



ABE-SAN GOES, SUGA-SAN COMES

Equities rallied globally and the Topix index appreciated +8.2% in Japanese yen (JPY) terms and +6.8% in euro. At the end of August, the Topix was still down for the year, -6% in JPY, and -9.2% in euro. Cyclical, high beta segments of the market performed well, as global economic indicators are still heading higher, although from an ultra-low base. The initial real GDP estimate (annualized for Q2), showed an unprecedented -27.8% contraction. Defensive sectors and share prices of quality companies decisively underperformed. Our strong balance sheet, domestic quality long book, which performed very well during the sell-off in July, only appreciated +5.7%. At the same time, the short book, which we covered to some degree in early August and reduced to only 18 positions, appreciated +17%. On August 28th, Prime Minister Abe announced his resignation due to health concerns. The same chronic disease that forced his early retirement when he was PM for exactly 12 months from September 26th 2006 to September 26th 2007. After a brief negative price reaction, the market immediately rebounded, in line with our expectation, as market reforms are sufficiently institutionalized. The prime contender to follow in Abe's footsteps will be Suga-san. He is a close Abe ally, and as the longest serving Chief Cabinet Secretary in Japanese history deeply engrained in current political institutions. Coming from regional Japan rather than the center Tokyo, Suga-san is seen as having earned his credentials the hard way without inside track of the traditional conservative line. His election campaign will focus on the continuation of Abenomics, thus reforms to overhaul and further strengthen the economic system.

Normally, we tend to ignore central banking events such as the annual Jackson Hole meeting in the U.S. However, the blatant admission to have consumer price inflation (CPI) overshoot has far-reaching implications for asset allocators and the global economy as such. A first order consequence of sustained negative real rates will be currency devaluation. A weak US dollar, in general, supports global risk assets, especially precious metals, commodities, currency of countries producing those assets and emerging markets equities in a broad sense. For Japanese equities a weak US dollar has mixed blessings, it benefits cyclical stocks exposed to global GDP growth, whilst at the same time it diminishes JPY earnings due to the worse-off translation effect of USD income. Our long and short books are largely exposed to domestic business models, as we prefer limited exposure to currency sensitive companies (unless those companies trade at tremendous discounts, such as Toyota Industries and Denso).

REVERSAL WINNERS & SQUEEZED LOSERS

The positive contributors last month were in increasing order Nomura Real Estate (+16%), Toshiba Tec (+10%), Heiwa Real Estate (+10%), Toyota Industries (+16%) and Findex (+32%). Findex reported first half numbers, which were outstanding. The Covid19-related supply chain issues were resolved and as a technology company in the hospital industry Findex has plenty of growth opportunities. The real estate developers Nomura Real Estate and Heiwa Real Estate showed great share price rallies, largely driven by price reversal and sector performance rather than any stock specific news.

Last month was a tough month for the short book, all top losing holdings were short positions. After such a great contribution from the short book in July, we had significant reversal squeezes. The large short exposure in the transport space (largely rails and some shipping/airlines) were timely covered but to our surprise the restaurant chains which will face multi-year headwinds from Covid19 had massive rallies. The losers from highest to lowest were Toridoll (restaurant chain), Kose (cosmetics), Zensho (restaurant chain), Aozora (2nd tier bank), Central JR (rail company).

RISK ALLOCATION & STYLE PERFORMANCE

August was a gigantic reversal month, value factors showed very positive returns, but it seemed to be driven largely by price reversal and high beta outperformance. The style switch was inevitable as (especially in the U.S.) the high growth mega caps were multiple standard deviations overbought and sentiment in those stocks spectacularly enthusiastic. We monitor style performance for risk purposes as ETF flows can have significant impact on short-term fund performance. The net and gross exposure remained at elevated, above average levels.

OUTLOOK

Japan managed the Covid19 crisis extremely well. Despite the current craze surrounding index ETFs, leveraged retail participation and price distortions by central banks we are highly confident our current positions will deliver anyhow. One can think about our long book as a barbell strategy with (various shades of) value combined with asset-light high Return-On-Equity compounders. The value bucket includes deep value situations that we consider long duration with optionality on the global cycle and corporate governance improvement. The larger portion of the value bucket consists of high conviction corporate action related events on the back of corporate governance reforms with 12-18 months timeline. At the same time, we invest in structural compounders that we consider long-term constituents of our long book. In the short book we focus on broken business models that are in structural decline and low margin businesses that were and will not be able to achieve their cost-of-capital.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

TOSHIBA TEC CORP
HEIWA REAL ESTATE CO LTD
TAKARA LEBEN INFRASTRUCTURE
CANADIAN SOLAR INFRASTRUCTUR
FUJITSU GENERAL LTD

TOP 5 MOVERS

FINDEX INC	0.44%
TOYOTA INDUSTRIES CORP	0.41%
HEIWA REAL ESTATE CO LTD	0.37%
TOSHIBA TEC CORP	0.37%
NOMURA REAL ESTATE HOLDINGS	0.34%

