



## MARKET COMMENTS

In May the MSCI Japan declined by -6.4%. Despite the jump in volatility and increased correlation, the defensive positioning in the long book mitigated the impact and the fund closed flat for the month. For the past few years, we have had a barbell approach in the long book, meaning high exposure to high yielding quality Real Estate Investment Trusts (e.g. Office, Hotel, Solar) together with domestic, high recurring revenue 'Industrials' (e.g. Plant Engineering, Road Construction, Water Infrastructure). Especially last month this strategy paid off, as the long book 'only' declined -3.9%. On the other hand, the biggest net short position on a sector level is in Consumer Staples, these are perceived low-beta, high quality, but we think otherwise. Most Consumer Staples companies in Japan have dismal margins and low growth, which results in sub-par Return-On-Invested Capital. However, market participants have assigned an excessive premium to non-cyclical exposure. Finally, the de-rating in this over-hyped market segment continued and despite its low-beta characteristics, the short book was down -6.2%, in-line with the overall market. Nevertheless, we were surprised by the steep drop in the market averages. Global fixed income yields collapsed as global growth continued to linger. Although Japanese equities trade at extremely attractive valuations, this is not a macro environment under which they tend to perform well.

## SINGLE STOCK OBSERVATIONS

With equity markets collapsing last month, four out of the 5 top contributors were short positions. For example, shorts in Panasonic and Sharp gained +46bps and +39bps respectively. Both stocks are controversial situations. In this edition, we will elaborate on Sharp's equity value. Sharp Corp. is a consumer electronics company, LCD panels are its most important product and revenue source. This LCD end-market is fiercely competitive, panel prices have been collapsing as the Chinese crush this industry with state subsidized capital. This trend has been ongoing for a while and so far, Sharp was bailed out once by the Taiwanese conglomerate Hon Hai Precision and is only a going concern, because Japanese banks kept it on life support. The banks essentially own Sharp and they will make sure their money is good, which means other minority shareholders will be bagholders. Sharp announced an suspiciously optimistic outlook to juice up the stock price (which lasted a few days), because equity capital is dearly needed. About a year ago Sharp tried to raise equity from investors globally, but miserably failed since there was not enough interest. Together with the overly optimistic outlook, the Japanese banks announced that they want their preferred to be repaid. In the past 20 years, Sharp only twice achieved a Cash-Return on Invested Capital (CFROI) equal to its cost of

capital. CFROIs have been negative since 2010. It is just such a terrible business, it requires massive capital expenditure and at the same time there is excessive competition with limited barriers to entry and short product life cycles.

This biggest negative contribution was Taihei Dengyo. The company issued disappointing earnings and the stock collapsed. We are in close contact with management and will meet again mid-June. The earnings miss was caused by cost overruns, which the company was not able to pass on to their customers yet. The company is highly confident it will do so, but does not know when. Without analyst coverage and poor information dissemination, the stock was sold despite its extreme undervaluation.

## RISK ALLOCATION

Under current economic conditions and increased volatility regime we maintained a low net exposure; 23% at the end of May. Many short positions are extended to the downside and close to initial price targets, levels at which valuation support kicks in and we are ready to take profits.

## STYLE PERFORMANCE

In May, value underperformed and post earnings season the earnings revision factor performed very well. In addition, the short-term reversal factor was very strong, which we observed on a daily basis on both a single stock as well as sector level.

## OUTLOOK

We emphasized last month that the global economy has not stabilized yet and recession risk remains elevated. Last month risk assets sold off sharply and 'risk-free' government bonds made extraordinary gains confirming our slower for longer thesis. This means, in our opinion, that the US Fed needs to cut rates sooner rather than later, pushing the Japanese yen (JPY) higher with negative implications for the Japanese equity market especially export related sectors. Therefore, we have predominately domestic exposure with little JPY sensitivity in the long book and the short book remains tilted towards highly operationally geared business models. We expect some short-term relief for global risk assets as the Fed adopts a more accommodative policy stance. However, the medium term outlook remains bleak as recession probabilities will further increase causing more stock price volatility. On a net exposure level we remain cautious as Japan will underperform as long as global corporate earnings decelerate. Our long book is heavily exposed to share buyback potential and high yield situations, which should attract natural buyers in a weak demand environment. That said, we want our companies to buy back stock as low as possible, because it even further enhances our future expected return.



## FUND CHARTS AND FACTS



### TOP 5 GROSS POSITIONS

Ichigo Hotel REIT Investment C
Toshiba Plant Sy
Kddi Corp
Taihei Dengyo
Maeda Road Const

### TOP 5 MOVERS

Panasonic	0.46%
Sharp Corp	0.39%
Kikkoman Corp	0.38%
Coca Cola West C	0.31%
Creo	0.30%

### TOP 5 SHAKERS

Taihei Dengyo	-0.84%
Murata Mfg	-0.45%
Okamoto Inds	-0.41%
Pola Orbis	-0.32%
Maeda Corp	-0.32%

### FUND FACTOR

	Long	Short
Price to Earnings (PE)	16.0	18.3
EV/EBITDA	13.7	12.6
Price to Book (PB)	1.6	4.0
Dividend Yield	3.0	2.1
EV/IC	1.3	4.2
1 month momentum	-3.0	-8.4
12-1 month momentum	-0.7	-19.2

### FUND PERFORMANCE\*

Month to date performance	-0.04%
Year to date performance	2.51%
Inception to date performance	42.48%
*based on share class B EUR	

### FUND FACTS\*

Fund size in mln EUR	93.69
Fund size in mln USD	104.40
Firm size in mln EUR	218.11
Firm size in mln USD	243.05

### RISK STATISTICS

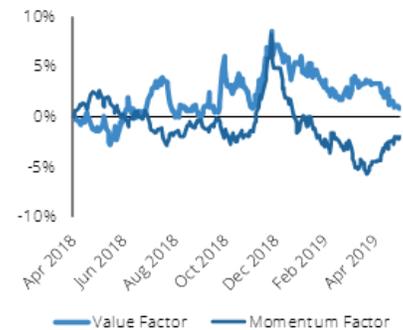
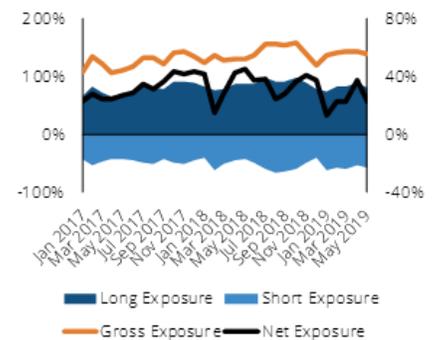
Net Exposure	23%
Gross Exposure	138%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.48
Sortino Ratio	0.84
Sterling Ratio	0.39
Max Drawdown (monthly)	-8.4%
Annualized Return	3.3%

### SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	6	-13	-7	20
Consumer Staples	4	-12	-8	16
Energy	0	0	0	
Financials	3	-3	-1	6
Health Care	1	0	1	1
Industrials	29	-6	23	35
Information Technology	16	-1	15	16
Materials	5	-2	3	7
Real Estate	22	-10	12	32
Telecommunication Services	0	-5	-5	5

### GENERAL STATISTICS

% Return long book	-3.94%
% Return short book	-6.22%
# Long stocks	49
# Short stocks	20
% Long stocks ↑	27%
% Short stocks ↓	80%
# Up days / Down days	11 / 11
Turnover as % NAV	63%



FUND PERFORMANCE: CLASS BEUR	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%									2.51%
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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