



## MARKET COMMENTS

The new decade started with the traditional Japanese holiday period lasting the first week of January. Thereafter, volatility kicked-in. Out of 19 trading days, 6 had moves in excess of +/-1%. The MSCI Japan closed the first month of the 20ies in negative territory; -1.6%, whilst the Pelargos Japan EUR share class appreciated +1.7% and the USD share class +1.57%. Risk-off dominated the latter part of January. First, the US strikes on Iran caused a spike in the oil price and a repricing of geopolitical risk, which was swiftly followed by the Covid-19 virus headlines. The risk of such virus epidemic is difficult to price due to the compounding effect of high infection rates in an increasingly interconnected world. The 2<sup>nd</sup> and 3<sup>rd</sup> order effects of shutting down the second largest economy in the world will be assessed on a day-by-day basis, keeping in mind that this should be a temporary, but significant disruption.

## SINGLE STOCK OBSERVATIONS

In Japan, the take-out festivities continued as two of our long holdings received TOB offers. Maeda Road (1883) received a TOB from Maeda Corp (1824) and Hitachi High Tec (8036) received a TOB from Hitachi (6501). The timing and exact motives of such events remain an enigma of Japanese boards' decision making process. We long argued that both, Maeda Corp and Maeda Road, are extremely undervalued, corporate governance is improving from a shockingly low level and at some point the cross-shareholding needs to be addressed. Maeda Corp, a general construction company, considered itself the parent while 'only' holding a 23% minority stake in Maeda Road. As the story goes, Maeda Road has a larger market capitalization and was unpleasantly surprised by the 'parents-in-disguise' rapprochement. This long-term family situation quickly turned into what Maeda Road considers a hostile take-over attempt. May it be as it is, the stock appreciated +40% in January and added +2.5% to the fund's performance. Of course, this family intrigue is far from over, if one is interested in some board room kabuki, the TOB statements of the parties involved are an amusing read with plenty of blaming and shaming.<sup>1</sup>

The second largest positive contributor was Heiwa Real Estate (HRE, 8803). We established this long position in mid-2016 and have seen a spectacular re-rating of this once heavily discounted real estate company. HRE stock price has been the gift that keeps on giving. Obviously, the management feels the pressure to improve corporate governance and more importantly its share price. Too steep a discount to intrinsic value attracts too much attention and, as we wrote last month, these days HRE board enjoys the full attention of a like-minded

investor with deeper pockets than ours (Simplex reported a 8%+ stake late year).

After months of very contained single stock losses, we experienced a few single stock draw-downs, such as long Ichigo (2337, -0.47%, share price -10%), long Findex (3649, -0.29%, share price -16%) and long Toshiba Tec (6588, -0.26%, share price -4%). All this three long-term position are great long term performers and contributed nicely to the fund. Toshiba Tec shares had a big run in anticipation of some form of corporate action. Ichigo's share price suffered from the Corona virus uncertainty, as it is heavily exposed to hotel business. Findex share price experienced profit taking after last year's +153% price appreciation.

The long book gained +0.5% in January against the MSCI Japan falling by -1.6%. The short book declined -3%, as we finally were able to add some alpha on the short side, which unfortunately happened less frequent than we wished to. In the long book we have few export, global trade oriented businesses, however the short book has several position that were negatively impacted by the slow global growth and drop in travel/trading activity due to the Corona virus.

## RISK ALLOCATION & STYLE PERFORMANCE

The net exposure, including futures/ETF hedges, stood at 43% at month's end, which is 19% lower compared to end of December. At the end of January, the take-over of our 9% Toshiba Plant Systems long position was settled and closed out. At the same time we increased gross exposure from 144% to 179%, as we reduced net exposure by using futures/ETFs and added several small positions. Despite the elevated net exposure the ex-ante beta was close to 0 which is due to our stock picking in predominately domestic, low beta companies. The turn of the year tends to be a reversal driven, low quality, low price-to-book high beta market environment. January 2020 was very different as in that quality was the best performing factor and value actually performed poorly.