TOP 5 SHAKERS

TORIDOLL HOLDINGS CORP	-0.43%
KOSE CORP	-0.38%
ZENSHO HOLDINGS CO LTD	-0.38%
AOZORA BANK LTD	-0.30%
CENTRAL JAPAN RAILWAY CO	-0.30%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	-1.39%	-1.54%
Year to date performance	-0.93%	-2.07%
Inception to date performance	6.38%	53.47%

**based on share class B EUR, ^based on share class C USD*

FUND FACTS*

Fund size in mln EUR	135.74
Fund size in mln USD	162.02
Firm size in mln EUR	166.63
Firm size in mln USD	184.93

RISK STATISTICS

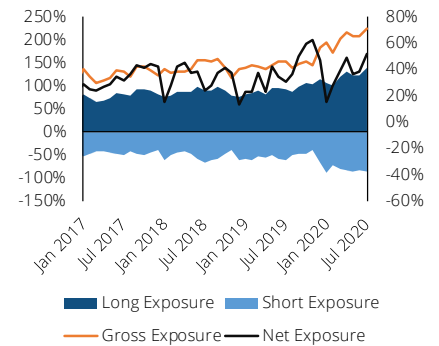
Net Exposure	51%
Gross Exposure	224%
Volatility (ex-ante; 3 months daily data)	8%
Beta (ex-ante)	0.09
Sharpe Ratio	0.52
Sortino Ratio	0.82
Sterling Ratio	0.27
Max Drawdown (monthly)	13.5%
Annualized Return	3.6%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	18	-9	9	27
Consumer Staples	2	-2	1	4
Energy	10	0	10	10
Financials	6	-1	5	6
Health Care	4	0	4	4
Industrials	35	-7	28	42
Information Technology	23	0	23	23
Materials	7	0	7	7
Real Estate	20	0	20	20
Communication Services	2	0	2	2
Utilities	0	-2	-2	2

GENERAL STATISTICS

% Return long book	5.69%
% Return short book	17.18%
# Long stocks	68
# Short stocks	18
% Long stocks ↑	74%
% Short stocks ↓	0%
# Up days / Down days	10 / 10
Turnover as % NAV	66%



FUND PERFORMANCE

CLASS B EUR	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2020	1.70%	-6.30%	2.66%	-1.17%	1.80%	0.83%	0.23%	-1.54%						-2.07%
2019	1.05%	0.00%	0.51%	0.98%	-0.04%	0.56%	1.54%	0.90%	-1.46%	3.43%	2.35%	2.34%		12.75%	56.71%
2018	-0.26%	-1.77%	-1.03%	-0.63%	-0.06%	-0.36%	-0.87%	-1.66%	0.36%	-3.69%	-0.13%	-4.14%		-13.45%	38.99%
2017	0.56%	-0.92%	-1.63%	-0.57%	0.23%	1.32%	1.18%	0.46%	0.99%	1.25%	0.20%	0.14%		3.22%	60.59%
2016	1.27%	0.92%	1.18%	-0.19%	-1.06%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	0.39%		2.07%	55.58%
2015	-1.24%	4.89%	-0.27%	3.25%	2.57%	-1.67%	-2.94%	-3.01%	2.46%	1.88%	2.06%	-1.42%		6.36%	52.42%
2014	-3.16%	-0.60%	-0.56%	-0.99%	-2.24%	1.44%	0.23%	-0.60%	2.06%	-1.89%	-1.24%	0.96%		-6.52%	43.31%
2013	5.35%	-0.58%	6.98%	6.48%	-1.07%	-0.78%	0.31%	-0.92%	1.18%	-0.80%	1.46%	1.73%		20.57%	53.31%
2012	-1.38%	3.81%	1.35%	-1.21%	-3.83%	1.76%	0.84%	0.93%	1.32%	0.58%	2.50%	4.06%		10.95%	27.15%
2011	0.93%	-0.03%	-1.55%	0.14%	-0.14%	0.42%	0.03%	-3.63%	0.69%	-0.38%	-2.60%	1.68%		-4.48%	14.60%
2010	0.73%	-0.23%	3.52%	3.69%	-3.11%	-1.31%	1.23%	-0.37%	0.91%	1.13%	1.40%	1.89%		9.67%	19.97%
2009	2.07%	1.67%	-0.73%	-0.67%	1.34%	1.13%	-1.93%	2.24%	-1.68%	-0.39%	-2.99%	2.84%		2.75%	9.39%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%		6.46%	6.46%

CLASS C USD	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2020	1.57%	-5.92%	2.93%	-0.95%	1.90%	0.92%	0.29%	-1.39%						-0.93%
2019	1.33%	0.25%	0.75%	1.29%	0.45%	0.87%	1.82%	0.43%	-1.19%	3.77%	2.35%	2.36%		15.37%	7.38%
2018	-0.27%	-1.58%	-0.86%	-0.36%	-0.05%	-0.09%	-0.64%	-1.42%	0.52%	-3.33%	0.20%	-3.81%		-11.17%	-6.93%
2017						0.00%	1.17%	0.64%	1.13%	1.21%	0.16%	0.38%		4.78%	4.78%

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