



## MARKET COMMENTS

In March, the MSCI Japan declined -0.9% in Japanese yen (JPY) terms. Our Japan fund appreciated +0.51% during this choppy trading environment in March. The long book appreciated +1.1%, whilst the short book declined -1.4%. On an index level, we observed wide range, daily reversal behavior. In the last week of March, which is the last week of the Japanese fiscal year, the market dropped -2.5% on Monday and immediately reversed on Tuesday (+2.4%) due to dividend reinvestment flows. Thus, with a lot of technicalities driving market beta, the most important takeaways from last month's price action was the rotation into deflation assets. Whilst the strong rally in February was driven by defensive sectors, March was very different. The Real Estate index rallied +3.9% and our net long position in this sector contributed most to this month's performance. Japanese Financials (-3.4%) dramatically underperformed, we have little to almost no exposure in this space.

## SINGLE STOCK OBSERVATIONS

Pola Orbis, a skin care company, was listed on the Tokyo Exchange in December 2010 and we initiated a long position at extremely cheap levels in November 2011. The stock had a phenomenal run since then, but valuation reached extreme levels in the middle of 2018. The stock declined more than 40% since last summer and over the past few months we started to buy on weakness. The POLA growth story is well understood with strong demand from foreign tourists and high value added products with a unique distribution system. Chinese demand, especially because of a short fall in reseller demand, has come off quite a bit, whilst at the same time the other brands, Orbis, H2O+, Jurlique continued to struggle. We learned that Orbis brand started to stabilize after management readjusted the strategy and one of the Orbis nutritional supplements became a blockbuster hit. The new POLA whitening product, a quasi-drug, will be launched soon and provides a much needed earnings boost over the coming 12-18 months. In March, the stock price made a decent comeback, appreciating +13%. The inbound tourist numbers supported the sentiment of the cosmetic stocks in general as little other news occurred.

Two shorts made it in the top 10 contributors, Pepper Foods and Nippon Yusen. Pepper Foods announced a drastic collapse in its same-store-sale, which confirmed our thesis and that further earnings downgrades are inevitable.

Nippon Yusen, despite its low price-to-book, remains a value trap. Shipping is a highly capital intensive business and returns-on-investment barely cover cost-of-capital, if ever. With global growth slowing, the share price continued to suffer from weakening demand and sluggish freight rates.

The largest negative contribution came from long position Creo, the stock declined -10% last month after having rallied +37% during the January-February time frame. The fundamental growth story is intact and valuation remains supportive. Another negative contribution came from the short Kagome position. The biggest producer of tomato and vegetable juices announced to increase prices, which was rewarded with a significant price spike. In our opinion, these price hikes will just cover cost price increases and barely enhance margins, and as such are earnings neutral. We observed this type of price behavior several times with other stocks and in most cases the initial stock price jump quickly faded.

## RISK ALLOCATION

With volatility receding, we increased gross exposure further from 136% in January, 140% in February to 144% in March. The net exposure was close to unchanged at 22% compared to 24% last month.

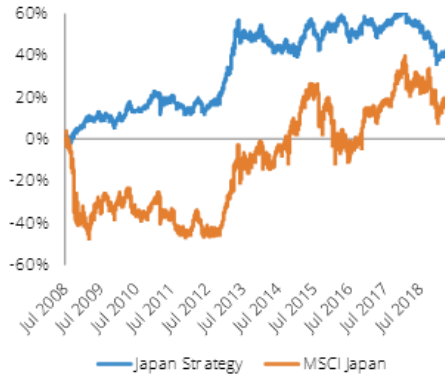
## STYLE ANALYSIS

The dramatic drop in the US 10-yr interest rate, driving down global rates, had tremendous repercussions with regards to style performance. In March, value underperformed again as did momentum and size. Quality and oddly enough high-beta performed well. The dismal value performance is a global phenomenon rather than Japan specific.

## OUTLOOK

Global leading indicators have been dropping considerably and the global economy is slowing with China and Europe the major weak spots. So far there has been little sign of stabilization, only the US, 20% of global output, is holding up pretty well. The US economy has been slowing as well and the US FED adjusted its policy accordingly. Over the long run there is little to no correlation between GDP growth and equity returns. However, only recessions cause noteworthy bear markets (in the US). The US matter most, and to some extent China, for Japanese equities. Recession probabilities in the US are rising rapidly but central banks are extremely vigilant and aim to avoid asset price deflation. With the FED put in place, global risk assets will re-rate. Chinese credit availability has been bottoming out and points towards higher risk assets in China. Nevertheless, we think earnings in the short term will face heavy downward revisions, thus avoiding earnings 'air pockets' now is of utter importance.

