



MARKET COMMENTS

November was yet another exciting month for Japanese investors, the MSCI Japan appreciated +1.9%. Throughout the year, we shared our enthusiasm in this newsletter about the current acceleration in corporate governance initiatives. Exactly that premise became the most important driver of our performance. The long book appreciated +3.3%, whilst the short book lagged the broader market by 20bps, appreciating just +1.7%.

SINGLE STOCK OBSERVATIONS

On November 13, Toshiba Corp. announced a bid to acquire Toshiba Plant Systems ("TPS") for JPY2,670 per share. TPS was our largest long position, close to our 10% limit, and as the stock appreciated +26% in November, it contributed +2.2%. After the official takeover-bid ("TOB") details were published, we responded in writing to the Toshiba Corp. and TPS board of directors. We outlined our opinion that the current TOB price is significantly below intrinsic value. According to our estimates, on a stand-alone basis with an efficient capital structure the fair value of TPS is close to JPY 4,000 per share. In light of the current TOB price of JPY 2,670 Toshiba Corp. tries to get itself a bargain. Obviously, this is a highly conflicted transaction and in our communication to the companies we addressed the highly questionable assumptions and methods used in its valuation process. The valuation reports in the TOB statement failed to include 'accounts receivables to the parent'. This data is publicly available in TPS' annual report and amounts to JPY 57bn, equal to 22% of current market capitalization. As odd as it may seem, the TPS board seems to 'have forgotten' about it. With such discrepancies in the valuation process, we question the validity and independence of the entire process. As it is our fiduciary duty towards our investors we continue to engage with TPS and Toshiba Corp. aiming for a better outcome, and although our bargaining power is limited in terms of 'chips-on-the-table', we remind the involved parties of their fiduciary duties as outlined in the Corporate Governance code and the recently issue METI guidelines on 'Fair M&A dealing (https://www.meti.go.jp/english/press/2019/0628_004.html).

Besides TPS, Toshiba Tec was another great contributor, which added 0.9% to the fund's performance. In line with our assessment, Toshiba Tec is only partially relevant to Toshiba Corp. In our opinion, the most likely scenario for Toshiba Tec's assets is such that after an extensive review process, strategic buyers will be found for both, its Point-Of-Sales systems and printing solutions business.

The biggest losing position last month was long position Taihei Denryo, whose stock price dropped -10% after its earnings release. In terms of business model, the company basically is

a(n) (even) smaller Toshiba Plant Systems. The quarterly earnings can be highly erratic, as it all depends on revenue recognition from sizable projects. Most importantly, the cost recovery from cost overruns can be very lumpy and unpredictable. On an underlying basis, it is a decent, asset light engineering business and its stock price trades significantly below book value.

Another small loser was the short position in Coca Cola Bottlers. With structural headwinds in its core business even a highly developed and sophisticated Coca Cola management team can barely earn its cost-of-capital. We correctly anticipated the tremendous earnings shortfall and find much more attractive value opportunities elsewhere. That said, if pricing power were ever to manifest itself in Japan, this asset is a most own. However, as long as this is not the case, cost-of-capital is best investors will get.

RISK ALLOCATION

The biggest struggle in the current market environment remains the sourcing of shorts ideas. In absolute terms, many assets are inexpensive and share buybacks has become an increasingly accepted way to enhance corporate value. The most attractive shorts we find in the Consumer Staples space and Cosmetics, where valuations are extremely elevated. The net exposure is above average and with our historical bias towards manufacturing we are maximum long Industrials as well as in selective real estate stocks. Our books consist to a large extent of low beta stocks, with an ex-ante beta of just 0.25 and the gross exposure at 153% is above average.

STYLE PERFORMANCE

The rotation and price reversal driven behavior from prior months continued with price momentum factor and quality factor performing poorly. Valuation factor had a positive spread return however the level of consistency is poor. Year-to-date the trend is clear; value strongly outperforms momentum.

