

HC Cadira Japan Sustainable Equity Fund



A sub-fund of the Harrington Cooper UCITS funds ICAV

Fact sheet as of 31 October 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 October, the Fund returned +0.24%, underperforming the TOPIX Total Return Index which rose by +1.88%.^{*2}

The Japanese stock market rose in October after three consecutive months of declines. The market rallied through the middle of the month as the yen weakened on the back of a solid U.S. economy and diminishing expectations of a rate hikes in Japan.

Sectors that contributed positively to the Fund performance included Healthcare and Financials. Specific companies that contributed positively included Recruit Holdings Co., Ltd. (6098 JP), Tokio Marine Holdings, Inc. (8766 JP), and Ajinomoto Co., Inc. (2802 JP). On the other hand, Consumer Discretionary and Materials sectors detracted from performance. The largest detractors included Sumitomo Forestry Co., Ltd. (1911 JP), Sekisui House, Ltd. (1928 JP), and SMS Co., Ltd. (2175 JP).

The Liberal Democratic Party (LDP) and its coalition partner New Komeito lost their majority in Japan's House of Representatives election on October 27. Governance issues, particularly unclear political financing, influenced this outcome. Despite the political uncertainty, the stock market rose, possibly reflecting stability as the policies of the LDP and the Constitutional Democratic Party (CDP) are similar. The Democratic Party for the People (DPP) gained seats by advocating tax cuts to stimulate consumption, benefiting from effective media communication. This trend indicates a growing public interest in consumer-oriented policies, which is expected to influence the debates leading up to the next election.

Portfolio Managers	Yu Shimizu Toshiyuki Matsushita
Strategy AUM (JPY billion) ^{*,*3}	8.2
Fund AUM (Net, JPY billion) ^{*3}	8.2
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}	0.24%	-3.65%	-1.25%	-	-	-	-	6.88%
TOPIX Total Return ^{*5}	1.88%	-2.59%	-0.57%	-	-	-	-	9.00%

ESG & CLIMATE CHANGE * 6

	Fund	TOPIX ^{*5}
ESG Risk Score	21.05	23.04
Carbon Intensity (C/R) Scope 1+2	30.71	56.41
Carbon Intensity (C/R) Scope 3	364.94	950.41

FUND CHARACTERISTICS *

Annualized turnover	18.55%
Number of holdings	54
Cash	2.25%

*: 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

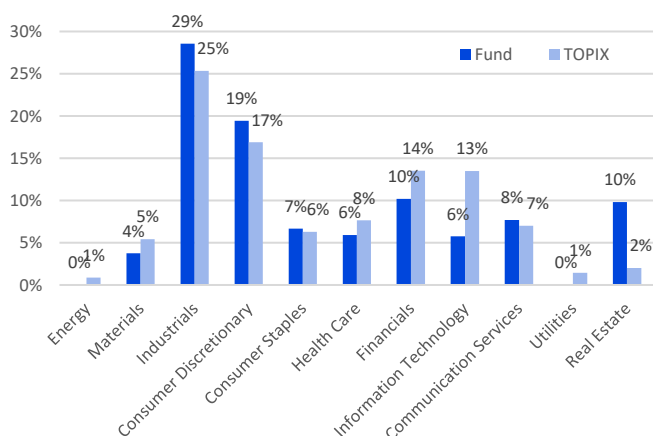
*4: Sustainable Finance Disclosure Regulation ("SFDR") is part of the EU financial policy framework of regulatory measures aimed at providing consistent disclosure requirements in relation to sustainability.

*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.

