



## MARKET COMMENTS

Against all seasonal odds and worsening economic data the MSCI Japan rallied +5% in September, a strong reversal after the -3.3% fall in August. So far, the Japanese equity market seems rather resilient to the current global slowdown. The downturn in manufacturing is well understood. The machine tool order series we follow in Japan peaked early 2018. In September, the orders (domestic and international) were down -35% year-over-year (yoy). In our opinion, we are close to a turning point as comparison becomes easier going forward and the domestic economy is rather resilient with an extremely tight labor market. The corporate governance revolution is gaining traction and the hostile takeover battle of real estate company Unizo is attracting everyone's attention. Unizo, is one of many, extremely undervalued stocks, with a management team that has aimed to protect its own interests and to maintain status quo. However, the Stewardship code and shift in perception provides the minority shareholders with much more bargaining power than in the past. The size of the war chest and sophistication of global private equity funds are a new phenomenon to Japan. It has been simmering in the background for 1-2 years and Unizo is the first warning shot, for complacent management teams to shape up and listen to the actual owners of the companies they manage.

## SINGLE STOCK OBSERVATIONS

The highest contribution last month came from Canadian Solar Infrastructure Fund (CSIF). It is the first time this name shows up in the top movers & shakers. CSIF is one of the two solar REITs we have in the long book, Takara Leben Infrastructure Fund (TLIF) is the other one. We participated in the CSIF IPO in October 2017 and its follow-on offering in August 2018. The sponsor is a Canada based global solar farm developer and CSIF owns the Japanese solar farms. The business model dynamics are rather predictable, as feed-in-tariffs are fixed in advance and take-off (volume sold) has limited variability. A large portion of the cash earnings is distributed as dividend. As such, the dividend yield, even after the year-to-date (ytd) 20+% price appreciation, is a respectable 6+%. Since the IPO, those solar REITs were too small for institutional investors to bother. Only now, with panic buying in REITs, interest in those illiquid, but highly predictable dividend stocks has picked up. Because of their small size, only few investors spend an extensive amount of work to understand these solar companies. We communicate with both, CSIF and TLIF, management teams at least once a quarter. The stocks are, despite the recent share price performance, inexpensive. In our opinion, the biggest risks are two-fold: First, an oversupply of solar electricity in certain parts of Japan, which leads to curtailment and second, conflicts-of-interest with the sponsors. In order to acquire new

assets for future dividend growth, the Infrastructure Funds issue new shares to acquire assets from the sponsor. If management issues shares below fair value and/or overpays for sponsor assets, than this could have negative implications for the shareholders. So far, both management teams have acted in good faith and we continue to own the shares.

The two biggest losers last month, were the short position in Sharp and the long position in Findex. After having declined -21% in August the Sharp share price rallied +9% in September. The share price has declined -81% from its 2017 peak and understandably selling pressure has diminished. We met with Sharp's board members early in the month and learned from those conversations that the outlook is bad, but not as disastrous as we anticipated. By disastrous we mean, an accelerating cash burn that might lead to imminent equity dilution. During September, we decided to step aside, close the position and monitor for a better entry. Findex has been discussed in the February newsletter, the stock had a massive run in 2019 and despite the -13% drop in September, the stock is still up 70+% ytd.

## RISK ALLOCATION

The net exposure stood at 36%, however as mentioned many times before, the beta and delta adjusted net exposures are close to 0%. The gross exposure is roughly 140%, which is about average and equates to roughly 5% ex-ante volatility.

## STYLE PERFORMANCE

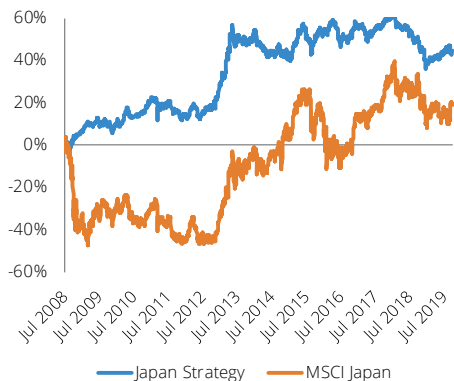
September was all about factor performance. Price momentum had a tremendously bad performance and, as this factor is highly correlated with global yields, reversal was the name of the game. This led to an equally spectacular performance of value stocks. That said, it was cyclical value in combination with sector reversal, as such banks performed extremely well on the back of higher yields.

