



Due For A Pause ...

In April, the Pelargos Japan Alpha share classes declined -0.97% (EUR share class) and -0.84% (USD share class). A disappointing set-back after the strong March performance and an extremely strong performance of US equities. The Topix declined -3.95% in euro terms, the biggest monthly decline since July last year.

The Japanese market was rather balanced with 11 up-days and 10 down-days. However, the Topix drifted steadily lower with a lack of catalysts going into earnings seasons and the BOJ increasingly reluctant to buy the down-days.

From the low at 1200 on March 17 last year, the Topix rallied to 2012 on March 19 this year. After this 68% appreciation the market was and is due for a correction. Volatility remained elevated in Japan; the peak-to-trough drawdown in January was -4.1%, in February -5.6%, in March -4.4% and in April -5.5%. At the end of April, the Topix index was still up +5% year-to-date and the Pelargos Japan Alpha fund +3% with an beta of just 0.1-0.2. The loss in April is attributable to mainly one large position, Daibiru losing -0.85% of NAV, while the majority of our long book did pretty well. The past 14 months, since the Covid19 virus went global, are the most unusual of times. No one has lived through such a remarkable episode, and market participants are still struggling with the impact of this pandemic. Especially to figure out which elements of change will be structural and which ones will be temporary. The current big debate in markets is whether the spike in inflation is temporary or structural. It is not either one or the other, it is both. Risk markets are betting markets and as the future is unknowable, markets act as probability-weighting machines. Some probability of structurally higher inflation needs to be discounted into risk assets and it is not unlikely that the pandemic acted as a catalyst for a regime shift. It is important to gauge such shifts early on as it has tremendous impact on which business models can pass on cost inflation and which can't. Japanese corporates have a tendency to underestimate cost acceleration as cost accounting is deficient. Japanese consumer-goods companies are extremely reluctant to increase prices, as Japanese consumers tend to react extremely harshly by refusing to buy products after price increases.

SINGLE STOCK OBSERVATIONS

The price action in Daibiru (ticker 8806) was utterly disappointing in April. The stock rallied +12.6% in March and dropped -10.7% in April. The company announced full year numbers on April 30. The actual numbers were decent, however the management low-balled guidance and no buy-back nor plans to address current undervaluation were

announced. Worst of all, the dividend forecast was slightly lowered, which reflects bad practice and poor judgement. We are left with the impression that there might be an intentional low balling, we will find out and follow-up with the Daibiru's management.

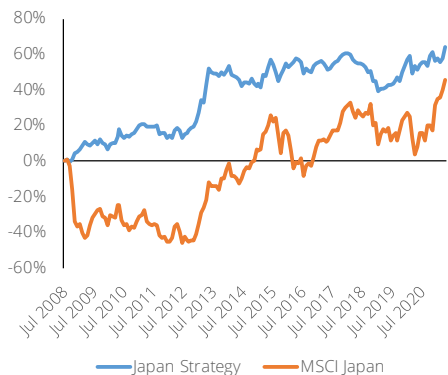
In contrast to the negative price reversal in Daibiru, another real estate holding of ours, Heiwa Real Estate (HRE) (ticker 8803), appreciated +7.5% in April after its poor performance of -7.3% during Q1 2021. HRE has delivered spectacular price performance over the past 5 years, simply because it was extraordinarily mismanaged and as such mispriced. The change over the past several years has been slow, but steadily moving into the right direction with regards to corporate governance. HRE simply was a retirement destination providing board member status and associated amenities to ex-directors of its biggest client, the Tokyo Stock Exchange (TSE). In addition, the TSE was paying below market rents and occasionally some related party, such as CEOs of securities brokers being clients of the TSE, were allowed to join the self-serving executive suite. After many several friendly, but determined, conversations with the board and more resolute shareholders using the public domain the current HRE board enacted various measures, most importantly a series of buy backs. The best defense against hostile suitors and complaints from shareholders is to make sure the share price goes up. HRE presented earnings on April 30th and delivered solid, "tick-the-box" numbers and announced another buyback.