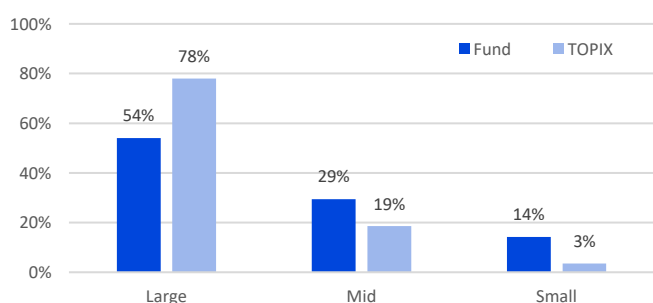
*6: Source: Sustainalytics. ESG Risk Score corresponds to the Sustainalytics ESG Risk Exposure Category of the Fund. This score is defined by Sustainalytics and considers a company's sensitivity or vulnerability to ESG risks. C/R is Carbon Emission to Revenue in Tonnes CO2e/JPY 100mn. These data providers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

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

	Ticker	Name	% NAV	GICS Sector	Market Cap (USD Billion)	Theme	SDGs
1	1928 JP	SEKISUI HOUSE	4.09%	Consumer Discretionary	17.30	Environment	11
2	8766 JP	TOKIO MARINE HOLDINGS INC	3.82%	Financials	67.92	Environment	13
3	4063 JP	SHIN-ETSU CHEMICAL CO	3.74%	Materials	78.54	Environment	9
4	8801 JP	mitsui fudosan	3.71%	Real Estate	24.70	Social Order	8
5	1911 JP	SUMITOMO FORESTRY CO	3.71%	Consumer Discretionary	9.60	Environment	15
6	2897 JP	NISSIN FOODS HOLDINGS CO. LTD.	3.57%	Consumer Staples	8.12	Quality of Life	3
7	6501 JP	HITACHI LTD	3.55%	Industrials	115.08	Environment	7
8	6098 JP	RECRUIT HOLDINGS CO LTD	3.44%	Industrials	94.28	Quality of Life	1
9	7163 JP	SBI SUMISHIN NET BANK LTD	3.41%	Financials	2.66	Social Order	11
10	8919 JP	YASURAGI CO LTD	3.40%	Real Estate	1.03	Quality of Life	11
Total			36.44%				

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

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

SDGs	%NAV
1. No poverty	3.44%
2. Zero hunger	0.00%
3. Good health and well-being	11.84%
4. Quality education	4.27%
5. Gender equality	0.00%
6. Clean water and sanitation	2.22%
7. Affordable and clean energy	7.32%
8. Decent work and economic growth	11.63%
9. Industry, innovation and infrastructure	15.21%
10. Reduced inequalities	0.00%
11. Sustainable cities and communities	24.96%
12. Responsible consumption & production	1.10%
13. Climate action	8.31%
14. Life below water	1.42%
15. Life on land	3.71%
16. Peace, justice, and strong institution	2.33%
17. Partnerships for the goals	0.00%

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

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

Theme	%NAV
Environment	39.84%
Climate	22.44%
Ecosystem	17.40%
Social Order	24.79%
Fairness	10.43%
Economy	10.95%
Security	3.40%
Quality of Life	33.13%
Public Health	9.97%
Living Condition	18.09%
Working Condition	5.07%

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 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; Large is defined as those with market capitalization greater than JPY 1 trillion.

*4: Source: Harrington Cooper Asset Management Limited

Performance Review

The Japanese stock market rose in October after three consecutive months of declines. The market rallied through the middle of the month as the yen weakened on the back of a solid U.S. economy and diminishing expectations of a rate hike in Japan. As a result, the TOPIX including dividends gained 1.88%.

The Fund returned +0.24%, driven by positive contributions from the Healthcare and Financials sectors. Specific companies that contributed positively included Recruit Holdings Co., Ltd. (6098 JP), Tokio Marine Holdings, Inc. (8766 JP), and Ajinomoto Co., Inc. (2802 JP). On the other hand, the Consumer Discretionary and Materials sectors had a negative contribution. Companies such as Sumitomo Forestry Co., Ltd. (1911 JP), Sekisui House, Ltd. (1928 JP), and SMS Co., Ltd. (2175 JP) contributed negatively.

Contributors

Recruit Holdings: This company has always maintained an exceptional sales network and solution development capabilities through a culture that encourages challenge. We like the company's leadership in human resources technology. There are no specific factors that caused the stock to perform well this month.

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. There are no specific factors that caused the stock to perform well this month, although the banking, securities and insurance sectors performed well overall.

