



MARKET COMMENTS

In December, the MSCI Japan appreciated +1.2% and for the year the gain was +16%. In 2019, there were only 3 down months, with May seeing a sharp -6.5% drawdown. With regards to our share classes, the Pelargos EUR share class returned +12.75% and the USD share class +15.37%. Those returns were achieved with an beta of, on average, 0.3. Despite the lackluster macro environment, equity markets were climbing the proverbial wall of worry and we were able to realize several highly stock specific gains. Toshiba Plant Systems (TPS) being our largest position first declined 15% into August and then rallied from JPY1,700 to JPY2,670, in total this stock contributed 3.2%. The other large contributors, each of which contributed 2%, were Hitachi High-Tech, Heiwa Real Estate and Toshiba Tec. The worst contributors were short position Sharp (a loss of 1% of NAV) and long position Okamoto Industries (a loss of 0.8% of NAV). Sharp was amongst the best contributing shorts in 2018, unfortunately we missed the opportunity to cover and gave back all the gains in 2019.

SINGLE STOCK OBSERVATIONS

Last month, Heiwa Real Estate (HRE) stock made the highest contribution, adding 0.46% to the fund's performance. The stock rallied another 14% in December. In November, the company had to delay its quarterly numbers due to employee misappropriation. The numbers were delayed by 1 month and the amount of money embezzled by employees was insignificant, but large enough to put pressure on management to tighten its corporate governance and internal controls. In the meantime, Simplex Asset Mgmt, a large activist fund acquired an 8%+ stake. Now it is basically a given that HRE's management will not be able to extend its poison pill in March 2021. In our opinion, HRE will not remain listed as such, the activist participation will force the management to look for an exit. The easiest exit might be a buy-out by its largest shareholder Mitsubishi Estate. However, this could lead to the same type of bidding war, which is currently unfolding at Unizo. Unizo stock price was equally depressed as HRE's, trading at JPY1900 just before a strategic buyer, H.I.S. which is a travel agency interested in Unizo's hotel assets, bid JPY3,100. Unizo management kindly declined, and shortly thereafter Elliott and Ichigo AM appeared on the shareholder register. Unizo management quickly arranged a white knight named Fortress, a Softbank related entity, offering JPY4,100. The story does not end here as Blackstone put in a JPY5,000 offer and the latest on the story is an employee buyout supported by Lone Star at JPY5,100, and the stock currently trades above the buyout price. H.I.S. was the spark to set off the Unizo fireworks and it put the entire real estate industry on high alert as the spark can easily end up as a forest fire.

In December, we only had one losing position significant enough to be mentioned; Softbank. This company is fraught with corporate governance troubles and an exuberant chairman who does one thing well, betting big. His style of investment is heavily dependent on access to credit and with it, the pricing of the underlying collateral. Softbank has all the hallmarks of a house of cards that can quickly untangle if banks start to feel jittery. That said, it is a highly contested situation and the sum-of-the-parts valuation still looks supportive and Japanese banks will not pull the rug under a Japanese icon. Therefore, we have hedged our biggest short position with a call option, which unfortunately had not hit strike yet in December.

RISK ALLOCATION & STYLE PERFORMANCE

We closed the 2019 books with elevated net exposure of 62%. 8% of which is quasi cash, the long position in Toshiba Plant Systems which is being acquired by Toshiba Corp. Another 12% of the net exposure consists of high yielding, negatively correlated REITs. Thus, despite a 62% net exposure the beta was just 0.3-0.4. The 120-day correlation to the MSCI Japan was close to 0.

Value factors finally made a comeback in 2019, whilst price momentum had a big negative showing. 1-month, 3-month, 6-month and 12-month all had negative performance. Amongst value factors, price-to-book was actually negative, but stocks with high Return-On-Equity and low price-to-earnings ratio performed well in 2019.