## OUTLOOK

We remain extremely excited about the outlook for our long book. It is highly concentrated and our conviction bets, such as Toshiba Plant Systems, Maeda Road, Toyo Construction, Toshiba Tec, Hitachi High Tec and Heiwa Real Estate all have one thing in common; they are at the core of Japan's corporate governance revolution. An unwind of allegiant cross-shareholdings, which held back structural allocation improvements, seems imminent. We have been running this Japan strategy since mid-2008 and never before have we experienced such a broad adoption of shareholder friendly policies. The first half results season is the time when Japanese companies announce buybacks and we expect a lot. In fact, from April-August the value of buybacks increased 75% yoy.



## FUND CHARTS AND FACTS



### TOP 5 GROSS POSITIONS

Maeda Road Const
Toshiba Plant Sy
Taihei Dengyo
Ichigo Hotel REIT Investment C
Canadian Solar Infrastructure Fund Ord Shs

### TOP 5 MOVERS

Canadian Solar Infrastructure Fund Ord Sh	0.36%
Hitachi High Tec	0.35%
Toshiba Plant Sy	0.32%
Toyo Constructio	0.30%
Ichigo REIT	0.29%

### TOP 5 SHAKERS

Sharp Corp	-0.28%
Findex Inc.	-0.27%
Panasonic	-0.25%
Creo	-0.22%
Fanuc Corp	-0.21%

### FUND FACTOR

	Long	Short
Price to Earnings (PE)	16.9	23.7
EV/EBITDA	10.6	11.0
Price to Book (PB)	1.5	2.0
Dividend Yield	3.0	2.0
EV/IC	1.0	1.8
1 month momentum	4.3	3.9
12-1 month momentum	-1.0	-16.7

### FUND PERFORMANCE\*

Month to date performance	-1.46%
Year to date performance	4.08%
Inception to date performance	44.65%

*\*based on share class B EUR*

### FUND FACTS\*

Fund size in mln EUR	95.44
Fund size in mln USD	104.05
Firm size in mln EUR	199.61
Firm size in mln USD	217.62

### RISK STATISTICS

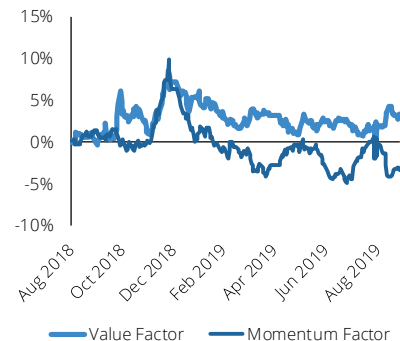
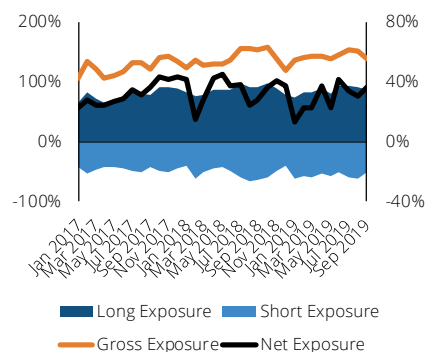
Net Exposure	36%
Gross Exposure	139%
Volatility (ex-ante; 3 months daily data)	4.7%
Beta (ex-ante)	0.11
Sharpe Ratio	0.49
Sortino Ratio	0.86
Sterling Ratio	0.40
Max Drawdown (monthly)	-8.4%
Annualized Return	3.3%

### SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	6	-3	3	8
Consumer Staples	3	-14	-11	17
Energy	0	0	0	0
Financials	1	0	1	1
Health Care	2	0	2	2
Industrials	32	-8	24	39
Information Technology	11	0	11	11
Materials	5	0	5	5
Real Estate	19	-3	16	22
Telecommunication Services	1	-5	-4	6
Utilities	8	0	8	8

### GENERAL STATISTICS

% Return long book	3.26%
% Return short book	6.40%
# Long stocks	46
# Short stocks	20
% Long stocks ↑	74%
% Short stocks ↓	20%
# Up days / Down days	11 / 10
Turnover as % NAV	41%



## 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%					4.08%
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%					6.11%
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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