



MARKET COMMENTS

In April, global equities continued their volatile rebound from the March lows, as the rate of incremental Covid-19 infections started to taper and extreme levels of monetary and fiscal stimulus were implemented globally. The SARS-CoV-2 pandemic is still spreading globally and far from being under control. However, various stay-at-home, shelter-in-place and lockdown policies that have been implemented since March have succeeded to “flatten the curve”. As the Covid-19 newsflow became incrementally more positive, risk assets started to discount normalization of the global economy. The MSCI Japan gained 4.4% in April, bringing year-to-date (YtD) performance to -14.6% in Japanese yen terms. The Pelargos Japan Alpha Fund EUR class B shares reversed some of its March gains and lost -1.17%. The US dollar share class lost -0.95%.

The global economy came to an abrupt halt late March, with April seeing the worst year-over-year economic statistics in history, even worse than the 1930s depression. As some of the most stringent lockdown policies are being lifted, the path to economic and social normalization will take many months, if not quarters. At this point, it is anyone’s guess and given the extreme nature of this pandemic, global policy makers have underwritten the system to prevent it from collapsing. Without policies supporting the global banking system and household incomes, a global depression would be the most likely outcome. Even with abundant liquidity, dislocations in financial markets are extreme, which resulted in negative oil prices (-\$40 per barrel!) on April 20th.

SINGLE STOCK OBSERVATIONS

In April, the main positive contributions were deeply oversold small cap stocks such as Creo, DIP and Findex. In the stock market rout in March, when the Topix REIT index collapsed 50% peak-to-trough we aggressively added the safest REITS, which paid off nicely in April with Takara Leben Infrastructure Fund adding +38bps and Nippon Prologis contributing +29bps. We have done a tremendous amount of work on the solar REITs for the past few years and Pelargos Capital ranks among the largest shareholders. On one hand, these high yielding stocks provide high positive carry which we can partly deploy to hedge downside risk. On the other hand, the TSE launched an infrastructure index and we expect plenty of passive demand in the medium term, and we will be a happy seller at much higher prices. The biggest negative contributors to performance came from index hedges to manage the net-exposure. On a single stock level, shorts in Fanuc, Softbank and

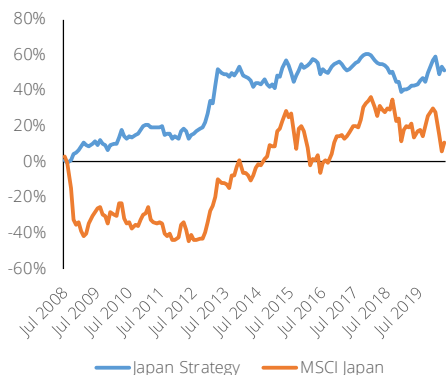
Kawasaki Kisen were the biggest drag and have cost -1.7% combined, partially reversing gains in March. As discussed in our previous newsletter, investor opinions on Softbank vary widely. The Sum-Of-The-Parts argument has undoubtedly been a valid support for the share price. Especially now, that the CEO is planning to monetize some of Softbank’s investments and buyback up to 20% of shares outstanding. However, the massive short comings in corporate governance remain and we believe the downside risk is larger than the market is pricing in. In April, we continued to increase Real Estate exposure. In our opinion, the market is pricing in a 2008-2010 scenario, whereas fundamentals are more solid now. Expected rent declines of 30% are unlikely in our opinion, given lower levels of leverage in the real estate sector. Stability in the financial sector supports funding to projects and asset owners, and low upcoming supply of buildings reduces the risk of high vacancy rates. Despite a change in market direction, we observed no changes in style performances as high quality and growth stocks continued their outperformance, whilst value, especially low price-to-book and low price-to-earnings stocks underperformed.

OUTLOOK

From the lows on March 17th, the MSCI Japan has gained +18%, but is still -16% below its February peak. Even though the virus outbreak is somewhat “under control” in most developed economies, the rate at which economic activity can be brought back to normal is highly uncertain. Both demand and supply for many discretionary products and services have come to a standstill and the road to normalization will differ sharply from country-to-country. On top of that, the income destruction as a result of massive lay-offs will further add to people’s uncertainty and affects their propensity to spend. And this is not even taking into account the risk of a second wave in the virus outbreak. This event-recession has too many unknown-unknowns to assess sensible scenarios, there are more questions than answers. Will there be another wave of lockdowns? Has the pandemic changed our consumption patterns? How will new regulations impact businesses? How will the virus impact global trade and movement of people? That said, we have further added to positions in high quality franchises and share buyback candidates with pristine balance sheets. Typically, these buybacks will be announced after the earnings season in May, but given current uncertainty we expect buyback announcements to pick up after the AGM season. The good thing about overcapitalized balance sheets is that companies can use current uncertainty to buy back shares at significant discounts to intrinsic value, thereby even further enhancing shareholder returns.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

TAKARA LEBEN INFRASTRUCTURE
HEIWA REAL ESTATE CO LTD
CANADIAN SOLAR INFRASTRUCTUR
KENEDIX OFFICE INVESTMENT CO
NOMURA REAL ESTATE HOLDINGS

TOP 5 MOVERS

CREO CO LTD	0.46%
TAKARA LEBEN INFRASTRUCTURE	0.38%
FINDEX INC	0.32%
DIP CORP	0.32%
NIPPON PROLOGIS REIT INC	0.29%

TOP 5 SHAKERS

FANUC CORP	-0.64%
SOFTBANK GROUP CORP	-0.58%
KAWASAKI KISEN KAISHA LTD	-0.37%
TORIDOLL HOLDINGS CORP	-0.26%
ZENSHO HOLDINGS CO LTD	-0.24%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	-0.95%	-1.17%
Year to date performance	-1.65%	-2.17%
Inception to date performance	4.61%	51.51%

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

FUND FACTS*

Fund size in mln EUR	125.10
Fund size in mln USD	137.05
Firm size in mln EUR	125.10
Firm size in mln USD	137.05

RISK STATISTICS

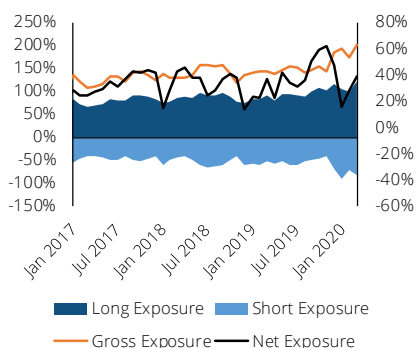
Net Exposure	39%
Gross Exposure	201%
Volatility (ex-ante; 3 months daily data)	13%
Beta (ex-ante)	0.11
Sharpe Ratio	0.51
Sortino Ratio	0.81
Sterling Ratio	0.17
Max Drawdown (monthly)	-21.6%
Annualized Return	3.6%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	5	-5	1	10
Consumer Staples	1	-3	-1	4
Energy	4	0	4	4
Financials	2	0	2	2
Health Care	6	0	6	6
Industrials	38	-10	28	48
Information Technology	16	0	16	16
Materials	7	0	7	7
Real Estate	26	-3	23	29
Communication Services	1	-2	-1	4
Utilities	5	0	5	5

GENERAL STATISTICS

% Return long book	4.71%
% Return short book	11.98%
# Long stocks	59
# Short stocks	14
% Long stocks ↑	80%
% Short stocks ↓	14%
# Up days / Down days	9 / 11
Turnover as % NAV	82%



FUND PERFORMANCE

CLASS 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%										-3.31%
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 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%										-2.58%
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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