



MARKET COMMENTS

After the steep -6.4% decline in May, the MSCI Japan recovered +2.8% in June. Most of the index gain was achieved within a few single up-days at the beginning of the month, and for most of the 2nd half of June, the market traded sideways. Whilst May was a flat month in terms of performance, in June our fund achieved a small positive gain of +0.56%. June was peak season for the annual shareholder meetings. Buy-back announcements are at all-time highs and at current run-rate exceeding last year's buy-backs. Only few proposals, but more than in 2018, made it on the proxy voting agenda. However, investors such as the Pelargos team are increasingly vocal with management boards to improve governance and shareholder return policies. In our voting process, we apply a well-defined set of criteria, which for 50% of our long holdings led us to vote against the current management team. In general, approval rates in Japan are still surprisingly high in spite of the fact that a high number of Japanese corporates do not achieve the cost-of-capital. One of our basic, but primary rules to approve or disapprove management boards, is whether the company we invest in has achieved its respective cost-of-capital on a rolling 3-year basis. Many of our investments have extremely cash-rich balance sheets with unnecessary cross-shareholdings, whilst the underlying business is viable and attractive. In such cases, we aim to convince management to enhance its capital allocation policy and reward shareholders adequately for the risk they are taking.

SINGLE STOCK OBSERVATIONS

The biggest contributor in June was long position Hitachi High Tech (HHT), which rallied +20%. Over the past 10 years, we owned HHT at 4 occasions and each time had sizable contributions to the fund. The stock used to be extremely undervalued and even after the recent rally, we still see 20-25% upside to fair value. However, our highest probability scenario remains a Hitachi Ltd. (the parent) led buyout. Hitachi Ltd. is reviewing all strategic options with regards to its listed subsidiaries and, in our opinion, the medical part of HHT will be absorbed by the parent and a suitable buyer will be found for HHT's semi business. The other contributors last month were Toshiba Plant Systems (+6.2%) and Taihei Dengyo (+7%). Both contributions seem mere reversals from recent share price corrections, as there was no 'new-news'.

The negative contributions last month came from Sharp Corp., Coca Cola Bottlers, Nabtesco, Kikkoman and Panasonic. Except for Nabtesco, the other four stocks were top contributors in May. These were all short position that rallied in June without significant news. The short term price reversal factor was quite strong in June. For example, Sharp Corp. dropped -20% in May and rallied +20% in June. All these short position have one thing

in common, substantial earnings shortfall-risk and, except for Kikkoman, their businesses are in a cyclical and/or structural downtrend.

RISK ALLOCATION

During the May market crash, we successfully managed risk and selectively added risk early in June. Due to our value driven investment approach, we covered or reduced several short positions and selectively added to even more attractively valued long positions. Whilst the single stock short book shrunk, we remained cautious on overall risk. Due to a lack of actionable single stock shorts in June (the entire market was cheap), we preferred to carry an index short. We are convinced our long book continues to outperform the broader market as it did for the past 11 years. The net exposure adjusted for beta and delta was around 20% at the end of June.

STYLE PERFORMANCE

Market activity can be summarized as complete agony. Dreadful silence, lack of single stock news and at the same time absence of fear. Of the systematic factors we monitor, value had a bit of a comeback, as did quality and reversal. Long-term price momentum was quite negative in June.

OUTLOOK

The global economy remains extremely lackluster. Many coinciding indicators such as global PMIs, global trade, capital goods orders are pointing towards further deceleration in economic activity, rather than the much hoped for bottom of the adjustment cycle. The collapse in global yields is a harbinger of worse to come. Indeed, risk assets are rallying because the FED-put is at work and central bankers are shifting towards accommodation again. Of course, easy money can and will cushion the downturn, but in the meantime we remain cautiously positioned with the majority of the net exposure in high yielding, underappreciated REITs. We expect another very bad quarter for cyclical sectors related to global trade, factory automation, auto capex and IT, just to name a few. Almost all the exposure in our Industrials book is domestic demand related companies with high recurring service revenue. The structural factors are all in place to justify a substantial re-rating of Japanese equities. The labor market is extremely tight and inflationary pressures are building in almost all industries. Wages will increase for the years to come, no matter how the next down-cycle unfolds. The current cyclical bear market will prove that Japan has structurally moved from a deflationary economy into a low-inflation setting, which benefits risk assets in general, however labor-intensive business models without pricing power will be on the losing end.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Nomura TOPIX ETF
Ichigo Hotel REIT Investment C
Maeda Road Const
Toshiba Plant Sy
Taihei Dengyo

TOP 5 MOVERS

Hitachi High Tec	0.41%
Toshiba Plant Sy	0.32%
Taihei Dengyo	0.29%
Advantest Corp	0.23%
Heiwa Real Estat	0.18%

TOP 5 SHAKERS

Sharp Corp	-0.41%
Coca Cola West C	-0.24%
Nabtesco	-0.16%
Kikkoman Corp	-0.12%
Panasonic	-0.11%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	19.1	20.3
EV/EBITDA	12.0	12.4
Price to Book (PB)	2.4	3.2
Dividend Yield	3.0	2.3
EV/IC	1.1	3.0
1 month momentum	2.4	1.1
12-1 month momentum	-0.7	-20.1

FUND PERFORMANCE*

Month to date performance	0.56%
Year to date performance	3.09%
Inception to date performance	43.28%

*based on share class B EUR

FUND FACTS*

Fund size in mln EUR	93.94
Fund size in mln USD	106.98
Firm size in mln EUR	217.03
Firm size in mln USD	247.15

RISK STATISTICS

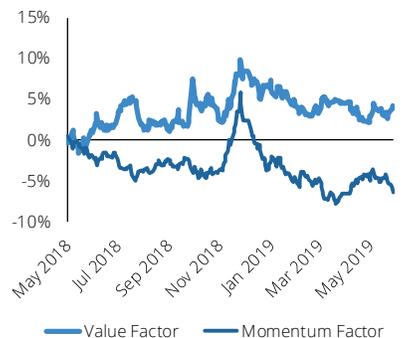
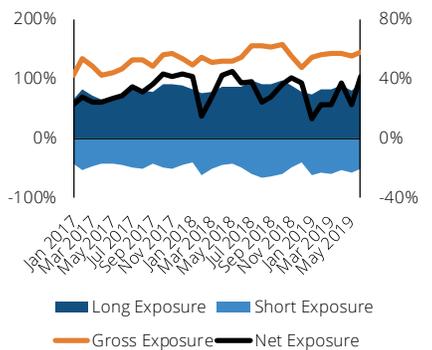
Net Exposure	42%
Gross Exposure	146%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.49
Sortino Ratio	0.85
Sterling Ratio	0.40
Max Drawdown (monthly)	-8.4%
Annualized Return	3.3%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	7	-9	-2	16
Consumer Staples	3	-14	-11	17
Energy	0	0	0	0
Financials	3	-1	2	4
Health Care	2	0	2	2
Industrials	31	-6	25	38
Information Technology	16	0	16	16
Materials	5	-1	4	6
Real Estate	24	-8	16	31
Telecommunication Services	0	0	0	0

GENERAL STATISTICS

% Return long book	3.21%
% Return short book	3.41%
# Long stocks	49
# Short stocks	22
% Long stocks ↑	73%
% Short stocks ↓	32%
# Up days / Down days	8 / 11
Turnover as % NAV	43%



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%	-0.04%	0.56%								3.09%
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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