



Ready For Take-Off

In August, the Pelargos Japan Alpha Fund declined -0.7%. Year-to-date the EUR share class is up +4.5%. The rising number of Covid-cases and Toyota's production cuts due to global semiconductor and parts shortages weighed heavily on market sentiment. At the same time, Prime minister Suga-san's extremely low approval rate introduced political uncertainty as it raised the odds of the LDP being defeated at general elections, which will be held before November 28th. As it turns out, on September 3rd Suga-san announced to step down and the market started to rally as pro-growth, reform-minded candidates have emerged. Earnings have been recovering better than expected. Demand is very strong, however component shortages have started to bite into current production plans. However dramatic the growth impact might be, it is hard to estimate second and third order effects, which are by nature unknowable. Therefore, we have been calling our holdings to figure out potential scenarios and adjust risk-exposures accordingly.

The top contributor In August was again [ITower \(ticker 4485\)](#). The stock rallied another 26% after having rallied 29% in July already. In those two months, the position contributed 136bps. For the investment case please see [last month's newsletter](#). It is potentially a superb unique asset and there is enough confirmation that the CEO can pull it off.

[Fujitec \(ticker 6406\)](#) rallied 12% and contributed 60bps. The stock has regular 'buying attacks', which get somewhat faded thereafter. Nevertheless, the board of directors got the memo and is steadily executing on its promises to increase margins, asset efficiency and thereby Return-On-Invested-Capital. The re-rating will be a multi-year trajectory, unless a strategic buyer shows up and there is plenty of interest in such a premier but under-utilized asset.

[Nomura Research Institute \(NRI\) \(ticker 4307\)](#) rallied 17% last month and contributed 0.4%. We have met NRI a dozen times over the past decade and had a position last year. From April-November 2020, the stock contributed 0.5%. The share price ran ahead of itself and we exited the position with a decent profit. Fast-forward three quarters, the share price dropped below our prior exit and the business started to accelerate. NRI is at the sweet-spot of Japan's digital upgrade boom. Japan has little C-suite expertise concerning technology. The Covid-crisis confronted Japan Inc. that it is light-years behind in terms of technology infrastructure and needs to get its IT-act together a.s.a.p.. NRI has developed into one of the few go-to consultants, that can actually advise top-down decision makers, not only in the private sector but also in the public sector. Over the past decade, operating margins improved from 10% to

18%, the Return-On-Equity (RoE) from 10% to 20%. Margins will go higher and so will RoE. Whilst NRI generates truckloads of cash, the biggest risk is re-investment risk. Nomura Holdings still owns 14% and has to unwind its cross-shareholding. As long as this is the case, NRI will be ready to buy back its own shares. NRI still has a buyback ongoing, which amounts to 3% of outstanding shares by the end of December '21.

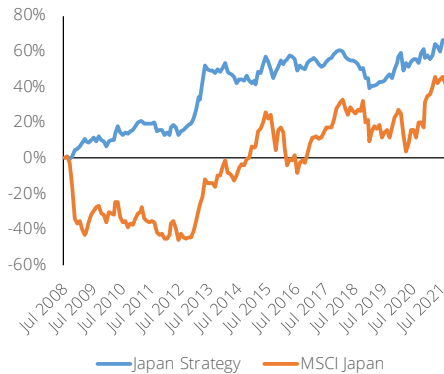
[Heiwa Real Estate \(HRE\) \(ticker 8803\)](#) contributed another 0.4%. The share price rallied 8% and reached a price level last seen in 2007. In our core strategy we initiated this name in 2016. In April, we dropped a few comments on this company and little has changed in the meantime. HRE had to drop its poison pill at this year's AGM and a vocal shareholder launched proposals to address the company's shortfall in corporate governance. Our discussions with the board are very constructive and the company has tremendously improved from when we first met. The share price still trades at a 40% discount to intrinsic value and the management team understands the precarious situation. Without poison pill it is an easy target, thus the only way to defend is to make sure the share price goes up. It is that simple and the easiest way to achieve this is buying back as much as feasible. Buying back at current levels is tremendously shareholder value accretive. Our fund has a 4.7% position in HRE, but an even bigger position in [Daibiru \(ticker 8806\)](#): 6% at the end of August. Daibiru is very similar to HRE 5 years ago. In the [June newsletter](#) we wrote extensively about Daibiru and what is happening within. In August, we had another frank and friendly conversation with Daibiru and our message was well received and understood. The current Board lacks independence from its parent company and certainly lacks diversity. The nomination process is obscure. Incentives are not aligned with shareholders and the stock trades at 50%+ below intrinsic value. There is a lot of work to be done and starting a buyback immediately has highest priority. The biggest risk is that the parent company Mitsui OSK steals the company from us, minority shareholders, with a dismal premium of 20-30%.

