



MARKET COMMENTS

In April, the MSCI Japan appreciated +2% in Yen (JPY) terms. The equity market jumped +1.4% on April 1st, and traded in a surprisingly narrow, low volatility range for the remainder of the month. Market participants, dealing in Japanese equities, were preparing for the longest banking holiday on record, which started on April 29th. After reigning for 30 years, Emperor Akihito abdicated on April 30th and the new era 'Reiwa' started with the Japanese equity market being closed in the midst of the fiscal full year earnings announcement season. So far, the results for the 4th quarter of fiscal year ending March 19 were living up to lowered expectations. However, many Japanese corporates provided very conservative guidance for the next fiscal year (FY20). Therefore single stock volatility increased, despite the overall market calm. Whilst the global economy is not accelerating to the downside, incoming macro data suggests that it barely stabilized. Most importantly, the global liquidity situation improved as risk assets rallied over the past 4 months, because of the US FED reversing its tightening policy. However, the aggregated macro data is still fragile therefore the beta adjusted net exposure of the Pelargos Japan fund remained low. The most attractive value propositions for the long book are in low beta Industrials stocks and domestic real estate stocks - both sectors handsomely outperformed the overall market last month. Our short book benefited from the decline of extremely overvalued consumer staples, the sector index declined -1.9% this month. In April, the short selection was remarkably strong, 65% of short positions declined despite the market gaining +2%.

SINGLE STOCK OBSERVATIONS

Creo, the highest contributor last month, rallied +38.5%. Creo is a small cap with just 130mn US dollar market value. We initiated the long position when this software developer and system integrator was trading close to negative enterprise value, knowing it is a viable and good business. Its major partner holds a controlling stake of 30.5% and we think it makes a lot of sense for Amano to take control of Creo.

Another small cap, Zuiko, showed strong price performance on the back of reassuring numbers. The stock rallied +39% last month because, finally, earnings seemed to have bottomed. Zuiko is one of the leading companies in diaper machine equipment. Despite being a market leader, Zuiko faced pricing pressure especially in the Chinese market and also production issues in Brazil. Despite the share price rally, the stock is still trading below replacement value and 60% of the market capitalization is simple cash. Its new mid-term business plan calls for a reasonable, but steady 5% top line CAGR, in our opinion enough to revive investors' interest.

Last month's biggest losing position was the short position in shipping company Nippon Yusen. The share price declined in February/March on the back of poor global macro data, but rallied +17% in April as sentiment improved. We exited the position at break-even. Another significant drag on the performance was Ichigo Corp. This company has been discussed and presented many times in this monthly. The stock declined -5.5% in April on the back of in-line earnings. We are confident Ichigo is a long term success story. However, the entire Japanese real estate sector faced tremendous multiple compression. Equity investors are willing to pay less for property developers and most major developers trade a steep discount to Net-Asset-Value (NAV) and with it Ichigo's share price multiple is dragged down to 10x earnings. Ichigo's management has laid out a convincing long-term growth strategy, which does not justify the stock trading at current low multiples.

RISK ALLOCATION

The net exposure increased during April from 22% at the end of March to 37% end of April. However, because of the extended holiday period we had put option protection in place resulting in a beta, delta adjusted market exposure of close to 0. The gross exposure was almost unchanged at 143%.

STYLE ANALYSIS

The systematic models we run to assess style trends and exposure indicated that most factors performed poorly in April. We observed significant sector rotation and cheaper sectors strongly outperformed, which was driven by cyclical exposure rather than value. Within sectors, value did work as such.

OUTLOOK

The global macro situation remains unstable. Economic data globally had been poor for an extended period and any additional external shock might upset the apple cart and tilt low growth, developed economies into recession. The predominately conservative earnings announcements revealed that investors' expectations got ahead of itself. The long book mainly consists of domestic businesses with cash rich balance sheets of obviously undervalued companies. Recently announced share buybacks have drastically increased compared to prior years. Indeed, with cash balances at all-time-highs and lower share prices, Japanese CFO's are willing to buyback ridiculously cheap shares. Heading into AGM season we focus on selective engagement and pressure will further increase on corporates to live up to expectations and start adequately compensating shareholders, even minority shareholders.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Ichigo Hotel REIT Investment C
Toshiba Plant Sy
Kddi Corp
Taihei Dengyo
Maeda Road Const

TOP 5 MOVERS

Creo	0.53%
Zuiko	0.36%
Tokyo Ohka Kogyo	0.20%
Shimamura Co	0.19%
Taihei Dengyo	0.19%

TOP 5 SHAKERS

Nippon Yusen	-0.31%
Ichigo Group	-0.21%
Panasonic	-0.17%
Ichigo Hotel REIT Investment C	-0.15%
Shiseido	-0.12%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	15.8	21.0
EV/EBITDA	11.9	11.7
Price to Book (PB)	1.7	3.3
Dividend Yield	2.6	2.1
EV/IC	1.3	2.9
1 month momentum	3.5	-2.3
12-1 month momentum	-4.1	-16.6

FUND PERFORMANCE*

Month to date performance	0.98%
Year to date performance	2.56%
Inception to date performance	42.54%

*based on share class B EUR

FUND FACTS*

Fund size in mln EUR	93.59
Fund size in mln USD	104.88
Firm size in mln EUR	214.41
Firm size in mln USD	240.29

RISK STATISTICS

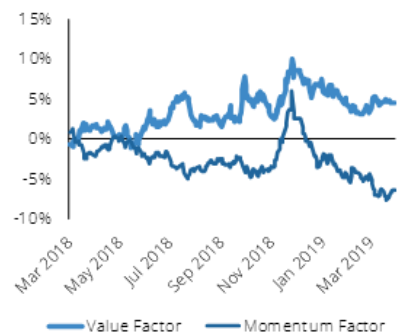
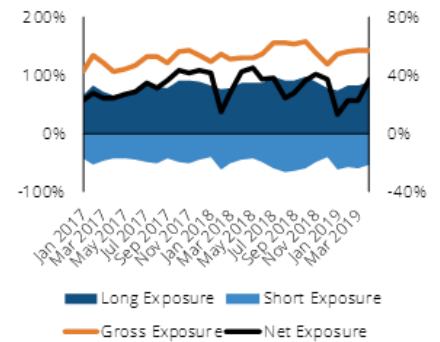
Net Exposure	37%
Gross Exposure	143%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.49
Sortino Ratio	0.85
Sterling Ratio	0.40
Max Drawdown (monthly)	-8.4%
Annualized Return	3.3%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	6	-13	-7	20
Consumer Staples	4	-12	-8	16
Energy	0	0	0	
Financials	3	-3	-1	6
Health Care	1	0	1	1
Industrials	29	-6	23	35
Information Technology	16	-1	15	16
Materials	5	-2	3	7
Real Estate	22	-10	12	32
Telecommunication Services	0	-5	-5	5

GENERAL STATISTICS

% Return long book	1.30%
% Return short book	0.27%
# Long stocks	53
# Short stocks	20
% Long stocks ↑	55%
% Short stocks ↓	65%
# Up days / Down days	10 / 10
Turnover as % NAV	51%



FUND PERFORMANCE: CLASS B EUR	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2019	1.05%	0.00%	0.51%	0.98%										2.56%
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%

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PELARGOS JAPAN ALPHA FUND

APRIL 2019 | monthly return 0.98%