumption & production | 0.9% |
| 13. Climate action | 6.1% |
| 14. Life below water | 0.6% |
| 15. Life on land | 3.6% |
| 16. Peace, justice, and strong institution | 2.0% |
| 17. Partnerships for the goals | 0.0% |

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

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

| Theme | %NAV |
|------------------------|--------------|
| Environment | 46.2% |
| Climate | 29.1% |
| Ecosystem | 17.1% |
| Social Order | 27.0% |
| Fairness | 8.9% |
| Economy | 10.7% |
| Security | 7.4% |
| Quality of Life | 17.6% |
| Public Health | 2.1% |
| Living Condition | 12.3% |
| Working Condition | 3.1% |

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 March, the TOPIX Total Return rose +3.76%. The index hit a new post-bubble high, and the Nikkei Stock Average hit an all-time high, continuing a steady trend on expectations of an end to deflation and the TSE's stepped-up efforts to improve corporate governance. The rise was the third consecutive month of gains, boosted by a higher-than-market-expected rate of wage increases in the spring labor negotiations, diminishing uncertainty about the Bank of Japan's and the Fed's monetary policies, and the yen hitting a 34-year-low against the dollar.

The Fund returned +4.81%.^{*1} Real Estate and Financials contributed positively while Healthcare and Consumer Staples contributed negatively. As for individual companies, Mitsubishi Estate Co., Ltd. (8802), Mitsui Fudosan Co., Ltd. (8801) and Honda Motor Co., Ltd. (7267) were positive contributors. On the other hand, Sunwels Co., Ltd. (9229), Econavista, Inc. (5585) and Infroneer Holdings Inc. (5076) 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. On March 26, the Ministry of Land, Infrastructure, Transport and Tourism released its official land price report, which showed that the national average land price (all uses) rose 2.3% year-on-year, the highest level in about 33 years, boosting the stock price.

Mitsui Fudosan: We appreciate their strong asset base in the five central wards of Tokyo, centered on Nihonbashi. Like its peer Mitsubishi Estate, thanks 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 utilization. The 2.3% year-on-year rise in the national average land price also helped boost the stock price.

Honda: We like the fact that the company's improved structure has made it easier to translate volume growth into profits. We believe that motorcycles, where the company has the largest market share in the world, have the effect of improving the quality of life in emerging markets. Their stock price was supported by the yen's 34-year low against the dollar and the signing of a memorandum of understanding between Nissan and Honda to explore cooperation in electric vehicles and other areas.

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 stock was down -6% this month most likely on the back of last month's strong gain of +27%.

Econavista: Through its sleep analysis technology, the company is expanding its big data-based monitoring services to facilities for the elderly. There is significant room for growth, including home use. On March 15, the company announced its first-quarter results, which showed a slight year-over-year decline in profit due to an increase in upfront costs such as hiring, which was not viewed favorably.

Infroneer: The company provides comprehensive infrastructure services like engineering and construction, and we are excited about the potential for improvement in the company's business portfolio and capital allocation, which could lead to a valuation review. We also expect margins to improve because of the shift to the cloud. On March 21, the company announced the issuance of Green CBs, which raised concerns about a potential deterioration in the supply-demand balance of the stock. We have confirmed the background and asked the company to carefully explain to the market that this is a dilutive financing and the intent of the Green CB financing.

Our Activities

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 Prestige International Inc.

Prestige International Inc. (hereinafter "PI") was founded by current president Shinichi Tamagami in 1986. Its core business is Business Process Outsourcing (BPO).

PI is unique in its policy of focusing on niche areas within BPO. For example, the company's main service is the automotive business which provides roadside assistance for car accidents and breakdowns. It accounts for about 40% of both sales and profits. The company's scope of business includes not only receiving calls but also dispatching tow trucks, which creates a very high barrier to entry compared to general call center operations.

One of the characteristics of PI's business is the concentration of BPO centers on the Sea of Japan coast (Tohoku and Hokuriku), where population density is lower compared to the Pacific coast of Japan. One reason for this is that during typhoons in Japan, there is an increase in requests for roadside assistance, so PI has chosen regions with less typhoon damage. Another reason is that it is easier for PI to recruit staff in these areas because there is less manufacturing expansion in these areas due to a lack of developed transportation networks and other reasons. However, the ease with which PI can recruit means that there are fewer employment opportunities in these regions, which is why they face the social challenge of a declining population. As population decline is an important issue for the future of PI's business, the company is working with local governments to address this issue by creating a comfortable work environment and implementing community development measures.