OUTLOOK

Bottom-up we have been tremendously bullish on Japanese equities. A barbell approach, with deep value, corporate governance related investments combined with digital disruption should be a recipe for success. Top-down global investors have ignored this cheap asset class, as Covid-cases were rising there was no reason to buy. It seems there are no sellers left, buybacks are accelerating, hostile take-overs are just appearing, thus it only takes a small shift in demand to have our holdings explode to the up-side. The coming months will be extremely interesting. Watch our largest positions as time is ticking for parent companies pressed to consolidate their listed subsidiaries.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

DAIBIRU	
CANADIAN SOLAR INFRASTRUCTURE	0.1
FUJITEC	
INFO SERVICES INTL DENTSU	0.1
MURATA	

TOP 5 MOVERS

JTOWER	0.74%
FUJITEC	0.61%
NOMURA RESEARCH INSTITUTE	0.40%
HEIWA REAL ESTATE	0.29%
DAIBIRU	0.26%

TOP 5 SHAKERS

MAEDA ROAD CONSTRUCTION	-0.23%
MAEDA CORP	-0.20%
DIGITAL HOLDINGS	-0.19%
WEALTHNAVI	-0.16%
MINEBEA MITSUMI	-0.11%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	-0.60%	-0.70%
Year to date performance	4.72%	4.49%
Inception to date performance	14.62%	64.84%

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

FUND FACTS*

Fund size in mln EUR	291.77
Fund size in mln USD	344.49
Firm size in mln EUR	358.70
Firm size in mln USD	423.52

RISK STATISTICS

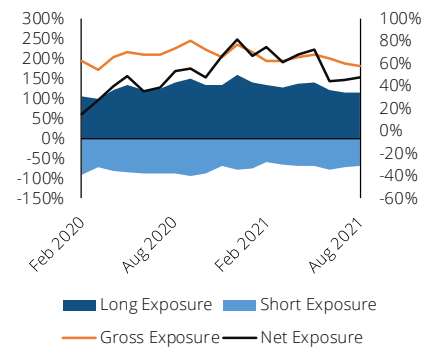
Net Exposure	48%
Gross Exposure	183%
Volatility (ex-ante; 3 months daily data)	5%
Beta (ex-ante)	0.56
Sharpe Ratio	0.66
Sortino Ratio	0.66
Sterling Ratio	0.56
Max Drawdown (monthly)	13.5%
Annualized Return	3.95%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	6	-13	-7	20
Consumer Staples	4	-8	-5	12
Energy	13	0	13	14
Financials	6	-2	4	9
Health Care	1	-9	-8	9
Industrials	35	-12	23	47
Information Technology	24	-9	15	33
Materials	6	-4	3	10
Real Estate	14	-1	13	15
Communication Services	5	-6	-1	12
Utilities	0	-1	-1	1

GENERAL STATISTICS

% Return long book	55.93%
% Return short book	2.68%
# Long stocks	61
# Short stocks	11
% Long stocks ↑	56%
% Short stocks ↓	55%
# Up days / Down days	17 / 9
Turnover as % NAV	56%



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%	-1.66%	4.27%	-0.29%	-0.70%					4.49%	64.84%	
	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%	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%	3.69%	-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%	-1.50%	4.18%	-0.21%	-0.60%					4.72%	14.62%	
	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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