



MARKET COMMENTS

In October, the MSCI Japan appreciated +4.9% in Japanese yen (JPY) terms. The Pelargos Japan EUR share class appreciated +3.4% and the USD share class +3.8%. The wide-spread reversal in underperforming sectors and single stocks continued in October. Volumes were extremely light over the summer and into autumn overseas investors returned as net buyers. The underweight of Japanese equities by global market participants has reached 2009 extremes and with no sellers left, a bit of 'fresh' capital is sufficient to drive prices north. Aggregated earnings numbers were poor, with consensus misses and guidance cuts across the market. However, the negative narrative is well understood and November is typically peak season for share buyback announcements. Unexpected share buybacks certainly scare the shorts, and we noticed sizable rallies in stocks with disastrous earnings as long as a buyback was dished out.

SINGLE STOCK OBSERVATIONS

The highest contributor last month was Toshiba Plant Systems (TPS). To our great disbelief, the TPS' stock price has been lagging the broader benchmark year-to-date, trading at ridiculous low valuations with little to no interest from market participants. We first invested in TPS in 2009 with regular, at least quarterly, communication for the past several years. Many times we have written about a potential rearrangement of its shareholder structure, including a likely buy-out by its parent company Toshiba Corp. Early October, the Toshiba board of directors (BoD) went for the first time on record, mentioning its stance on reviewing Toshiba Corp.'s capital structure, including its approach to its subsidiaries. These comments set off a rush to buy TPS shares and with no sellers left, the stock rallied +18% last month. TPS announced quarterly earnings on October 31st, that were rather uninspiring, but most importantly we formally approached the BoD addressing an action list of items we deem important for us, minority shareholders. Our approach to exercising our Stewardship duties addresses all relevant governance concerns, including balance sheet inefficiencies and shareholder return policies. While writing this newsletter, Toshiba Corp. announced its intention to acquire TPS at JPY 2,670 per share. This is far below our fair value estimate, which we shared with TPS BoD and calculated to be about JPY4,000. We will provide an update in next month's newsletter and in the meantime we assess relevant steps to make sure TPS BoD delivers on its fiduciary duties towards minority interests. However, without a swift change in the current shareholder structure, it will be difficult to exert minority rights to get a better price for Toshiba Corp.'s full control.

The second biggest contributor last month was another Toshiba child: Toshiba Tec. We initiated this long position one

year ago, when we started to better grasp the template under which Toshiba Corp. operates. Admittedly, we were one year too early and could have chosen a better entry point, as the stock price plummeted in the ominous liquidity air pocket of December 2018. Toshiba Tec has two main business lines and although, the point-of-sales (big data consumer access) unit is highly relevant to Toshiba Corp., the printer business is not. We think it is more likely that TPS will be 100% consolidated, whilst the printer business will be a more relevant asset to another buyer. That said, the premium for Toshiba Tec could be even higher for minority shareholders as, the Toshiba Corp. BoD has a fiduciary duty to its shareholders to maximize the sales value. Exciting times indeed, maybe the most exciting one in decades as there are almost no educated institutional investors left, hunting for 'fish in an empty barrel' to quote the most famous and equally cynical Charlie Munger.

For the first time in a long time, we had no meaningful losing positions to report on.

RISK ALLOCATION

The opportunity set is plentiful and sentiment is dismal. We are most excited, thus the net exposure is 50% and gross exposure 146%, both measures are above historical averages. Admittedly, it is tough to find good shorts. Geopolitical risk is elevated, recession risk is evident, global growth slow down manifests in earnings everywhere, but stocks barely react to massive downward revisions. Whilst a lot of bad news is out, valuations are extremely attractive. The elevated net exposure is highly idiosyncratic, as Toshiba Plant Systems accounts for 8.4% followed by Maeda Road Construction, a 6.5% position.

STYLE PERFORMANCE

The broad rotation into laggards continued; high beta with low PE relative to history outperformed. Our style factor performance indicated a highly reversal driven stock behavior. 12-month price momentum was the single worst factor, whilst high beta was best performing. The positive value performance is still unconvincing, as its outperformance was mainly driven by pure price reversal rather than consistency in underlying value factors.