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

In addition, PI's business development is based on a philosophy of "listening to the problems of the end user", and a case in point is its response to electric vehicles (EVs). In fact, accidents account for 10-15% of the company's roadside service calls, with breakdowns, fuel shortages and other problems accounting for the remaining 85-90%. While the need for accident response is decreasing as vehicle safety features improve, breakdowns are increasing due to vehicle electrification, and there is also concern that the increasing use of electric vehicles will lead to more problems with dead batteries in the future. PI is therefore improving its ability to respond to problems by equipping all its tow trucks with a charging facility. Such agile management decisions from a user perspective are likely to be a differentiating factor from its competitor JAF (Japan Automobile Federation, a non-profit organization).

Cadira Capital Management maintains a regular dialogue with PI. At our last meeting, we discussed the financial strategy with President Tamagami. The company has a financial structure that generates stable revenues each year and steadily accumulates cash on its balance sheet. The company holds more than one-third of its total assets in cash, as it wants to maintain a high level of liquidity to finance investments in call center facilities and to fund settlements in its overseas operations. While a strong financial base is a good thing, there are concerns that too much cash can reduce financial efficiency. We expressed our view that it would be useful to deepen understanding with investors by presenting an optimal cash holding perspective and then making a rational decision to use excess funds, if any, for shareholder returns.

Our Dialogue with the Financial Services Agency

Cadira Capital Management believes that the private sector must be in good communication with government authorities for the healthy development of industry. As the Financial Services Authority is particularly relevant to our business, we pay close attention to their initiatives and communicate with them by submitting our views in response to their call for public comments.

In response to the recent announcement on March 15 of proposed amendments to the Financial Instruments and Exchange Act, Cadira had the opportunity to engage in a dialogue with FSA officials. As a measure to promote the sophistication and diversification of asset management, the amendment will relax the capital and personnel composition requirements for investment management companies, thereby facilitating the establishment of new investment management companies. Emerging managers (EMs) should be actively involved in these discussions, but only a handful of EMs appear to be actively communicating with the FSA.

At Cadira, we will continue to work diligently to deepen the dialogue between the public and private sectors and to connect the FSA with EMs. We believe this is an integral part of our mission to "Connect the Investment Chain and Beyond".

Outlook

On March 19, 2024, the Bank of Japan decided to raise its policy rate from -0.1% to 0-0.1%. This is the first rate hike in 17 years since the Bank last raised rates in 2007, and the first rate hike in 8 years since negative rates were introduced in 2016.

In general, rising interest rates put downward pressure on the prices of risk assets, including equities. However, after the Bank of Japan officially announced that it would raise interest rates, stock prices rallied. As the market had already priced in the rate hike, and the BOJ added that "the accommodative financial environment will continue for the time being," the market took the event in stride without any major volatility. We believe this can be attributed to good communication between the Japanese monetary authorities and market participants and should be seen as a strength in terms of increased confidence in the Japanese market.

The BOJ has made the prospect of stable 2% inflation a condition for raising rates. On the other hand, the Bank does not expect to raise rates quickly, so it is sending a message that inflation will remain at around 2% and interest rates near zero for some time to come.

At Cadira, we consider price and interest rate trends when forecasting fundamental trends for individual companies, but we do not make investment decisions based solely on macroeconomic trends. So, we ask ourselves, given a combination of moderate inflation and near-zero interest rates, which companies are most likely to do well?

One candidate is the real estate industry. While rising interest rates are detrimental to real estate companies through both increased borrowing and higher discount rates, if the benefits of higher rents outweigh these detriments, corporate value can be expected to increase. On the other hand, rising interest rates and higher material and labor costs make it more difficult to develop new properties, which leads to a tighter supply-demand balance for leases, creating a situation that makes it easier to increase rents. The real estate industry tends to compete to develop new properties, but if prices and interest rates were to rise, we would expect to see a shift in emphasis to the use of existing properties. This will be positive for the global environment in terms of reduced resource consumption and positive for shareholder value in terms of increased free cash flow. If the company can demonstrate sustainable growth by increasing the value of its assets and replacing them appropriately, the capital market will view this positively.

As work-from-home becomes more common, the importance of gathering in an office to communicate is also attracting more attention. Under such circumstances, the demand for offices with good accessibility and an atmosphere that makes people want to come to work will increase. Therefore, large real estate companies with prime properties in central Tokyo deserve special attention.

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