MARKET COMMENTS

The MSCI Japan declined -8% in March. The intra-month decline was even worse, reaching -20%. For the first quarter of 2020, the MSCI Japan ended down -18.2% in Japanese yen terms. Against these dramatic declines, the Pelargos Japan Alpha Fund EUR share class appreciated +2.7% in March and the US dollar share class +2.9%. The economic distress has been compounding during March, and as we had sufficient hedges in place, the fund was barely impacted by the extraordinary circumstances the entire planet had to cope with. The global economy hit a brick wall and crashed badly. By any dimension this economic free fall is worse than 2008 and reaches magnitudes of the 1930s depression. However, this is an exogenous, event-driven recession, but its sheer magnitude has 2nd and 3rd order effects that impacts every single asset on the planet. Liquidity globally (meaning the basic plumbing of the financial system) vanished almost instantly and with it counterparty risk soared. Policy makers pulled as many levers as possible and did in just one week what took them 1 ½ years in 2007-2009. The foremost aim of monetary authorities is to stabilize the basic plumbing and thereby circumvent bank-runs and systematic counterparty risk due to bankruptcies. Fiscal policy is aimed at stabilizing household balance sheets and providing loan guarantees to small and mid-size enterprises (SME) in order to absorb the demand shock and cushion the blow-back to banks that have mortgages, consumer loans and SME loans outstanding. The utter size of the economic collapse is unseen and US unemployment rates of high teens are a given. The current trajectory could equally lead to another lost decade depending on the speed of balance sheet repair through debt forgiveness and/or speedy recovery. In the Japanese market, we are already able to find assets valued at 2008-2009 type scenario. Most of our long holdings have fortress-like balance sheets and many of them became even cheaper after the Corona-induced selling rout.

SINGLE STOCK OBSERVATIONS

The highest contributor last month was actually a long position; Maeda Road. The take-over saga has reached an intermediate climax as Maeda Corp., to our surprise, neither adjusted the tender price nor cancelled the take-over, but executed the tender offer as initially planned. Maeda Road has distributed a 20% special dividend to scare off its pursuer Maeda Corp., and it was fair to assume that the deal was over. However, this deal was not bound by rationality, ego and corporate politics got involved and Maeda Corp. decided it had to have the asset and get rid of the board, and so it did. Not only have we received a 20% special dividend, tendered 60% of our Maeda Road holding for JPY3950 (which is almost double the March closing price of JPY2020) and also received an annual 5% dividend at fiscal year-end. Thank you indeed. The other positive contributors were in declining order short Softbank, short Dentsu, short Kawasaki Kisen and short Japan Airlines. Investor opinions on Softbank vary widely and albeit the Sum-Of-The-Part argument is undoubtedly a valid support for the share price. However, the company has massive short comings in corporate governance with its CEO engaging in doubtful practices and a drive to over-use its balance sheet to an extent that a margin call can untangle the Sum-Of-The-Parts valuation argument and turn into a House-Of-Cards thesis. At least in March the short contributed 1% to NAV. The losing positions were many and the most significant ones were Hitachi Capital, Ichigo Office REIT, Nomura Real Estate, Toshiba Tec and Toshiba Machine. During the second half of 2019, we reduced our REIT exposure due to valuation concerns arising. We had some smaller positions left, but REIT shares prices were hit badly by regional banks forced selling in March. Regional banks were heavily invested in yield producing REITs, but for regulatory and tax purposes were forced sellers into fiscal year end. At some point in mid-March, the entire REIT index was down 47% !!, and we immediately started to buy our preferred REIT assets. After the initial selling-quake, the volatility remained high and we identified a few bargains for patient, long-term investors.

Style volatility from systematic strategies' de-risking was extreme last month. High quality and price momentum stocks did exceptionally well, whilst value, especially low price-to-book and low price-to-earnings stocks underperformed significantly.