OUTLOOK

2019 was a good year for risk assets, but the Japanese market only recovered what has been lost in 2018. Despite closing at the highs, the MSCI Japan still ended 4.7% below January 2018 highs. The generational low was in 2012 and we believe the bull market will resume in 2020. Central bank liquidity remains abundant, the rally in Japan only started in the 4th quarter and we expect it will carry through at least until AGM season in June. From a cyclical perspective earnings expectations will rebound and buybacks will continue. Japanese assets are still extremely inexpensive. At the same time, foreigners are still massively underweight Japanese equities and the BOJ is on the buy side. Besides all this market talk, we expect some fantastic corporate governance related action. We will engage with an increasing number of corporates and aim to reform board structures and align incentives with those of shareholders. With the right incentives in place, we will see an acceleration of buybacks, buy-outs, spin-offs, MBOs, and take-overs in 2020, for which we will be well positioned.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Toshiba Plant Systems
Maeda Road Construction
Toshiba Tec Corp
Ichigo Group
Toyo Construction

TOP 5 MOVERS

Heiwa Real Estate	0.46%
Findex Inc.	0.26%
Maeda Road Construction	0.24%
Hitachi High Tec	0.19%
Toyo Construction	0.18%

TOP 5 SHAKERS

Softbank Corp	-0.42%
Coca Cola Bottlers Japan	-0.09%
Harmonic Drive	-0.08%
Ichigo REIT	-0.06%
Toyota Industries	-0.05%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	16.6	22.5
EV/EBITDA	9.9	10.9
Price to Book (PB)	2.0	2.3
Dividend Yield	2.4	1.6
EV/IC	1.2	2.0
1 month momentum	3.8	0.3
12-1 month momentum	33.9	5.6

FUND PERFORMANCE*

	USD [^]	EUR*
Month to date performance	2.36%	2.34%
Year to date performance	15.37%	12.75%
Inception to date performance	7.38%	56.71%

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

FUND FACTS*

Fund size in mln EUR	131.73
Fund size in mln USD	147.87
Firm size in mln EUR	131.73
Firm size in mln USD	147.87

RISK STATISTICS

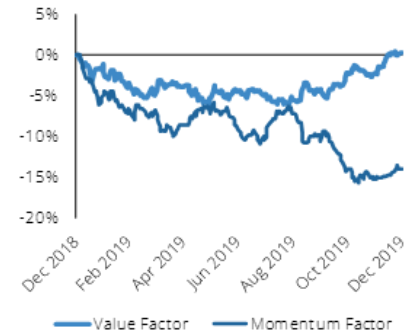
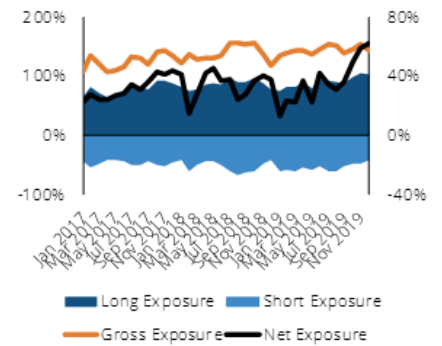
Net Exposure	62%
Gross Exposure	144%
Volatility (ex-ante; 3 months daily data)	8.7%
Beta (ex-ante)	0.38
Sharpe Ratio	0.59
Sortino Ratio	1.03
Sterling Ratio	0.47
Max Drawdown (monthly)	-8.4%
Annualized Return	4.0%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	14	-2	12	16
Consumer Staples	3	-12	-10	15
Energy	0	0	0	0
Financials	6	0	6	6
Health Care	4	0	4	4
Industrials	34	-9	24	43
Information Technology	16	0	16	16
Materials	5	0	5	5
Real Estate	16	-2	14	17
Telecommunication Services	1	-4	-3	5
Utilities	6	0	6	6

GENERAL STATISTICS

% Return long book	3.60%
% Return short book	0.76%
# Long stocks	47
# Short stocks	32
% Long stocks ↑	74%
% Short stocks ↓	59%
# Up days / Down days	13 / 7
Turnover as % NAV	35%



	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
CLASS B EUR	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%	-0.16%	-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%	
CLASS C USD	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						1.17%	0.64%	1.13%	1.21%	0.16%	0.38%	4.78%	4.78%	

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