



## MARKET COMMENTS

August was yet another volatile month in Japan, as the MSCI Japan dropped -3.3% in Japanese yen (JPY) terms, on very lackluster turnover. The overall weakness was mainly due to a sudden appreciation of the JPY; in US dollar terms the MSCI Japan declined by just -1.2%. Despite the market's decline our fund appreciated +0.9%. Sector allocation worked in our favor as the Real Estate index appreciated +3%. Whilst the Industrials sector was amongst the worst performing sectors (-5.1%), our selection within the sector was favorable.

## SINGLE STOCK OBSERVATIONS

Long position Heiwa Real Estate (HRE) was the best contributor last month. The stock price has appreciated another +8% and contributed +0.4%. In 2019, the stock has appreciated 40+% year-to-date. HRE leases and develops real estate with large exposure to the prime area called kabuto-cho, which is close to Nihonbashi (the area northeast of Tokyo Station). HRE is the owner of the famous Headquarters building of the Tokyo Stock Exchange (TSE). We first acquired shares in April 2016, because we estimated that the company's share price was grossly undervaluing HRE's real estate assets and started to frequently contact the company. Late 2018, we met with the president and explained why we voted against the management at the 2018 AGM and suggested improvements to its corporate governance and shareholder return policy. The majority of the board members are from the TSE, which is for historical reasons the most important client. Thus, one can imagine the conflict of interest when negotiating rents for the TSE office space. Our message and those from other investors was well received and during Q1 HRE announced a +10% rent increase for the TSE, which is still below market rents, but a step in the right direction. In addition, a second buyback was announced and several non-core assets from inventory were put up for sale to finance major developments in kabuto-cho. The next major project is called Kabuto ONE, which will be finalized in 2021 and already has 50% of its office space pre-leased at favorable terms. The stock still trades at a 40% discount to NAV.

Another strong contributor was Taihei Dengyo, the stock appreciated +6.5% in August. Unfortunately, due to the nature of the business, which is highly specialized and customized construction works, the quarterly earnings can be highly volatile. Over the long term, the stock is extremely undervalued and the earnings outlook is favorable. This time around, the quarterly numbers supported our thesis. Another noteworthy name in the top movers is Asunaro Aoki, a construction company. This stock has been extremely illiquid and therefore a small position. Takamatsu Construction, in which we hold a long position, is the parent company of Asunaro Aoki. Takamatsu Construction's board decided to finally fully

consolidate its subsidiary and the stock rallied +46% on the tender offer. Despite the fund's positive performance in August, we had one significant loser; long position Okamoto Industries. This company is specialized in rubber products. In our estimation, 30-35% of operating profits come from its highly profitable, nicely growing condom business. The remaining business is a mixture of stable as well as cyclical automotive related businesses. Despite the stable earnings contribution from condoms, the slow-down in auto related businesses was a drag on operating profit margins, which declined from 12.6% to 10%. We will meet the company in due course and continue to address shareholder returns and how to enhance shareholder communication.

## RISK ALLOCATION

In the core long book, we held 47 positions, for which the top 10 account for 50% of the long exposure. On the short side, we held 24 positions. The long book outperformed the market and appreciated +0.4%, whilst the short book was down -1.9%. The long book has a significant mid-cap exposure, whilst the short book consists of large caps. With regards to sector exposure, we apply a bottom-up approach resulting in long Industrials in combination with long yield-sensitive REITS. Industrials tend to perform well in a rising yield / steepening yield curve environment, whilst the opposite holds for the REITs exposure. The delta and beta adjusted net exposure is about 0%.

## STYLE PERFORMANCE

Value continued to be highly correlated with global bond yields and had a terrible month with -6% factor return. On the other hand, raw price momentum continued to perform well. Our books have exposure to both, value factor as well as momentum factor. The long book's P/E ratio is 17x compared to 21x for the short book. 17x does not look cheap, but this is due to the high real estate exposure and excessive cash balance for which P/E needs to be adjusted case-by-case.