OUTLOOK

Our enthusiasm about the opportunities in Japanese equities remains untampered. The corporate governance revolution is for real. Japan being the land of the perennial value traps with more listed companies than the US, has ignited a nationwide restructuring of private sector assets. The years to come will be one of delistings, contested M&A, board restructuring, asset disposals and spin-offs. As part of our fiduciary duty adhering to the Japanese Stewardship Code, we will contribute our small part and support management boards to decrease cross-shareholdings and enhance its capital structure, as eventually capital, as well as human resource allocation will improve and enhance corporate value.

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Toshiba Plant Systems
Toshiba Tec Corp
Maeda Road Construction
Toyo Construction
Taihei Denryo

TOP 5 MOVERS

Toshiba Plant Systems	2.22%
Toshiba Tec Corp	0.89%
Maeda Road Construction	0.65%
Findex Inc.	0.27%
Zuiko	0.21%

TOP 5 SHAKERS

Taihei Denryo	-0.52%
Takara Leben Infrastructure Fund	-0.33%
Coca Cola Bottlers Japan	-0.23%
Showa Denko K K	-0.23%
Panasonic	-0.17%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	15.2	22.2
EV/EBITDA	9.2	10.2
Price to Book (PB)	1.9	2.1
Dividend Yield	2.5	1.8
EV/IC	1.1	1.8
1 month momentum	5.4	0.7
12-1 month momentum	11.9	-3.5

FUND PERFORMANCE*

	USD [^]	EUR ⁺
Month to date performance	2.35%	2.35%
Year to date performance	12.71%	10.17%
Inception to date performance	4.90%	53.13%

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

FUND FACTS*

Fund size in mln EUR	100.92
Fund size in mln USD	111.27
Firm size in mln EUR	200.46
Firm size in mln USD	221.02

RISK STATISTICS

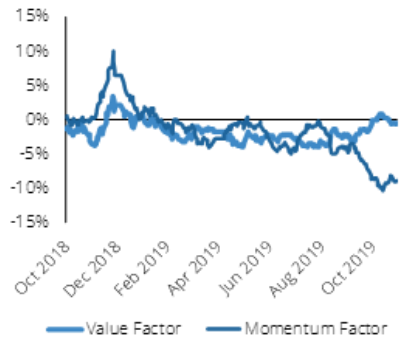
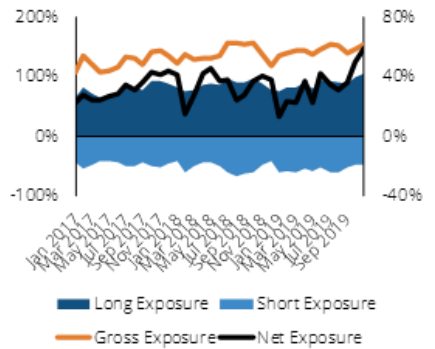
Net Exposure	59%
Gross Exposure	153%
Volatility (ex-ante; 3 months daily data)	7.5%
Beta (ex-ante)	0.24
Sharpe Ratio	0.56
Sortino Ratio	0.98
Sterling Ratio	0.45
Max Drawdown (monthly)	-8.4%
Annualized Return	3.8%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	13	-2	11	15
Consumer Staples	2	-11	-8	13
Energy	0	0	0	0
Financials	2	0	2	2
Health Care	3	0	3	3
Industrials	37	-12	25	49
Information Technology	19	0	19	19
Materials	7	0	7	7
Real Estate	15	-3	12	17
Telecommunication Services	1	-4	-3	5
Utilities	8	0	8	8

GENERAL STATISTICS

% Return long book	3.33%
% Return short book	1.68%
# Long stocks	44
# Short stocks	34
% Long stocks ↑	55%
% Short stocks ↓	41%
# Up days / Down days	14 / 7
Turnover as % NAV	54%



	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%		10.17%	53.13%
	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%		12.71%	4.90%
	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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