## FUND CHARTS AND FACTS



### TOP 5 GROSS POSITIONS

Nomura TOPIX ETF
Ichigo Hotel REIT Investment C
Toshiba Plant Sy
Taihei Dengyo
Ichigo Group

### TOP 5 MOVERS

Pola Orbis	0.25%
Pepper Food Serv	0.22%
Nippon Yusen	0.20%
Hulic Reit	0.20%
Hitachi High Tec	0.19%

### TOP 5 SHAKERS

Creo	-0.16%
Kagome	-0.14%
Takamatsu Cons D	-0.10%
Taihei Dengyo	-0.10%
Toyo Constructio	-0.09%

### FUND FACTOR

	Long	Short
Price to Earnings (PE)	15.1	16.3
EV/EBITDA	13.1	32.8
Price to Book (PB)	1.6	2.5
Dividend Yield	2.6	3.0
EV/IC	1.2	3.2
1 month momentum	1.5	-3.8
12-1 month momentum	1.9	-15.5

### FUND PERFORMANCE\*

Month to date performance	0.51%
Year to date performance	1.56%
Inception to date performance	32.59%

\*based on share class B EUR

### FUND FACTS\*

Fund size in mln EUR	92.61
Fund size in mln USD	103.99
Firm size in mln EUR	218.46
Firm size in mln USD	245.29

### RISK STATISTICS

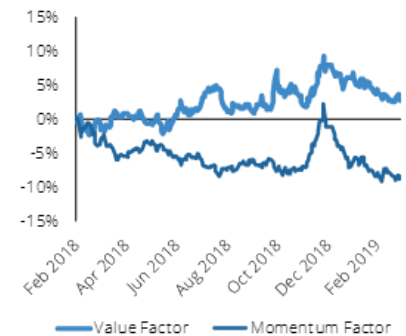
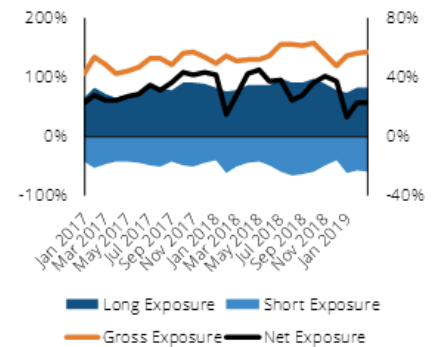
Net Exposure	22%
Gross Exposure	144%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.47
Sortino Ratio	0.84
Sterling Ratio	0.39
Max Drawdown (monthly)	-8.4%
Annualized Return	3.3%

### SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	3	-15	-12	18
Consumer Staples	5	-9	-4	14
Energy	0	0	0	0
Financials	3	-2	1	5
Health Care	1	0	1	1
Industrials	29	-5	24	34
Information Technology	9	-1	8	9
Materials	3	-2	1	5
Real Estate	26	-4	22	31
Telecommunication Services	0	-4	-4	4

### GENERAL STATISTICS

% Return long book	1.12%
% Return short book	-1.43%
# Long stocks	47
# Short stocks	18
% Long stocks ↑	55%
% Short stocks ↓	44%
# Up days / Down days	14 / 6
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%											1.56%
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%



## **DISCLAIMER**

Pelargos Capital B.V. has compiled this publication. Pelargos Capital B.V. is a management company and in that capacity avails of a license pursuant to section 2:65 of the Act on Financial Supervision of the Netherlands (Wft) as that section reads following the incorporation of the AIFM Directive in the Wft.

Although the information contained in this publication is composed with great care and although we always strive to ensure the accuracy, completeness and correctness of the information, imperfections due to human errors may occur, as a result of which presented data and calculations may vary. Therefore, no rights may be derived from the provided data and calculations. All information is provided "as is" and is subject to change without prior notice.

Pelargos Capital B.V. does not warrant the adequacy, accuracy or completeness of any information and expressly disclaims any liability for errors or omissions therein. The recipients of this publication are responsible for evaluating the accuracy, completeness or usefulness of this information.

The information contained in this publication does not constitute any recommendation, investment proposal, offer to provide a service, nor a solicitation to buy or sell any security or other investment product.

The publication of this information may be subject to restrictions imposed by law in some jurisdictions. Pelargos Capital B.V. requests any recipient of this publication to become acquainted with, and to observe, all restrictions. Pelargos Capital B.V. accepts no liability for infringement of such restrictions.

The recipient shall not distribute, forward or publish this information. No rights may be derived from the provided information, data and calculations. Also by risks inherent to this investment fund, the value of the investments may fluctuate. Past performance is no guarantee or guide to future performance.