Ajinomoto: Ajinomoto is one of Japan's largest producers of seasonings and is actively expanding overseas. In addition to the stable food business, we have high expectations for growth in the healthcare and semiconductor businesses. We also appreciate the company's sustainability initiatives, such as setting impact targets. There are no specific factors that caused the stock to perform well this month.

Detractors

Sumitomo Forestry: We value their decarbonization business in the three areas of forestry, timber and construction as the leading Japanese company with the largest forest holdings. Another strength of the company is its overseas M&A expertise. US long-term interest rates, which had been on a downward trend, have turned upward and there are concerns that rising mortgage rates will stagnate US housing demand.

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. US long-term interest rates, which had been on a downward trend, have turned upward and there are concerns that rising mortgage rates will stagnate US housing demand.

SMS: SMS is the largest provider of staffing services to the healthcare industry. We are excited about the future development of this company's international expansion.

On October 29, the company announced its second quarter results. The market was not happy with the sharp decline in operating income, which fell 24% year-on-year.

Our Activities

This month we started to build a position in Sysmex Corporation (6869). The company has a high market share in sample testing equipment and reagents, and is characterized by comprehensive proposal-based sales combined with information systems. Almost 90% of its sales are generated outside Japan, including the US. Our investment in Sysmex is based on our expectations for the growth potential of hematology in emerging markets and coagulation in Europe and the United States, as well as the economic contribution to healthcare through personalized medicine.

We sold all our position in Hioki E.E. Corporation (6866) to replace it with a new position due to declining demand from battery manufacturers and lack of progress in impact management.

We increased the weight of companies such as Mizuho Financial Group SBI Sumishin Net Bank, SMS and so on while decreased the weight in companies such as Fast Retailing, Sumitomo Forestry, Sekisui House and so on.

*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.

An Example of Our Market Dialogue

We believe that market dialogue, where leaders in sustainable investing share their knowledge and first-hand experience, is an important activity in helping the investment chain become more impact-driven.

On October 4, 2024, our CIO, Yu Shimizu, participated as one of the panelists in a seminar organized by the Impact-driven Financing Initiative (<https://www.impact-driven-finance-initiative.com/en/>), an initiative to promote the practice of impact-driven investing and financing primarily through the cooperation of financial institutions in Japan. The theme of the seminar was "Corporate Value Seen through Impact Investing: Case Studies of Listed Companies and Perspectives of Impact Investors." Other panelists included executives from investee companies such as Mr. Arai, President of KATITAS Co., Ltd., Ms. Shiota, Executive Officer of MARUI GROUP Co., Ltd. The seminar was a form of dialogue between investors and companies that was witnessed by many in the audience, an important activity that we believe will lead to a greater sense of cooperation in the investment chain.

It's no coincidence that Katitas and the Marui Group are participated in this seminar. They are two of the leading impact companies in Japan, and we have been meeting with them long before this event. In our meetings, we spend time not only reviewing the progress of their businesses, but also engaging in a dialogue about sustainability. Specific topics of discussion include non-financial disclosure, the impact logic model, and the relationship between impact and corporate value.

As our investors know, we take a coaching approach to our meetings with companies. This is an approach that clarifies the direction in which the company wants to go and helps it get there, rather than making demands from the investor side. When Katitas and the Marui Group requested feedback on their sustainability disclosures, we hosted a collaborative feedback meeting with a wide range of sustainability and impact experts. Following the meeting, both companies are working to improve their disclosures to reflect the feedback. In addition, when Katitas requested that the improved disclosures be shared with a wide range of investors, we recommended that Katitas participate in this seminar, which ultimately led to their participation.

During the seminar, Ms. Shiota, Executive Officer of the Marui Group, expressed her view that if investors and companies are to engage in dialogue with the common goal of creating a better world, it is important to do so on an equal footing and not in a hierarchical relationship of "investor" and "investee". She then cited her dialogue with CCM as a good example. This deepened our confidence in the effectiveness of our coaching approach, which creates a good space for companies to engage in dialogue with us on an equal footing.