OUTLOOK

This event-recession has too many unknown-unknowns to assess sensible scenarios out of this mess. There are a few facts; the global economy is in a deep recession, consumer spending and with it aggregated demand has collapsed. The supply side is collapsing as well, initially due to supply constraints and now due to cutting capacity to adapt to the new environment with reduction in capital expenditure, R&D and employment. Unemployment rates will explode globally. Demand collapse has triggered a collapse in commodity demand (=prices) and with it destroyed US dollar income for commodity producing countries. Why is this relevant for Japan? As the world is facing a shortage of US dollar earnings it has drastic implication on dollar liquidity and Japanese stocks are most sensitive to incremental changes in global liquidity. The good news is that the US FED has addressed the shortfall and the BOJ underwrites the equity market by aggressively buying ETFs. In this phase of stabilizing liquidity, we started to buy the safest assets first and quality franchises second. Potential share buyback candidates are next, those will be announced after earnings season (and earnings will be bad for sure). The positive side about a bear market has always been that future expected returns greatly improve if you manage to stay in business.

PELARGOS JAPAN ALPHA FUND
MARCH 2020 | EUR share class 2.66% | USD share class 2.93%

FUND CHARTS AND FACTS

TOP 5 GROSS POSITIONS

HEIWA REAL ESTATE
TAIHEI DENGYO KAISHA LTD
TOYO CONSTRUCTION
TOSHIBA TEC
KENEDIX OFFICE INVESTMENT

TOP 5 MOVERS

MAEDA ROAD CONSTRUCTION	1.01%
SOFTBANK GROUP CORP	0.93%
DENTSU GROUP	0.76%
KAWASAKI KISEN KAISHA	0.65%
JAPAN AIRLINES	0.50%

TOP 5 SHAKERS

HITACHI CAPITAL	-1.35%
ICHIGO OFFICE REIT INVESTMENT	-0.80%
NOMURA REAL ESTATE HOLDINGS	-0.76%
TOSHIBA TEC	-0.75%
SHIBAURA MACHINE	-0.48%

FUND PERFORMANCE*

	*USD^*	*EUR**
Month to date performance	2.93%	2.66%
Year to date performance	-1.65%	-2.17%
Inception to date performance	5.61%	53.31%

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

FUND FACTS*

Fund size in mln EUR	126.53
Fund size in mln USD	139.05
Firm size in mln EUR	126.53
Firm size in mln USD	139.05

RISK STATISTICS

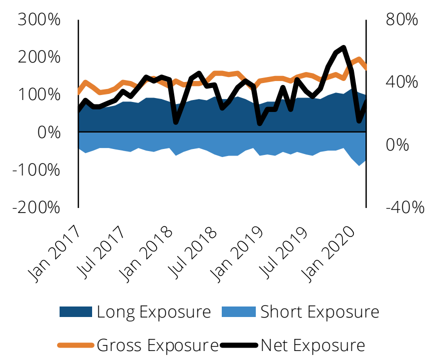
Net Exposure	8%
Gross Exposure	153%
Volatility (ex-ante; 3 months daily data)	10.7%
Beta (ex-ante)	0.08
Sharpe Ratio	0.53
Sortino Ratio	0.84
Sterling Ratio	0.44
Max Drawdown (monthly)	-8.4%
Annualized Return	3.7%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	6	-6	0	13
Consumer Staples	1	-7	-6	8
Energy	4	0	4	4
Financials	6	0	6	6
Health Care	2	0	2	2
Industrials	33	-6	27	40
Information Technology	16	0	16	16
Materials	6	0	6	6
Real Estate	18	-1	17	19
Telecommunication Services	1	-4	-3	5
Utilities	5	0	5	5

GENERAL STATISTICS

% Return long book	-7.14%
% Return short book	-8.02%
# Long stocks	56
# Short stocks	17
% Long stocks ↑	35%
% Short stocks ↓	65%
# Up days / Down days	13 / 8
Turnover as % NAV	51%



PELARGOS JAPAN ALPHA FUND

MARCH 2020 | EUR share class 2.66% | USD share class 2.93%

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%										-2.17%	53.31%
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%	-0.16%	-1.08%	-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%	3.39%	-2.83%	-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%										-1.65%	5.61%
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%	0.00%	0.00%	0.00%	0.00%	0.00%	1.17%	0.64%	1.13%	1.21%	0.16%	0.38%	4.78%	4.78%

DISCLAIMER