OUTLOOK

High margin debt in capital markets make risk assets susceptible to sharp drawdowns and as we have noted last month: "Certain aspects of global equities, especially US equities, have bubble symptoms and certain equity markets look short-term overbought. Japan can have its usual drawdowns resulting from liquidity imbalances, but those need to be bought we stick to our thesis of a structural bull cycle for Japanese equities." The costs of being listed are dramatically increasing. Transparency requirements have increased and with it reporting requirements, the rules are changing and boards have been slow to adapt. However, for many listed companies under family control, being listed becomes burdensome and attracts unwarranted outside attention. The consolidation and MBO wave only has started; even once-mighty Toshiba is being targeted by private equity. We honestly hope the delisting of Toshiba succeeds. It is about time to wave a ceremonial sayonara to this dysfunctional dinosaur and send a signal to Japan Inc. that the regime shift is for good.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

INFO SERVICES INTL DENTSU	
CANADIAN SOLAR INFRASTRUCTURE	0.1
DAIBIRU	
FUJITEC	0.1
TAKARA LEBEN INFRASTRUCTURE	

TOP 5 MOVERS

HEIWA REAL ESTATE	0.24%
FUJITEC	0.17%
KAIZEN PLATFORM	0.14%
INFO SERVICES INTL DENTSU	0.12%
AEON	0.12%

TOP 5 SHAKERS

DAIBIRU	-0.85%
DIGITAL HOLDINGS	-0.22%
USS	-0.20%
CHANGE	-0.19%
NIFCO	-0.18%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	-0.84%	-0.97%
Year to date performance	2.88%	2.92%
Inception to date performance	12.60%	62.36%

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

FUND FACTS*

Fund size in mln EUR	143.43
Fund size in mln USD	172.37
Firm size in mln EUR	175.46
Firm size in mln USD	210.87

RISK STATISTICS

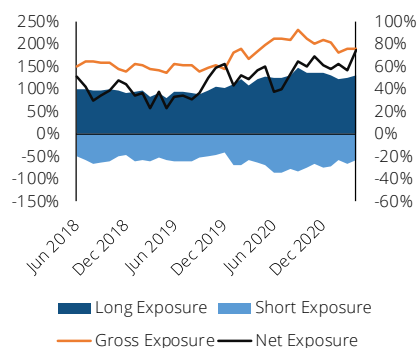
Net Exposure	75%
Gross Exposure	189%
Volatility (ex-ante; 3 months daily data)	9%
Beta (ex-ante)	0.20
Sharpe Ratio	0.56
Sortino Ratio	0.92
Sterling Ratio	0.29
Max Drawdown (monthly)	13.5%
Annualized Return	3.95%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	9	-12	-4	21
Consumer Staples	0	-11	-11	11
Energy	19	-1	18	20
Financials	4	-5	-1	8
Health Care	2	-7	-5	8
Industrials	38	-14	24	52
Information Technology	35	-7	28	42
Materials	8	-3	5	11
Real Estate	18	-1	17	19
Communication Services	4	-6	-3	10
Utilities	0	-2	-2	2

GENERAL STATISTICS

% Return long book	-2.06%
% Return short book	3.14%
# Long stocks	68
# Short stocks	19
% Long stocks ↑	34%
% Short stocks ↓	16%
# Up days / Down days	8 / 12
Turnover as % NAV	71%



FUND PERFORMANCE

	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD	
CLASS B EUR	2021	-1.38%	1.55%	3.76%	-0.97%										2.92%	62.36%
	2020	1.70%	-6.30%	2.66%	-1.17%	1.80%	0.83%	0.23%	-1.54%	3.86%	1.16%	-2.95%	0.82%		0.67%	57.76%
	2019	1.05%	0.00%	0.51%	0.98%	-0.04%	0.56%	1.54%	0.90%	-1.46%	3.43%	2.35%	2.34%		12.75%	56.71%
	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%	-0.19%	-1.06%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	1.77%	0.78%		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%		9.67%	14.60%
	2010	0.73%	-0.23%	3.52%	3.69%	-3.11%	-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%	9.40%	
2008								0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%	6.46%	6.46%	
CLASS C USD	2021	-1.34%	1.63%	3.47%	-0.84%										2.88%	12.60%
	2020	1.57%	-5.92%	2.93%	-0.95%	1.90%	0.92%	0.29%	-1.39%	3.49%	1.12%	-2.51%	0.85%		1.93%	9.45%
	2019	1.33%	0.25%	0.75%	1.29%	0.45%	0.87%	1.82%	0.43%	-1.19%	3.77%	2.35%	2.36%		15.37%	7.38%
	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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