



MARKET COMMENTS

In October, the Topix declined -2.8% in Japanese yen (JPY). The Pelargos Japan fund appreciated +1.16% (EUR share class), despite a net exposure of 47%. The long book significantly outperformed the Topix, declining just -0.95%. On the other hand, the short book declined -5.1% with an excellent hit-ratio, as 76% of short positions (13 out of 17) declined. As a result, the top contributors consisted of 3 long positions as well as 2 shorts. Global risk assets were dominated by two events, the US election and the Covid19 second wave. The US election is of limited relevance to our current positioning. Whilst the Covid19 situation, in our opinion, is of diminishing relevance as the risk is better understood and with less unknown-unknowns it can be more effectively priced. Of course, the Japanese economy is heavily impacted by weak global demand. Nevertheless, the earnings season turned out to be much, much stronger than feared. Japanese corporates tend to have plenty of redundancies, call them inefficiencies, especially in the service sector and that has enabled drastic cost reductions, which mitigated operational leverage to the downside.

SINGLE STOCK OBSERVATIONS

JTower was our biggest winner last month. This stock alone has contributed +0.8% to last month's performance. The share price posted a remarkable +32% rally in October. The new prime minister emphasized to cut high mobile fees, which puts pressure on carriers' profitability. In order to protect margins, sharing 5G towers (from JTower) to reduce capital expenditure seems a rational choice. We initiated a position months ago when, in our opinion, market participants neither understood the underlying dynamic nor effectively modelled intrinsic value. The second biggest contributor was Canadian Solar Infrastructure Fund (CSIF). This company (owning land with solar panels on it) is named after its Canadian sponsor, but all its assets are of course in Japan. Since the IPO in 2017, we have held a significant position in CSIF as well as Takara Leben Infrastructure Fund (TLIF). Both, CSIF and TLIF, are small caps that offer 5-6% dividend yields. Those dividend yields are very safe (almost guaranteed) for the coming 10+ years. These stocks trade more like fixed income assets and are of vast value in terms of our portfolio construction. At Pelargos Capital, we dismiss the concept of mean-variance optimization. It is a flawed theoretical construct. The assumption of non-varying covariance and standard deviation is as far from reality as it can be. Constructing barbells is our approach to diversification. Owning bond-like, high-carry investments on one end of the spectrum, enables us to engage in operationally geared business models without worrying too much about portfolio risk. Even with regards to value; we own deep value situations in combination with extremely high price-to-earnings (albeit

small) positions, in asset-light, high-growth disruptors, valued as call options. Heiwa Real Estate (HRE) was yet again amongst the top contributors, the stock appreciated +5%. Since our initial investment in 2016, we had several meetings with the CEO and remain convinced that corporate governance improvements at the Board of Directors have led and will lead to further share price appreciation as the underlying assets are still trading at a steep discount to NAV. Next year its poison pill will expire and under current circumstances and shareholder structure, it will be impossible to extend such poison pill. Therefore, the best line of defense for current executive team is to make sure its share price is not grossly undervalued. The short positions in the rail companies, East IR and Central IR, contributed 26bps and 24bps respectively. These business models continue to suffer from a collapse in revenue against very high fixed cost base, which is draining massive amount of cash flow and thereby permanently destroying shareholder value. The losing positions were small in size and all long position, in increasing order Takuma (-11%), Mitsubishi Research Institute (-15%), SBI Holdings (-12%), Nomura Real Estate (-9%) and Kyowa Kirin (-13%). As can be seen in parentheses, all these stocks had substantial declines in October. Despite that, it only had a limited impact on the fund's profit and loss, as the biggest drag from Kyowa Kirin was just -33bps.

RISK ALLOCATION & STYLE PERFORMANCE

Over the past two months, we decreased the gross exposure from 250% down to 220%. In our opinion, the extreme valuation of high-growth, high-momentum baskets poses significant volatility risk. We kept the net exposure at elevated levels as the global economy is bumping along the bottom and it is only a matter of time when earnings accelerate. We closed several positions in high-momentum, high-quality business models such as Nihon M&A, Azbil, Nomura Research Institute, Base and Fujitsu General. After massive price appreciation, valuation reached levels that, in our opinion, does not provide attractive risk-reward. 20-30% lower we will be happy buyers.

