



Great earnings and more buybacks to come

After the strong June month, July turned out to be a flat month. The EUR share class fund lost -0.29% and the USD share class -0.21%, whilst the TOPIX declined -2.2%. The net exposure at the end of June was still >70% and several long positions hit our target prices and we swiftly took profits where appropriate. July was rather uneventful in terms of market moves. The intra-month TOPIX high versus low was just 4.5%, which is surprisingly small. Index volatility compressed as investors' focus shifted from top-down to bottom-up as earnings season started. For most companies the April-June quarter is the first quarter of fiscal year ending March 2022. Most companies posted great earnings numbers compared to consensus as well as conservative guidance, but at the same time many companies are still hesitant to increase full year guidance, which, more often than not and in our opinion wrongly, leads to a negative price reaction.

The biggest contributor on the long side this month was **JTower (ticker 4485)**. The stock rallied +29% in July and contributed +52bps. In November last year, this stock contributed +80bps and we closed it after having rallied 150% from September '20 lows into January '21 highs. After a whopping 50% drop this year, we decided to re-visit JTower's fundamentals and with the basic investment thesis unchanged, we re-entered a long position.

JTower is the only independent telecom tower company in Japan. It operates inside towers (think shopping malls and large buildings) as well as outside towers. The business case is such that JTower invests in building out tower coverage, which the telecom providers can rent. Instead of each telecom provider building its own tower network, NTT, Rakuten, KDDI and Softbank can share towers in certain areas and thereby save capital expenditure. It is a rather simple business idea, but it requires savvy execution to get those competing telecom operators to share infrastructure. JTower's CEO Atsushi Tanaka was the telecom analyst at Goldman, worked at eAccess, which was subsequently acquired by Softbank and founded JTower in 2012. The business model requires a lot of up-front investment, which is only done if demand is committed, and therefore earnings are depressed in the early years due to heavy depreciation burden. As such the stock trades at very high Price-to-Earnings multiples, but as commitments for rental agreements come in the visibility on future cash flow is very high. On average, a tower costs about JPY15mln. Each mobile carrier pays JPY2mn annually. JTower earns >50% margin on the towers, which indicates a tenancy ratio of two. Those are terrific economics and self-funding. The Ministry of Economy, Trade and Industry (METI) stimulates the carriers to share infrastructure in densely populated areas to increase efficiency and in July JTower announced the acquisition of 71 towers from

NTTWest. This carve-out from a dominant player accelerates JTower's growth trajectory and confirmed our thesis.

Reading the sell side analyst reports, we get the impression that market participants have difficulties assessing and deriving an appropriate intrinsic value. Having studied comparable business models outside Japan, we found the current share price offers excellent risk/reward.

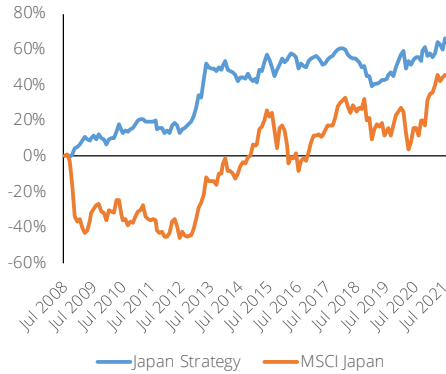
The top 5 holdings (shown on next page) have been the same names for much of this year, only Heiwa Real Estate dropped out and ISID with its 55% appreciation year-over-year is new on the list. Portfolio construction is an important feature for us. Therefore, two high-yielding solar funds (Canadian Solar and Takara Leben IF) are amongst the top holdings. Both yield highly secure and predictable 5.9% p.a. and are basically uncorrelated to overall market moves. At the same time, we allocate a small portion to hyper-growth, early-stage SaaS platforms. This basket (WealthNavi, Base, Kaizen, Uzabase, Change, Speee) has pure optionality and we consider these small positions as option premiums paid. The asymmetry of these exponential business models is tremendous and a small allocation can have disproportional positive impact on overall portfolio returns. The age of disruption has only just started in Japan, the price volatility and draw-downs of this basket can be large and tend to be negatively correlated with yields (lower yields -> higher share price). Whilst our deep value situations are positively correlated with yields (higher yields -> higher share prices). The barbell approach, having exposure on the extreme ends of the value distribution, makes tremendous sense to us. On one hand, the deep value situations have tangible assets such as Real Estate or land with unrealized gains or a massively over-capitalized balance sheet with obvious cash-hoarding or cross-shareholdings. The complication is one of unknown duration to achieve an attractive IRR, that's where engagement comes in to pull forward those juicy returns. On the other hand, the SaaS platforms have tremendous addressable market and exponential growth potential in Japan. In this case the biggest risk lies with execution; if the management team is not able to scale up rapidly, then the option will expire worthless without any tangible asset backing.

