



## **JANUARY SQUEEZE**

January was, as most Januaries are, a spectacularly weird month. At the turn-of-the-year new money is being deployed with fresh optimism and clean P&L's. Most often, operationally and financially geared stocks perform best in the first month of the year and January 2021 was no exception.

After the 2020 economic collapse and Armageddon-prevention intervention by policy makers, equity markets have difficulties to 'behave' on their own. With interest rates anchored at 0% and some corporates enjoying negative cost of capital, narrative economics determines incremental price setting rather than educated investors discounting future cash flows.

In the US, margin debt-to-GDP has reached unprecedented levels and the social media manipulated retail flows almost blew up the system late January. Fundamental long/short strategies had the biggest drawdown and steepest gross exposure reduction on record. We too experienced spill-over effects, as buying the 'most-shortest-baskets' went viral. The EUR share class lost -2.2% in the last week of January, closing the month at -1.38% (EUR share class) and -1.34% for the USD share class.

In our opinion, the headline grabbing GameStop short squeeze is just the beginning and a precursor of what might come. These are the unintended consequences of democratizing access to credit in an environment of money printers facilitating free stimulus checks. Already in Q4 2020, we drastically reduced the number of shorts and replaced those with index hedges as we deemed the single stock squeeze-risk too high. It is a matter of moving to the sidelines and observe when to re-engage. Many failing and obsolete business models, which are artificially propped up by government subsidies are on our radar screen.

## **SINGLE STOCK OBSERVATIONS**

The top 5 positions are Daibiru, Fujitec, Heiwa Real Estate (HRE), Canadian Solar IF and Takara Leben IF. Daibiru and HRE are real estate development companies trading at steep discount to NAV. These businesses have seen limited impact from Covid19 and we expect, due to improved corporate governance that continued buybacks will eliminate the ludicrous undervaluation.

As can be seen on the factsheet on page 2, we have significant exposure in the Industrials sector and the majority of exposure within it, is to the construction sector. We have been investing in this space successfully for many years and current valuations are outrageous. The valuations are so far off the mark, that it offers tremendous asymmetry, plenty of up-side with little downside. Toyo Construction is part of the Maeda Family, we have been part of the family since 2016 investing in Maeda

Corp and Maeda Road as well. Toyo Construction, a civil engineering company, rallied 17% in January prompted by the announcement that the Murakami Fund, one of the most notorious activist funds in Japan, had acquired a 5%+ stake. Pelargos Capital owns 1.6%, because of the tremendous value this investment offers. The company operates in a stable domestic environment, generates low double-digit RoE's, is able to grow its earnings-per-share and whilst trading at single-digit PE, a discount to book value and 3.5% dividend yield. Most importantly, its market capitalization is about JPY50bn and its cash on hand 20bn yen. Of course, this highly inefficient balance sheet draws unwarranted attention and shortly after Murakami announced his position, the company announced a massive upward revision to earnings. If the stock goes up, it becomes more expensive for a potential buyer to increase his/her stake to have a bigger say about future shareholder rewards. Daibiru was amongst the top losers last month. The share price pulled back -9%, for the simple reason that the company's buyback program ended Dec 23 2020. Fundamentally, this real estate developer is massively undervalued and a majority controlled by, thus listed subsidiary of, Mitsui OSK, a leading shipping company in Japan. In conversations with the company's board, we addressed the lack of independence and striking undervaluation. We still believe this investment has an outstanding risk/reward.

## **RISK ALLOCATION & STYLE PERFORMANCE**

The Topix index, a broad market benchmark with more than 2200 constituents, closed January in positive territory +0.2%. Our long book lost -0.6%, whilst the drastically reduced short book appreciated +6.7%. At this stage it is tough to have single stock short conviction and we continue to deploy index hedges. The net exposure is high but genuinely well diversified. Hyper-growth combined with deep value engagement; high dividend solar REITS for carry in combination with franchise high ROE compounders.

## **OUTLOOK**

Late January, earnings season started in Japan. So far earnings were extraordinarily strong. We are delighted to see our companies present formidable upward revisions and more importantly share buybacks are back. A few of our holdings announced cross-shareholding unwinds, which is underpinned by the corporate governance code. In contrast to the US market, there are still ridiculously cheap stocks to be found in Japan. The low valuation and shift in corporate governance are exciting enough, but a second major shift has emerged. The past twelve Covid19 months acted as a tremendous catalyst to accelerate IT-adoption. Pure necessity forced change in behavior and widespread acceptance of new digital services. We hold small positions with tremendous optionality in Sansan, FeedForce, WealthNavi, Base Inc, and QD Laser.



**FUND CHARTS AND FACTS**



**TOP 5 GROSS POSITIONS**

DAIBIRU
FUJITEC
HEIWA REAL ESTATE
CANADIAN SOLAR INFRASTRUCTURE
TAKARA LEBEN INFRASTRUCTURE

**TOP 5 MOVERS**

TOYO CONSTRUCTION	0.47%
TAKUMA	0.41%
INFO SERVICES INTL DENTSU	0.27%
ROLAND	0.26%
CANON ELECTRONICS	0.21%

**TOP 5 SHAKERS**

DAIBIRU	-0.73%
ELECOM	-0.40%
TOSEI	-0.34%
DAITO TRUST CONSTRUCTION	-0.30%
KEIHANSHIN BUILDING	-0.27%

**FUND PERFORMANCE\***

	USD <sup>^</sup>	EUR <sup>*</sup>
Month to date performance	-1.34%	-1.38%
Year to date performance	-1.34%	-1.38%
Inception to date performance	7.98%	55.58%

*\*based on share class B EUR, <sup>^</sup>based on share class C USD*

**FUND FACTS\***

Fund size in mln EUR	137.40
Fund size in mln USD	166.75
Firm size in mln EUR	167.59
Firm size in mln USD	203.39

**RISK STATISTICS**

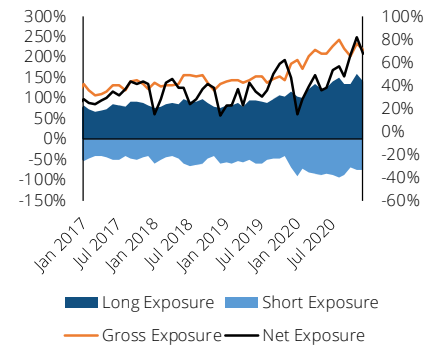
Net Exposure	68%
Gross Exposure	217%
Volatility (ex-ante; 3 months daily data)	7%
Beta (ex-ante)	0.13
Sharpe Ratio	0.51
Sortino Ratio	0.82
Sterling Ratio	0.27
Max Drawdown (monthly)	13.5%
Annualized Return	3.60%

**SECTOR EXPOSURES (IN PERCENT)**

	Long	Short	Net	Gross
Consumer Discretionary	5	-10	-5	15
Consumer Staples	1	-5	-4	7
Energy	17	0	17	17
Financials	4	-3	2	7
Health Care	1	-8	-6	9
Industrials	44	-22	22	66
Information Technology	28	-7	22	35
Materials	9	-3	6	12
Real Estate	22	-3	19	25
Communication Services	2	-5	-3	7
Utilities	0	-1	-1	1

**GENERAL STATISTICS**

% Return long book	-0.59%
% Return short book	6.61%
# Long stocks	68
# Short stocks	15
% Long stocks ↑	44%
% Short stocks ↓	60%
# Up days / Down days	11 / 9
Turnover as % NAV	85%



## FUND PERFORMANCE

CLASS B EUR	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
	2021	-1.38%													-1.38%
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%	9.39%
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
	2021	-1.34%													-1.34%
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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