



MARKET COMMENTS

Last month, the MSCI Japan rallied +6.7% in local currency. The Pelargos Japan EUR share class appreciated +1.8% and the US\$ share class +1.9%. The year-to-date performance of our Japan strategy is almost back to break-even. May was an astonishing month, we were certainly surprised by the strong ascent of risk assets globally. The global economy is in free-fall, unemployment rapidly increasing everywhere and fiscal as well as monetary responses are unprecedented. This will be the worst drop in economic activity ever recorded. The Bank Of Japan (BOJ) has aimed to basically underwrite credit risk and thereby eliminating counterparty risk. As such, bankruptcy risk for large companies is minimal in Japan. As a result and certainly different from 2008, credit is freely available and banks are rolling loans rather than pulling back. All companies we talked to confirmed access to bank credit is not an issue now. The fiscal response by Prime Minister Abe has reached an unparalleled 20+% of GDP. With such a put option in place, the market is bound to go higher, as economic activity is returning and the worst seems behind us. Unemployment in Japan increased as well. At the end of May, the April unemployment rate was reported at 2.6%, which is hardly a disaster. The job-openings-to-applicants ratio still stood at 1.32x, which again is very favorable. Obviously retail sales are in free fall (-13.7% y-o-y in April) and Industrial Production collapsed (-14.4% y-o-y in April). With some delay, corporates announced their fiscal year-end (March 2020) earnings results, which were underwhelming due to the Covid19 impact. Most corporates refrained from giving guidance or provided extremely cautious outlooks. Initially, stock prices reacted negatively, but as risk assets continued to appreciate most negative earnings announcements were met with price spikes. With regards to the short book, it is a difficult environment to operate in. In March already, we started reducing single stock short exposure and used index hedges as we anticipated high single stock volatility due to short squeezes. Our short positions tend to be structurally impaired business models with either Return-On-Invested-Capital (ROIC) below Cost-Of-Capital (COC) such as shipping and airlines or business models in structural decline (e.g. offline advertising). On the long side, we own high ROIC businesses and the majority of the long book consists of extremely mispriced assets with management teams that exhibit significant corporate governance deficiencies.

SINGLE STOCK OBSERVATIONS

Last month's top contributors were a reflection of what has been written above. NEC Networks & Systems Integration (+30% in May) and Nihon M&A Center (+22%) are asset light, high ROIC companies with excellent growth perspectives. We increased position sizes during the sell-off and were rewarded

with great (short-term) returns as these businesses were as resilient as we expected them to be. On the other hand, real estate stocks Nomura Real Estate (+13%) and Kenedix Office Investment (+11%) are traditional 'discount-to-NAV (net asset value)' situations, which were trading at 50-60% discount to rather conservative appraisal values. In addition, Nomura Real Estate, Kyowa Kirin, NEC Networks all have strategic, allegiant shareholders, which at some point will come under heavy scrutiny by stakeholders. The negative contributors last month were in the transport sector, we are short Railway Companies, Shippers and Airlines. Those shorts delivered good returns during March and April. These capital intensive businesses with high fixed cost ratios were negatively impacted by the extreme revenue shortfalls. The Rail Companies are longer-term least impaired and have higher barriers to entry. Nevertheless, passenger traffic will remain subdued for time to come. The short position in Dentsu (+26%), a mainly traditional (TV campaign related) advertising company, had worked in our favor for a long time. After the recent bounce in the share price, we re-initiated the position in anticipation of a massive earnings decline. Market participants ignored fundamentals and the stock spiked on earnings as dividends were kept unchanged.

RISK ALLOCATION & STYLE PERFORMANCE

Value as a style still underperformed in May. Price Momentum and Earnings related factors did poorly as well. Across the globe Quality performed very well. There seems to be a tremendous herding into high ROIC, high growth companies (mostly IT and platform related) and value stocks are trading at ever increasing discounts. We kept the gross exposure (delta adjusted 220%) and net exposure (delta adjusted 50%) at high levels, although it is considerably lower beta. The opportunity set in Japan is outstanding in light of rapid changes in corporate governance. Valuations are still extremely cheap.

OUTLOOK

As full year results' announcements were delayed, most Annual Shareholder Meetings (AGM) will take place in late June this year. This will be one of the most exciting AGM sessions ever. The proxy voting services ISS and Glass Lewis made it clear in their respective guidelines that 'the heat is on'. It is time for the management boards to step up and change board composition; introduce more independent board members and make sure there is sufficient diversity in terms of gender, skill set and nationality. Allegiant cross-shareholdings will be our main target area, there is no economic rationale to have shareholder capital tied-up in other listed companies especially when the sole purpose is such to protect the board. We expect a significant drop in board approval ratings and in response to that an acceleration in buybacks. 2020 will be a gigantic wake-up call for entrenched boards.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

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

TOP 5 MOVERS

NEC NETWORKS & SYSTEM INTEGR	0.48%
KYOWA KIRIN CO LTD	0.43%
NOMURA REAL ESTATE HOLDINGS	0.38%
KENEDIX OFFICE INVESTMENT CO	0.32%
ELECOM CO LTD	0.31%

TOP 5 SHAKERS

TOKYO CENTURY CORP	-0.62%
DENTSU GROUP INC	-0.30%
CENTRAL JAPAN RAILWAY CO	-0.26%
OKAMOTO INDUSTRIES INC	-0.25%
DAITO TRUST CONSTRUCT CO LTD	-0.19%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	1.90%	1.80%
Year to date performance	-1.65%	-2.17%
Inception to date performance	6.59%	54.24%

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

FUND FACTS*

Fund size in mln EUR	137.35
Fund size in mln USD	152.44
Firm size in mln EUR	166.63
Firm size in mln USD	184.93

RISK STATISTICS

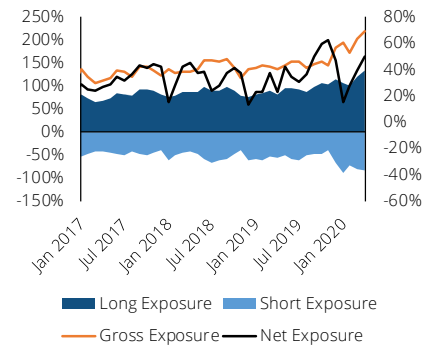
Net Exposure	50%
Gross Exposure	219%
Volatility (ex-ante; 3 months daily data)	11%
Beta (ex-ante)	0.13
Sharpe Ratio	0.53
Sortino Ratio	0.85
Sterling Ratio	0.28
Max Drawdown (monthly)	13.5%
Annualized Return	3.7%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	7	-5	3	12
Consumer Staples	2	-2	1	4
Energy	4	0	4	4
Financials	2	-3	-1	5
Health Care	10	0	10	10
Industrials	41	-11	30	52
Information Technology	18	0	18	18
Materials	7	0	7	7
Real Estate	32	-3	28	35
Communication Services	3	-4	-1	6
Utilities	0	0	0	0

GENERAL STATISTICS

% Return long book	7.61%
% Return short book	10.67%
# Long stocks	64
# Short stocks	16
% Long stocks ↑	72%
% Short stocks ↓	13%
# Up days / Down days	11 / 9
Turnover as % NAV	76%



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%									-1.58%
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%									-0.73%
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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