OUTLOOK

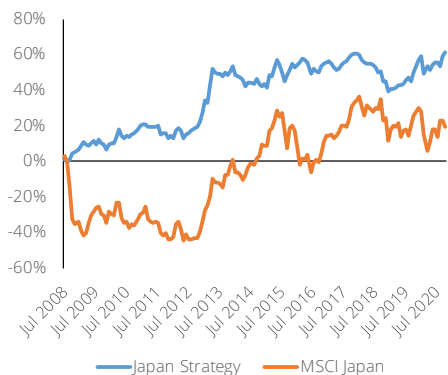
We have been and continue to be very optimistic on the outlook for Japanese equities. Corporate governance is the main driver of structural improvement in investment returns. The market is under-owned and the pick-up in M&A activity removes outstanding stock. The demand-supply dynamic is extremely in favor of higher equity prices. The complicating factor remains the sheer absence of 'intelligent' money. Global institutions have defaulted to passive ETFs and factor basket investing. The market has become a fixture of changes in liquidity and driven by flows in systematic strategies and cross-asset correlations. As the vast majority of trading activity is passive/systematic the



'smart beta's have turned 'dumb', which introduces vast excess volatility as those 'smart' models tend to crowd into what has worked. For the remainder of 2020, we expect a steep pick-up

in share buybacks and further friendly M&A as well as the rise of hostile take-overs. We are certainly positioned for this theme.

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

HEIWA REAL ESTATE
TAKARA LEBEN INFRASTRUCTURE
CANADIAN SOLAR INFRASTRUCTURE
FUJITEC
ELECOM

TOP 5 MOVERS

JTOWER	0.80%
CANADIAN SOLAR INFRASTRUCTURE	0.41%
HEIWA REAL ESTATE	0.30%
CENTRAL JAPAN RAILWAY	0.26%
EAST JAPAN RAILWAY	0.24%

TOP 5 SHAKERS

KYOWA KIRIN	-0.33%
NOMURA REAL ESTATE	-0.24%
SBI HOLDINGS	-0.24%
MITSUBISHI RESEARCH INSTITUTE	-0.21%
TAKUMA	-0.21%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	1.12%	1.16%
Year to date performance	3.67%	2.89%
Inception to date performance	11.32%	61.24%

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

FUND FACTS*

Fund size in mln EUR	142.91
Fund size in mln USD	166.44
Firm size in mln EUR	173.10
Firm size in mln USD	201.61

RISK STATISTICS

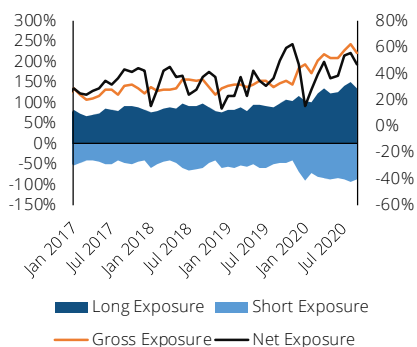
Net Exposure	47%
Gross Exposure	221%
Volatility (ex-ante; 3 months daily data)	8%
Beta (ex-ante)	0.08
Sharpe Ratio	0.57
Sortino Ratio	0.91
Sterling Ratio	0.30
Max Drawdown (monthly)	13.5%
Annualized Return	3.98%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	12	-28	-16	40
Consumer Staples	2	-8	-6	9
Energy	11	0	11	11
Financials	3	-6	-4	9
Health Care	2	-13	-11	14
Industrials	37	-25	12	62
Information Technology	27	-14	13	41
Materials	14	-5	9	20
Real Estate	22	-2	20	24
Communication Services	4	-9	-5	14
Utilities	0	0	0	0

GENERAL STATISTICS

% Return long book	-0.95%
% Return short book	-5.11%
# Long stocks	69
# Short stocks	17
% Long stocks ↑	45%
% Short stocks ↓	76%
# Up days / Down days	11 / 10
Turnover as % NAV	131%



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%				2.89%
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%				3.67%
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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