## OUTLOOK

The earnings season has shown that we have selected an extremely resilient long book. The companies we focus on have fortress like balance sheets, generate decent operating margins and have plenty of corporate action catalysts to re-price obvious undervaluation. Sentiment seems to be at a low point again with foreign investors clearly absent. The entire market is cheap, the risks of the global slowdown are well understood and priced as such. The autumn period tends to be a tricky season for risk-on trades, however we have lined-up a number of deep cyclical at ridiculous valuations that barring any external shock, have massive upside once the global economy stabilizes.



## FUND CHARTS AND FACTS



### TOP 5 GROSS POSITIONS

Ichigo Hotel REIT Investment C
Maeda Road Const
Taihei Dengyo
Ichigo Group
Canadian Solar Infrastructure Fund Ord Shs

### TOP 5 MOVERS

Heiwa Real Estat	0.38%
Taihei Dengyo	0.35%
Ichigo Group	0.33%
Ariake Japan	0.31%
Asunaro Aoki Con	0.28%

### TOP 5 SHAKERS

Okamoto Inds	-0.62%
Toshiba Plant Sy	-0.31%
Uss Co	-0.19%
Nichirin	-0.19%
Tokyo Ohka Kogyo	-0.19%

### FUND FACTOR

	Long	Short
Price to Earnings (PE)	17.2	21.7
EV/EBITDA	12.0	11.6
Price to Book (PB)	1.9	2.0
Dividend Yield	3.0	2.5
EV/IC	1.1	1.8
1 month momentum	0.2	-6.4
12-1 month momentum	4.5	-13.6

### FUND PERFORMANCE\*

Month to date performance	0.90%
Year to date performance	5.62%
Inception to date performance	46.80%

*\*based on share class B EUR*

### FUND FACTS\*

Fund size in mln EUR	96.68
Fund size in mln USD	106.47
Firm size in mln EUR	201.96
Firm size in mln USD	222.40

### RISK STATISTICS

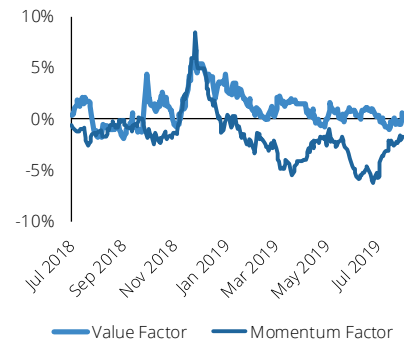
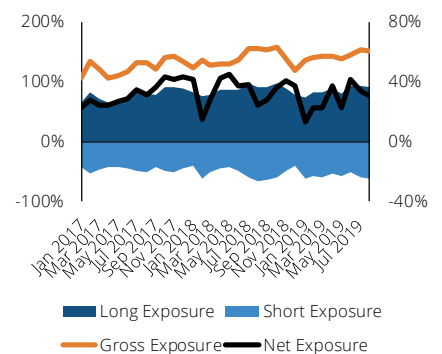
Net Exposure	31%
Gross Exposure	152%
Volatility (ex-ante; 3 months daily data)	5.4%
Beta (ex-ante)	0.05
Sharpe Ratio	0.52
Sortino Ratio	0.89
Sterling Ratio	0.42
Max Drawdown (monthly)	-8.4%
Annualized Return	3.5%

### SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	5	-9	-3	14
Consumer Staples	3	-15	-13	18
Energy	0	0	0	0
Financials	1	-1	0	2
Health Care	2	0	2	2
Industrials	31	-9	22	41
Information Technology	13	-2	10	15
Materials	4	0	4	4
Real Estate	27	-4	23	31
Telecommunication Services	0	0	0	0

### GENERAL STATISTICS

% Return long book	0.40%
% Return short book	-1.87%
# Long stocks	47
# Short stocks	24
% Long stocks ↑	40%
% Short stocks ↓	50%
# Up days / Down days	12 / 9
Turnover as % NAV	43%



## FUND CHARTS AND FACTS

	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
<b>CLASS B EUR</b>	2019	1.05%	0.00%	0.51%	0.98%	-0.04%	0.56%	1.54%	0.90%					5.62%	46.80%
	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%	
<b>CLASS C USD</b>	2019	1.33%	0.25%	0.75%	1.29%	0.45%	0.87%	1.82%	0.43%					7.39%	-0.05%
	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							1.17%	0.64%	1.13%	1.21%	0.16%	0.38%	4.78%	4.78%

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