



## MARKET COMMENTS

The MSCI Japan stabilized in July and bounced +1.5%, largely driven by Japanese yen (JPY) depreciation as the JPY declined by -1% against the US dollar (USD). On one hand, the Japanese market was driven by China slowdown fears and global trade tensions due to the US tariff renegotiations. On the other hand, first quarter earnings season greatly impacted single stock movements. Sector performance was rather erratic with Energy (+9%), Materials (+4%) and Telecom (+7%) outperforming whilst Consumer Staples declined by -3.6% and underperformed, together with the Industrials and Utilities sector.

## SINGLE STOCK OBSERVATIONS

In July, Alpine was again amongst the top contributors, as the stock rallied another +9%. We have written in more detail about Alpine in the June newsletter to which we would like to refer. In the meantime, Alpine delivered strong first quarter earnings and Alps (Alpine's parent company) deliver solid results as well. In addition, another activist investor took a sizable position in both companies, which greatly increases the likelihood of a favorable outcome for Alpine shareholders.

The recent initial public offering (IPO) of MTG contributed 0.38%, as the stock jumped 30% from its IPO price. We participated in the IPO, because MTG has a rather unique marketing approach, which convinced us to allocate some capital despite the current high price-to-earnings (P/E) multiple reflecting tremendous growth opportunities. The company develops and distributes health, fitness and cosmetic products. The management succeeded in co-developing brands with celebrities and leveraging their social media channels to promote the products. This seems to be highly effective as it lowers marketing costs and interests are aligned with owning equity stakes in MTG.

Ichigo Holdings was amongst the top losers last month as the share price corrected 4% in July. Market participants decided to take profits as the stock rallied +70% over the preceding 12 months. The fundamentals are very good and first quarter numbers were excellent. Ichigo Holdings' management is amongst the best quality leadership in Japan and we trust in their ability to deliver superior returns, whilst taking some profits seems a prudent thing to do.

## RISK ALLOCATION

The net exposure at the end of July stood at 38% compared to 37% at the end of June. The net exposure is concentrated in two sectors; Industrials and Real Estate. During 2018, we have had sizable net exposure in the Real Estate sector, because on one hand the real-estate-investment trusts (REITs) are greatly

underappreciated and offer very attractive yields. At the same time, real estate developers are trading at big discounts for various reasons, partly relating to a lack of shareholder return focus. We are extremely selective in this space, as one should be, because corporate governance and trust in management trumps quality of assets, although those two are highly correlated. The number of long positions was very much the same as last month and stood at 53. The number of short positions increased as several potential short candidates finally broke down and buying interest seems to be fading.

## STYLE ASSESSMENT

Value actually delivered a decent performance last month, whilst earnings revisions, quality and price momentum performed poorly. Year-to-date, value had dismal performance and only in the last week of July value stocks started to rally. The simple reason was that, banks and insurance stocks rallied hard because the BOJ flagged an increased likelihood that over the course of the next 12 months the target rate for 10 year JGBs might be lifted from 0.1% to 0.2%. The real economic impact is irrelevant, nevertheless improved sentiment towards cheap financials provided a big boost.

## OUTLOOK

The Japanese economy is tagging along, and actually doing pretty well compared to general perception and investor expectations. The labor market is tight with productivity improving and corporate earnings are much better than expected. Indeed, there is plenty to worry about from a macro perspective and as such, expectations for the remainder of the year are quite low. However, the currency seems to be a tailwind again and whilst the global economy is decelerating, it is by no means, falling off a proverbial cliff. Despite all the noise-making headlines, Abe-san is still in power and Abenomics running its course. Supported by BOJ's Kuroda-san who continues, with determination, its path of easy money, buying equities on down days. Fundamentally, we remain very excited about the opportunity set in Japan. Nevertheless, it seems bottom-up, value oriented investors have abandoned ship. Buying and shorting themes according to the 'flavor of the day' seems to be prevalent as well as basket trades based on MSCI sub-sector or style classification. Admittedly, these are strong cross-currents, moving stocks around without little fundamental reasons and impacting our fund performance. 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'. That said, we intentionally allocated more capital to high conviction positions, especially those for which a catalyst is apparent.



**FUND CHARTS AND FACTS**



**TOP 5 GROSS POSITIONS**

Toshiba Plant Sy
Ichigo Hotel REIT Investment C
Ichigo REIT
Ichigo Group
Alpine Elec

**TOP 5 MOVERS**

MTG	0.38%
Alpine Elec	0.34%
Ichigo REIT	0.26%
Sbi Holdings	0.20%
Familymart	0.19%

**TOP 5 SHAKERS**

Pac Metals	-0.33%
Ichigo Group	-0.25%
Toshiba Plant Sy	-0.16%
Pola Orbis	-0.09%
Oriental Land	-0.06%

**FUND FACTOR**

	Long	Short
Price to Earnings (PE)	16.2	18.0
EV/EBITDA	11.2	12.6
Price to Book (PB)	1.8	2.7
Dividend Yield	2.1	2.1
EV/IC	1.1	2.3
1 month momentum	1.5	-0.2
12-1 month momentum	23.0	10.8

**FUND PERFORMANCE\***

Month to date performance	-0.87%
Year to date performance	-4.89%
Inception to date performance	52.73%

*\*based on share class B EUR*

**FUND FACTS\***

Fund size in mln EUR	97.61
Fund size in mln USD	102.49
Firm size in mln EUR	227.92
Firm size in mln USD	266.68

**RISK STATISTICS**

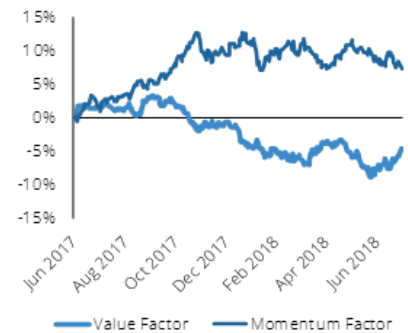
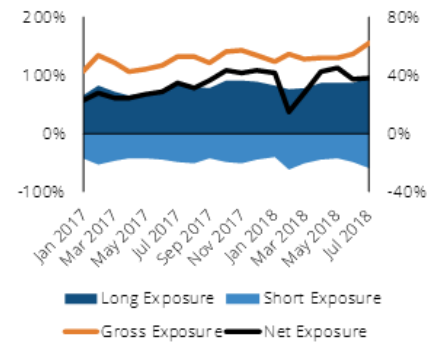
Net Exposure	38%
Gross Exposure	157%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.63
Sortino Ratio	1.20
Sterling Ratio	0.51
Max Drawdown (monthly)	-8.4%
Annualized Return	4.3%

**SECTOR EXPOSURES (IN PERCENT)**

	Long	Short	Net	Gross
Consumer Discretionary	14	-12	2	26
Consumer Staples	5	-10	-5	16
Energy	0	0	0	0
Financials	6	-1	5	7
Health Care	0	-1	-1	1
Industrials	32	-7	25	39
Information Technology	8	-3	5	11
Materials	5	-3	3	8
Real Estate	24	-7	17	31
Telecommunication Services	0	0	0	0

**GENERAL STATISTICS**

% Return long book	0.99%
% Return short book	0.82%
# Long stocks	53
# Short stocks	16
% Long stocks ↑	60%
% Short stocks ↓	75%
# Up days / Down days	11 / 11
Turnover as % NAV	50%



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%							-4.89%
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%	-0.29%	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%	-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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