OUTLOOK

Corporate earnings are currently on a downward trajectory, however balance sheets are grossly overcapitalized, with more than 50% of listed companies in the Topix index holding net cash positions. The cash piles now are greater than 5 years ago, valuation is extremely low and share buybacks are skyrocketing. We are at the inflection point of Japan's corporate governance revolution. The consensus on how to deal with poor management has shifted for good and there is no turning back.

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Toshiba Plant Systems
Maeda Road Construction
Toshiba Tec Corp
Taihei Dengyo
Ichigo Hotel REIT

TOP 5 MOVERS

Toshiba Plant Systems	1.20%
Toshiba Tec Corp	0.72%
Taihei Dengyo	0.41%
Canadian Solar Infrastructure Fund	0.38%
Metawater	0.35%

TOP 5 SHAKERS

Ezaki Glico	-0.23%
Keihan Electric	-0.11%
Dentsu	-0.10%
Panasonic	-0.08%
Makino Milling Machine	-0.08%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	17.0	21.9
EV/EBITDA	9.6	9.8
Price to Book (PB)	1.7	1.7
Dividend Yield	2.6	1.9
EV/IC	1.0	1.5
1 month momentum	8.8	3.7
12-1 month momentum	10.2	-3.0

FUND PERFORMANCE*

	USD [^]	EUR ⁺
Month to date performance	3.77%	3.43%
Year to date performance	10.12%	7.65%
Inception to date performance	2.49%	49.62%

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

FUND FACTS*

Fund size in mln EUR	98.44
Fund size in mln USD	109.82
Firm size in mln EUR	199.06
Firm size in mln USD	222.08

RISK STATISTICS

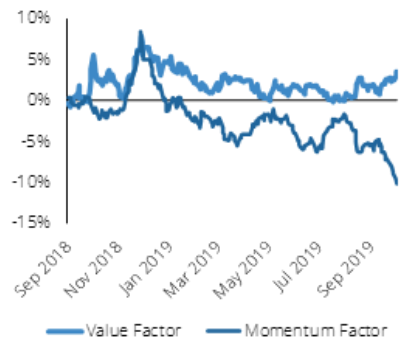
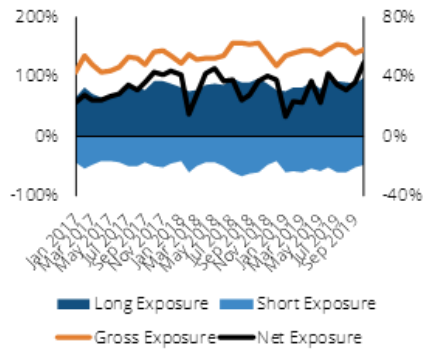
Net Exposure	50%
Gross Exposure	146%
Volatility (ex-ante; 3 months daily data)	7.8%
Beta (ex-ante)	0.27
Sharpe Ratio	0.53
Sortino Ratio	0.93
Sterling Ratio	0.43
Max Drawdown (monthly)	-8.4%
Annualized Return	3.6%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	9	-3	7	12
Consumer Staples	3	-11	-8	14
Energy	0	0	0	0
Financials	1	0	0	1
Health Care	2	0	2	2
Industrials	35	-11	25	46
Information Technology	17	0	17	17
Materials	5	0	5	5
Real Estate	18	-2	16	20
Telecommunication Services	1	-6	-5	7
Utilities	7	0	7	7

GENERAL STATISTICS

% Return long book	7.48%
% Return short book	4.75%
# Long stocks	42
# Short stocks	30
% Long stocks ↑	83%
% Short stocks ↓	17%
# Up days / Down days	17 / 5
Turnover as % NAV	48%



FUND CHARTS AND FACTS

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%	0.98%	-0.04%	0.56%	1.54%	0.90%	-1.46%	3.43%				7.65%
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
	2019	1.33%	0.25%	0.75%	1.29%	0.45%	0.87%	1.82%	0.43%	-1.19%	3.77%				10.12%
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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