



MARKET COMMENTS

The Japanese market had a massive rally in November. The Topix index appreciated +11.1% in Japanese yen and +8.6% in euro terms. To us and our followers, the rally did not come as a surprise; we have written many times before that the perfect storm is brewing for Japanese equities. The BOJ is all-in, protecting the downside and the government is underwriting the economy with all-in fiscal stimuli. Japanese equities have to reprice higher against a background of dirt-cheap valuations and improving corporate governance, which has jump-started a market for corporate control. Despite our spot-on assessment, about which we shared extensively in prior newsletters, we were caught on the wrong foot.

The narrative that ignited the risk-on market was the headline news that Pfizer-BioNTech reported its vaccine has 95% efficacy. We all know that eventually human ingenuity will provide an appropriate medicine, but this news item set risk assets on fire and led to gigantic outperformance of most-short and high-beta stocks. Our value stocks barely participated as we invest in solid operating companies with high cash balances rather than mere bombed-out junk. The single stock long book appreciated just +4.4%, whilst the single stock shorts were up +4.1%. A fraction of a spread based on our single stock positions. Nevertheless, our fund had a negative return because we partially hedged the long book by shorting index futures and those massively outperformed our long book.

More than ever, systematic and index flows dominated price behavior. At business schools, generations of students were taught the fiction of 'random walks' and 'efficient market hypothesis', but what we currently observe is systematic, daily flip-flopping of momentum versus value (better characterized as anti-momentum) with little material influence of fundamental data. Whilst beta exploded to the up-side, within global markets a 15-sigma momentum volatility event occurred early in the month and led to widespread de-risking by multi-factor players. On top of all these non-fundamental technicalities, Japan stood out as the 'weirdest' of all markets. Whilst globally, the de-risking of quants in combination with higher yields pushing value stocks up, led to a rotation from growth, quality, price momentum into value. Not so in Japan, it was THE ONLY MARKET, in which value stocks at the end performed worse than high price-momentum stocks.

SINGLE STOCK OBSERVATIONS

Our real estate stocks performed handsomely last month, with Daibiru (+14%) adding +75bps, Nomura Real Estate (+24%)

contributing +56bps and Heiwa Real Estate +54bps (+12%). The discounts to net-asset-values in the real estate sector are infuriatingly big, which is leading to increased M&A and activist activity. In an market, where the incremental price setter is either systematic or passive, the only way to 'arbitrage' fiction (narrative) vs. reality (intrinsic value) is to influence management teams to take advantage of such distortions. Our long book is heavily exposed to cash-rich, asset-rich companies with the potential to do buy-backs or divi-out its excess cash.

The top 3 losing positions last month were Fujitec, Takara Leben Infrastructure Fund (TLIF) and Elecom. Fujitec had a -6% pull-back after a March-October rally of 100%. The investment in TLIF was highlighted in last month's newsletter, the stock traded down, because the company issued new shares to fund additional acquisition of solar assets. The demand-supply imbalance leads to share price weakness, but eventually the market will reprice those safe, high-yielding assets. The share price reaction to Elecom's earnings was actually the biggest negative surprise last month. This is a quality business model, with excellent management, understandably a soft guidance might disappoint weak holders, but the underlying fundamentals actually improved dramatically and an upward revision later this year is a given and most likely a substantial earnings beat.

RISK ALLOCATION & STYLE PERFORMANCE

We continue to run a high net exposure, the long book is well diversified and as this month has shown, unfortunately to some extent negatively correlated. Prior to last month's short squeeze we started to reduce gross exposure and the number of short positions. Those actions were aimed at reducing the impact of quant funds being over-concentrated in momentum stocks. It did not quite work out as we expected last month.

OUTLOOK

Admittedly, equity markets are roaring higher, US equities look expensive by any measure one can look at it, and risk sentiment has become too positive against a dreadful economy. Because Japanese equities have gone up does not mean they are expensive. There is so much value to be found, and a vast opportunity set because few people are willing to engage in Japanese equities. Yes there are many dreadful zombies, social utilities that should not be listed. Those negative EVA spread (Return-On-invested-Capital) companies are to be shorted and on the other side of the trade we have Heiwa Real Estate with 70% discount to NAV (its unrealized gains are bigger than its market cap), Daibiru with 50% discount to NAV.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

DAIBIRU CORP
HEIWA REAL ESTATE CO LTD
CANADIAN SOLAR INFRASTRUCTUR
FUJITEC CO LTD
TAKARA LEBEN INFRASTRUCTURE

TOP 5 MOVERS

DAIBIRU CORP	0.75%
NOMURA REAL ESTATE HOLDINGS	0.56%
HEIWA REAL ESTATE CO LTD	0.54%
SBI HOLDINGS INC	0.35%
SHINKO ELECTRIC INDUSTRIES	0.34%

TOP 5 SHAKERS

FUJITEC CO LTD	-0.50%
TAKARA LEBEN INFRASTRUCTURE	-0.45%
ELECOM CO LTD	-0.39%
OKAMOTO INDUSTRIES INC	-0.30%
TOSHIBA TEC CORP	-0.29%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	-2.51%	-2.95%
Year to date performance	1.07%	-0.14%
Inception to date performance	8.53%	56.48%

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

FUND FACTS*

Fund size in mln EUR	138.46
Fund size in mln USD	165.15
Firm size in mln EUR	169.57
Firm size in mln USD	202.26

RISK STATISTICS

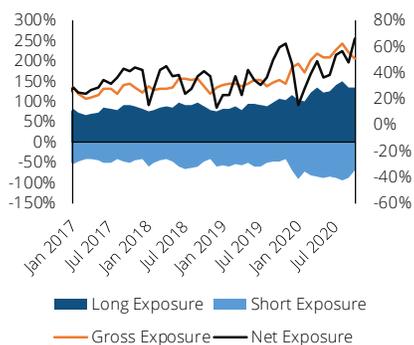
Net Exposure	67%
Gross Exposure	205%
Volatility (ex-ante; 3 months daily data)	9%
Beta (ex-ante)	0.17
Sharpe Ratio	0.53
Sortino Ratio	0.85
Sterling Ratio	0.27
Max Drawdown (monthly)	13.5%
Annualized Return	3.70%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	7	-17	-9	24
Consumer Staples	1	-5	-4	6
Energy	14	0	14	14
Financials	4	-3	1	7
Health Care	2	-7	-6	9
Industrials	42	-15	26	57
Information Technology	27	-8	18	35
Materials	10	-3	6	13
Real Estate	25	-1	24	26
Communication Services	3	-6	-3	9
Utilities	0	0	0	0

GENERAL STATISTICS

% Return long book	4.43%
% Return short book	4.08%
# Long stocks	65
# Short stocks	12
% Long stocks ↑	54%
% Short stocks ↓	42%
# Up days / Down days	6 / 15
Turnover as % NAV	85%



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%	1.80%	0.83%	0.23%	-1.54%	3.86%	1.16%	-2.95%			-0.14%
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%	1.90%	0.92%	0.29%	-1.39%	3.49%	1.12%	-2.51%			1.07%
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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