



MARKET COMMENTS

In August, the MSCI Japan declined -0.75%, year-to-date the MSCI Japan lost 4%. The intra-month drawdown of -5.6% was remarkable and at the same time indicative of the current market environment. Japan's first quarter earnings season turned out to be rather positive, especially in light of current negative investor sentiment. Nevertheless, strong earnings beats did not necessarily mean strong stock price performance. Market participants have been selling winners and dumping small-caps, irrespective of valuation. Liquidity in small caps dropped sharply with the result that one or two days of aggressive selling had significant impact on last month's price performance. The fund lost -1.66% in August.

Macro-economic data is holding up pretty well. Japan's corporate capex increased 12.8% year-over-year in Q2, this is the largest capex increase in more than a decade. Labor markets are the tightest in 4 decades and wage growth has started to accelerate, especially for part-time employees and low-income earners. Companies exposed to Chinese capital expenditures, especially in the factory automation related area, experienced rampant order intake the past few quarters and orders have finally started to normalize. On the other hand, the Japanese consumer products' boom remains strong and the Chinese middle class is buying high-end, high-quality consumer products hand over fist.

SINGLE STOCK OBSERVATIONS

The positive contributors last month were mainly short positions. The biggest contributor was the short position in FamilyMart. The stock had rallied for technical reasons; Itochu, its largest shareholder, had an offer outstanding to lift its holding above 50%. This offer price provided significant support and once the tender offer was completed, the share price support for the stock was gone, and with lofty valuations the share price quickly dropped.

Pepper Food made it into the top contributor list last month. This company is famous for its Ikinari Steak House chain, with 312 stores in Japan and a few recently opened in the US. Ikinari Steak restaurants offer low-priced steaks and with limited seating capacity, customers can consume the steak while standing. This format offers high margins and high asset turns, which in itself is attractive, but the stock is priced for perfection. With a price-to-earnings ratio at 67x this stock is not reflecting fundamentals, which clearly indicates the format's popularity is fading as same-store-sales (SSS) have turned negative. There seems to be a high retail participation in the stock and the management is pushing hard to support SSS with loyalty programs. Loyalty programs do not come for free and sooner the impact on margins will be seen.

Ichigo was again a big losing position last month. The stock performed extremely well up until July. Despite excellent numbers and great outlook the stock tanked. Two reasons we think are at play here. For one, real estate stocks in Japan have performed extremely poorly and market participants do not care to differentiate amongst the different business models. Secondly, an analyst at a major broker downgraded the stock after the first quarter results. The reasons cited for the downgrade leaves us with the impression that the analyst has spent insufficient amount of time to research Ichigo as we find his reasons partly inaccurate.

Our 'construction' and plant engineering stocks, such as Nishimatsu Construction and Toshiba Plant Systems sold off as well. We think this is completely unjustified, in the sense that fundamentals remain strong and valuations extremely attractive. Nevertheless, we observe a lot of value ignorant, flow-driven selling which can heavily impact price performance, with limited amount of fundamental money chasing the best ideas.

RISK ALLOCATION

The net exposure at the end of the month stood at just 24%. The gross exposure stood at 157%, which is at the higher end compared to history. We identified plenty of opportunities in the long as well as the short book and at the same time the current macro environment warrants limited net exposure.

STYLE ASSESSMENT

Style performance last month shows a rather clear and at the same time disappointing picture; expensive stocks with high earnings and price momentum outperformed. Simple 12-month price momentum delivered the highest spread returns in the Japanese market. Year-to-date no particular factor stands out in a positive sense. This market shows no particular systematic features, the common denominator seems to be that expensive stocks perform well and cheap stock perform rather poorly.

OUTLOOK

Last month we wrote in this piece that 'We have seen such disconnects between fundamental news and price behavior many times before. It is perplexing and frustrating at times, but eventually 'this too shall pass'. Well, in August it has not yet passed and it seems there is no obvious trigger in place. Often, only a simple lack of sellers and initial squeezing of heavily shorted stocks lead to the spark that lights the fire. As Japan is heavily under-owned, simply higher prices will suffice as catalyst to draw investors' attention towards stupidly priced shares in Japan. Thus in this context the most obvious catalysts are higher US yields and foreigners returning to Japan.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Toshiba Plant Sy
Ichigo Hotel REIT Investment C
Ichigo REIT
Alpine Elec
Taihei Dengyo

TOP 5 MOVERS

Familymart	0.24%
Nissin Foods	0.15%
Pepper Food Serv	0.14%
Zensho Holdings	0.12%
TEIKOKU ELECTRIC	0.10%

TOP 5 SHAKERS

Ichigo Group	-0.44%
Suruga Bank	-0.36%
Nishimatsu Const	-0.24%
Toshiba Plant Sy	-0.20%
Ichigo REIT	-0.19%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	16.8	20.1
EV/EBITDA	11.8	14.6
Price to Book (PB)	1.7	3.9
Dividend Yield	2.3	2.0
EV/IC	1.2	3.4
1 month momentum	-2.0	-5.5
12-1 month momentum	23.0	10.8

FUND PERFORMANCE*

Month to date performance	-1.66%
Year to date performance	-6.47%
Inception to date performance	50.20%

**based on share class B EUR*

FUND FACTS*

Fund size in mln EUR	96.09
Fund size in mln USD	111.80
Firm size in mln EUR	225.84
Firm size in mln USD	262.76

RISK STATISTICS

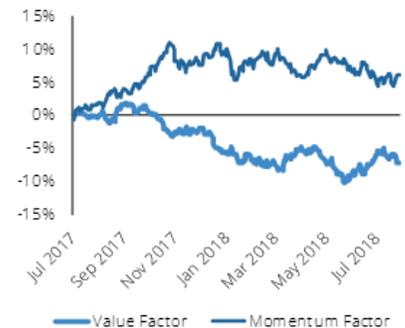
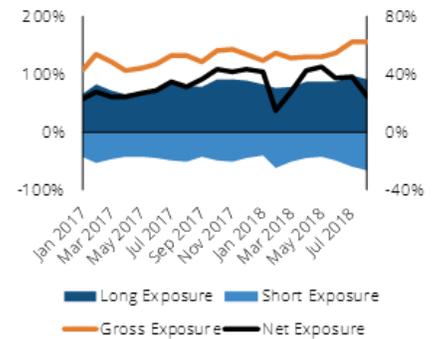
Net Exposure	24%
Gross Exposure	157%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.60
Sortino Ratio	1.15
Sterling Ratio	0.49
Max Drawdown (monthly)	-8.4%
Annualized Return	4.1%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	14	-10	4	24
Consumer Staples	6	-7	-2	13
Energy	0	0	0	
Financials	2	-2	0	3
Health Care	0	0	0	0
Industrials	32	-13	19	44
Information Technology	6	-2	3	8
Materials	3	-4	0	7
Real Estate	24	-9	15	33
Telecommunication Services	0	0	0	0

GENERAL STATISTICS

% Return long book	-3.00%
% Return short book	-2.40%
# Long stocks	49
# Short stocks	16
% Long stocks ↑	41%
% Short stocks ↓	88%
# Up days / Down days	10 / 12
Turnover as % NAV	57%



FUND PERFORMANCE: CLASS B EUR	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2018	-0.26%	-1.77%	-1.03%	-0.63%	-0.06%	-0.36%	-0.87%	-1.66%						-6.47%
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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