## OUTLOOK

In 2019, we had three long positions being bought out by parents or affiliates. Last month alone, two long positions received TOB's. The restructuring of Japan Inc. will continue and the acceleration phase is now. The extremely tight labor market enables withdrawal from obsolete businesses and reinvesting human resources into high-return businesses. Management boards cannot hide anymore behind allegiant shareholders and poison pills, those days are over. Japanese society wants

<sup>1</sup> [www.maeda.co.jp/news/blog\\_assets/attachments/850/20200120\\_english.pdf](http://www.maeda.co.jp/news/blog_assets/attachments/850/20200120_english.pdf) & [www.maedaroad.co.jp/jr/2020/info\\_20200124\\_EN.pdf](http://www.maedaroad.co.jp/jr/2020/info_20200124_EN.pdf)



change and finally embraced the notion that activists have social utility and should be considered a good thing .... at last.

**FUND CHARTS AND FACTS**



**TOP 5 GROSS POSITIONS**

Maeda Road Const
Toshiba Tec Corp
Hitachi Capital
System Corp
Heiwa Real Estat

**TOP 5 MOVERS**

Maeda Road Const	2.49%
Heiwa Real Estat	0.33%
Shiseido	0.18%
Softbank Corp	0.16%
Kawasaki Kisen	0.16%

**TOP 5 SHAKERS**

Ichigo Group	-0.47%
Findex Inc.	-0.29%
Toshiba Tec Corp	-0.26%
Ichigo Hotel Reit	-0.20%
Nihon M&a Center	-0.16%

**FUND FACTOR**

	Long	Short
Price to Earnings (PE)	17.9	21.9
EV/EBITDA	10.7	12.3
Price to Book (PB)	2.2	2.4
Dividend Yield	2.3	1.9
EV/IC	1.4	2.1
1 month momentum	2.8	-5.0
12-1 month momentum	34.6	4.2

**FUND PERFORMANCE\***

	USD <sup>^</sup>	EUR <sup>*</sup>
Month to date performance	1.57%	1.70%
Year to date performance	1.57%	1.70%
Inception to date performance	9.06%	59.37%

*\*based on share class B EUR, <sup>^</sup>based on share class C USD*

**FUND FACTS\***

Fund size in mln EUR	131.25
Fund size in mln USD	145.45
Firm size in mln EUR	131.25
Firm size in mln USD	145.45

**RISK STATISTICS**

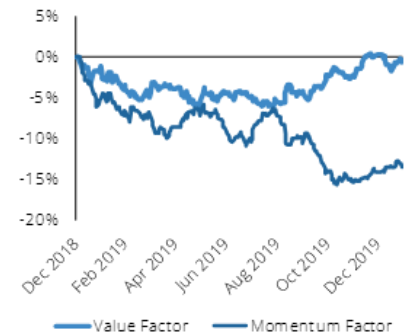
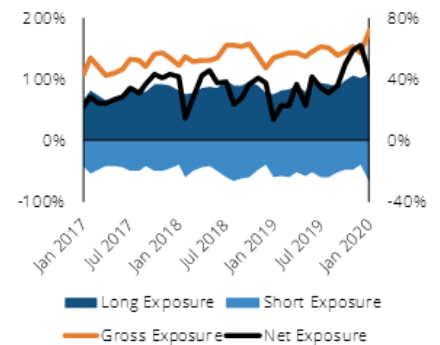
Net Exposure	43%
Gross Exposure	179%
Volatility (ex-ante; 3 months daily data)	9.5%
Beta (ex-ante)	0.08
Sharpe Ratio	0.61
Sortino Ratio	1.06
Sterling Ratio	0.49
Max Drawdown (monthly)	-8.4%
Annualized Return	4.1%

**SECTOR EXPOSURES (IN PERCENT)**

	Long	Short	Net	Gross
Consumer Discretionary	11	-5	6	16
Consumer Staples	2	-12	-10	14
Energy	0	0	0	0
Financials	8	0	8	8
Health Care	8	0	8	8
Industrials	35	-12	24	47
Information Technology	15	0	15	15
Materials	6	0	6	6
Real Estate	17	-3	14	20
Telecommunication Services	2	-6	-4	7
Utilities	6	0	6	6

**GENERAL STATISTICS**

% Return long book	0.50%
% Return short book	-3.00%
# Long stocks	63
# Short stocks	34
% Long stocks ↑	38%
% Short stocks ↓	59%
# Up days / Down days	9 / 13
Turnover as % NAV	89%



CLASS B EUR	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2020	1.70%													1.70%
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	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2020	1.57%													1.57%
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	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.17%	0.64%	1.13%	1.21%	0.16%	0.38%		4.78%	4.78%

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