In the future, we intend to add more expertise to our coaching approach to create more value through our engagement. For example, we are considering engaging in a deeper dialogue on corporate impact management and branding to link this to business development, while also building collaborative relationships with experts in the field.

Outlook

Japan's House of Representatives Election on October 27

Elections to the House of Representatives were held on October 27. The Liberal Democratic Party (LDP) lost a significant number of seats, from 53% to 41%, and together with its coalition partner, New Komeito, had less than a combined majority in the House of Representatives.

In general, political uncertainty is not good for the market, but the stock market rallied in the week following the election results. This may be a sign that the market is not worried about Japan's political situation. Since there are no major differences in the policies of the LDP, which holds the largest number of seats, and the Constitutional Democratic Party (CDP), which holds the second largest number of seats, many people may feel that the direction of Japanese politics will remain largely the same.

Or some may feel a sense of hope for new political developments. The main issue of debate in this election was the failure of political party governance, where the use of funds for political activities was unclear. Japan's corporate governance reforms over the past decade have raised the public's overall awareness of governance. With the growing recognition that a strong governance structure is necessary for the development of any organization, the exposure of the LDP's governance weaknesses had no small impact on the outcome of this election. In this light, we hope that the results of this election will lead to improvements in party governance.

From another perspective, we may also have high expectations for an increase in political debate. If the ruling coalition does not form a system with a majority, it will be necessary to gain the support of other parties for each piece of legislation. The Democratic Party For the People (DPP) is seen as the key to this process. The DPP has significantly increased its number of seats in the Diet to 28, four times the number of seats it previously held. The DPP has pursued policies to reduce the burden on the public, such as cutting consumption and income taxes, and these policies are expected to have a positive effect on consumption.

Some believe that one of the reasons for the DPP's victory was the party's steady efforts to communicate its policies through media such as YouTube. This may indicate the growing importance of the DPP's ability to communicate its consumer-oriented policies in an easy-to-understand manner. Following this trend, we can expect to see more discussion of consumer-oriented policies in the run-up to the House of Councillors election next July.

Trends in the US Housing Market

Housing was one of the key issues of the 2024 U.S. presidential election. Skyrocketing home prices and rents are having a serious impact on middle- and lower-income families, and more and more people are being evicted because they cannot afford rent. As a result, each candidate has made housing a major policy issue. In particular, Democratic candidate Harris has pledged to provide downpayment assistance for homeownership and to create 3 million new housing units during her four-year term. The U.S. housing market is susceptible to economic fluctuations and policy changes, and in relation to the stock market, the stock prices of U.S. homebuilders have been particularly sensitive to movements in U.S. mortgage rates this year.

Since it is difficult to predict interest rate levels and policy trends in the short term, we would like to look at trends in the U.S. housing market over a somewhat longer time horizon. First, on the demand side, the U.S. population continues to grow, in part due to increased immigration. In June 2024, the U.S. population is estimated to be about 336.5 million, about 50 million more than in 2000, and is expected to grow by slightly less than 50 million by 2050. In addition, the largest population by age group is currently in their 30s, a generation with significant housing needs. These factors will lead to demand remaining strong, but there is a risk that this demand may not materialize due to continued increases in house prices and further increases in mortgage interest rates. On the housing supply side, the ongoing stable shortage of supply is expected to continue for the foreseeable future against the backdrop of the curtailment of housing starts since the Lehman Crisis and the shortage of existing home inventory due to persistently high mortgage interest rates.

In this environment, the market share of large, well-financed homebuilders has increased. While the largest is DR Horton in the U.S., Japanese single-family homebuilders are expanding aggressively in the U.S. and gaining market share amid a lack of growth potential in the domestic Japanese housing market. Sekisui House, Daiwa House and Sumitomo Forestry will sell a total of about 30,000 units per year in the U.S. in FY 2023, already surpassing the total number of units sold in Japan. While U.S. homebuilders have lagged in efficiency, Japanese companies are aiming to expand their market share by leveraging their strengths in shortening construction time through industrialization technology, cost advantages, and abundant funds. We expect continued growth and further market share gains through mergers and acquisitions.

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