OUTLOOK

Current earnings season is extremely encouraging, especially on the margin side the increased cost efficiency is remarkable. With the structural labor market shortage, due to a declining working population, Japanese companies are embracing productivity-enhancing IT solutions. Margins are trending higher, which is great, however the percentage of companies with net cash above 20% of equity reached new all-time highs. Buyback announcements were plentiful, but just not enough yet, which bodes well for our engagement efforts and future returns.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

CANADIAN SOLAR INFRASTRUCTURE	
DAIBIRU CORP	0.1
INFO SERVICES INTL DENTSU	
FUJITEC CO LTD	0
TAKARA LEBEN INFRASTRUCTURE	

TOP 5 MOVERS

JTOWER	0.52%
NEC NETWORKS & SYSTEM	0.18%
TOSEI	0.16%
NIPPON ROAD	0.15%
TAKARA LEBEN INFRASTRUCTURE	0.11%

TOP 5 SHAKERS

BASE	-0.43%
INFO SERVICES INTL DENTSU	-0.26%
HEIWA REAL ESTATE	-0.21%
CREO	-0.20%
SUMCO	-0.15%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	-0.21%	-0.29%
Year to date performance	5.35%	5.22%
Inception to date performance	15.31%	65.99%

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

FUND FACTS*

Fund size in mln EUR	146.84
Fund size in mln USD	174.30
Firm size in mln EUR	179.49
Firm size in mln USD	213.05

RISK STATISTICS

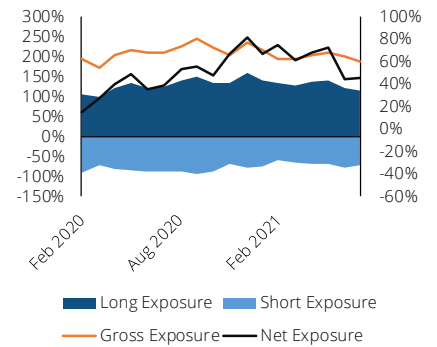
Net Exposure	46%
Gross Exposure	188%
Volatility (ex-ante; 3 months daily data)	4%
Beta (ex-ante)	0.04
Sharpe Ratio	0.56
Sortino Ratio	1.08
Sterling Ratio	0.30
Max Drawdown (monthly)	13.5%
Annualized Return	4.00%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	7	-13	-7	20
Consumer Staples	3	-9	-6	12
Energy	15	0	15	15
Financials	4	-3	1	7
Health Care	1	-9	-8	10
Industrials	36	-14	22	50
Information Technology	24	-9	15	33
Materials	6	-4	3	10
Real Estate	15	-1	14	17
Communication Services	6	-7	-2	13
Utilities	0	-2	-2	2

GENERAL STATISTICS

% Return long book	-1.06%
% Return short book	1.40%
# Long stocks	67
# Short stocks	14
% Long stocks ↑	42%
% Short stocks ↓	36%
# Up days / Down days	11 / 11
Turnover as % NAV	57%



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%						5.22%	65.99%
	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%	-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%	
CLASS C USD	2021	-1.34%	1.63%	3.47%	-0.84%	-1.50%	4.18%	-0.21%						5.35%	15.31%
	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%

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