



JAPAN'S BULL MARKET CONTINUES

The Pelargos Japan long only strategy posted another gain, +2.0%, in November. The year-to-date performance at the end of the month stood at +22.5%. Japanese equities, in general, were very strong last month. The Topix appreciated +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. The narrative that ignited the risk-on market was the headline news that Pfizer-BioNTech reported its vaccine had 95% efficacy. We all know that eventually human ingenuity will provide an appropriate medicine, but this news item has set risk assets on fire and led to gigantic outperformance of most-shortened 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. 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 COMMENTS

Our real estate stocks performed handsomely last month, the biggest position Daibiru rallied +14% in JPY, Heiwa Real Estate +12% in JPY and Nomura Real Estate even +24% in JPY. 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 a 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. The fund is heavily exposed to cash-rich, asset-rich companies with the potential to do buy-backs or divi-out its excess cash.

SushiRo was yet again a stellar performer this month, appreciating 18% in JPY. This stock was mentioned last month and its fundamentals are extremely strong. Due to scale, SushiRo has purchasing power for quality fish and sushi is an excellent take-away food during the Covid19 crisis. Its format and top-notch execution enable the company to expand store footprint and deliver strong results despite profound adversity in the restaurant industry.

Amongst the underperforming positions 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, paired with most likely a substantial earnings beat.

OUTLOOK

Admittedly, equity markets are roaring higher, US equities look expensive by any valuation measure one can look at it, and risk sentiment has become too positive against a dreadful economy. Because Japanese equities have gone up, it does not mean they are expensive. 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 ignored 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 with obvious catalysts.

STRATEGY CHARTS AND FACTS



	ITD
Pelargos Japan Reiwa Fund	22.49%
TOPIX Net Total Return Index	0.39%
TOPIX Core 30 Index	-2.95%
TOPIX Mid 400 Index	1.65%
TOPIX Small Index	-4.80%
TOPIX Growth	10.04%

TOP 10 POSITIONS

DAIBIRU CORP	5.5%
HEIWA REAL ESTATE CO LTD	4.3%
FUJITEC CO LTD	4.1%
CANADIAN SOLAR INFRASTRUCTUR	4.1%
ELECOM CO LTD	4.0%
TAKARA LEBEN INFRASTRUCTURE	2.8%
TOSEI CORP	2.3%
TAIHEI DENGYO KAISHA LTD	2.2%
NIPPON PILLAR PACKING CO LTD	2.2%
SBI HOLDINGS INC	2.2%

TOP 5 MOVERS

DAIBIRU CORP	0.35%
HEIWA REAL ESTATE CO LTD	0.34%
SUSHIRO GLOBAL HOLDINGS LTD	0.32%
NOMURA REAL ESTATE HOLDINGS	0.32%
NIPPON PILLAR PACKING CO LTD	0.23%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	1.97%	8.89%
Year to date performance	22.49%	-0.06%
Inception to date performance	22.49%	-0.06%

*inception date 17 February 2020, Total Net Return TOPIX Index in euro performance

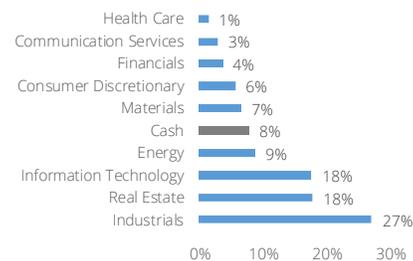
FUND FACTS*

Fund size in mln EUR	31.11
Fund size in mln USD	37.11
Firm size in mln EUR	169.57
Firm size in mln USD	202.26

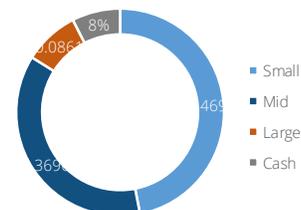
TOP 5 SHAKERS

ELECOM CO LTD	-0.42%
FUJITEC CO LTD	-0.35%
TAKARA LEBEN INFRASTRUCTURE	-0.27%
TOSHIBA TEC CORP	-0.22%
KURA SUSHI INC	-0.16%

SECTOR EXPOSURE



MARKET CAP EXPOSURE



STRATEGY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2020		0.74%	5.93%	4.50%	4.60%	-0.81%	-7.66%	4.43%	7.08%	0.54%	1.97%		22.49%	22.49%



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