



Corporate Governance train has left the station ...

June was a good month for the Pelargos Japan Alpha Fund. The EUR share class fund appreciated +4.27% and the USD share class +4.18%, whilst the market (Topix) was only up +1%. The high conviction positions rallied strongly and the losing positions were minimal. The hit ratio was excellent last month.

Whilst ISID (ticker 4812) was the biggest drag on performance in May, the share price rebounded strongly and appreciated 19% in June. Earnings momentum and outlook are great. More importantly, as outlined in more detail in the February newsletter, its parent company, Dentsu Group, is now closing its sale-and-leaseback of its headquarter. This financing deal provides sufficient capital to buy out the minority shareholders, totaling 38.2% of outstanding ISID shares. Dentsu has officially announced that the sale-and-leaseback is aimed at 'improving capital efficiency, financial footing and secure funds for growth'. Earlier this year, Dentsu divested its stake in Macromill, stating 'Dentsu to Continue to Review All Non-Core Assets to Improve Shareholder Value'. Dentsu now has raised sufficient capital to buy out ISID. Strategically it makes a lot of sense for Dentsu Group. Generally, Japan is tremendously lagging in IT / digital adoption, as is the parent company. Corporate Governance wise, a decision needs to be made how to proceed with this majority owned, listed subsidiary. Strategically as well as financially, it makes tremendous sense to take full control. The timing of such deals is always the most intriguing part of the story. ISID was and remains the largest position in the fund.

The second biggest contributor in June was Daibiru (ticker 8806). Our latest update was in the April newsletter and little has happened in the meantime with regards to fundamentals. This real estate company, 51.74% majority owned by Mitsui OSK (a shipping company) held its AGM on June 24th. Based on our voting policy we were NOT supporting the management proposals. The current CEO Sonobe-san had only 79.9% support and the future-to-be CEO Maruyama-san 87.5%. Assuming the parent company voted in favor of the board it has installed itself, one can conclude that of the 48.26% minority votes, only 58% approved the current CEO. The book value of Daibiru's investment and rental properties is JPY337bn, whilst the fair value is stated at JPY586bn. The current market capitalization is just JPY166bn. In addition, Daibiru has JPY27.8bn invested in listed equities (incl. JPY5.7bn treasury shares). 95% of its gross floor area is related to office and commercial buildings in Osaka and Tokyo. Daibiru has its origins in the Osaka region as this was the founding place of its parent's predecessor OSK (as OSK stands for Osaka Shosen Kaisha). In Japan corporate history matters, the blood line is of utter importance and with it, reputation and social standing. We mention this, as the steep decline in approval rate for the CEO

matters a lot. The corporate governance deficiencies are obvious as the board lacks, in our opinion, independence and diversity. Daibiru has a two-tier board (Kansayaku board: board of directors and statutory auditors) and despite having voluntarily established a nomination & compensation committee, those committees are only 'for the show' in order to comply with formalities. Obviously, Daibiru is a value situation, not vastly different from when we first invested in Heiwa Real Estate in 2016. The share price trades at a steep discount to NAV, however there is a risk that the board, which lacks real estate credentials, starts to invest shareholders money in projects that are almost by definition delivering lower return-on-investment than buying back shares.

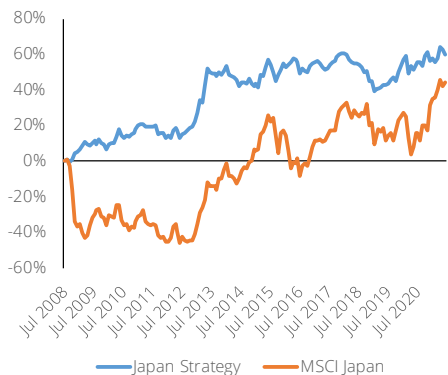
Our investment thesis on Nippon Pillar (ticker 6490) finally paid off. The stock rallied another 15% in June after the 9% earnings related price jump in May. In the March newsletter we wrote about the company, the investment case is not so much about engagement but the company is under-researched, mis-understood and therefore undervalued. Please let us know if you want to see the March newsletter. SRE (ticker 2980) stands for Sony Real Estate and is a rather new position that immediately delivered a significant P&L contribution. SRE is 37.96% owned by Sony, and 21.5% owned by Z Holdings (Yahoo Japan) and its initial public offering was in December 2019. The stock rallied 32% in June. More on SRE in the July newsletter.

OUTLOOK

June was peak season for annual shareholder meetings and, in our view, this year's AGMs are extremely important, because the proxy advisors, such as Glass Lewis or ISS, have been tightening their voting recommendations. The Toshiba case has once again displayed the sorry state of Japan's board room ethics and involvement of politically motivated technocrats. On June 10, an extremely detailed, 139-page report was published by external, independent lawyers on how the board and government officials tried to influence the 2020 AGM. The report uses unusual clear language in describing the way Toshiba and METI cooperated to exert influence on shareholders. Indeed, as veteran investors involved in Japanese equities we are not hugely surprised. At the same time, we are disappointed to see how vested interests take the liberty to bully investors. At the end, it is encouraging that these facts made it into the public domain for all to see. METI's intervention and Toshiba's power-play have, at the end, back fired. At the 2021 AGM, the Toshiba board was defeated and educated investors highlighting deficiencies in corporate governance have won. The majority of our investments are deeply undervalued and the Toshiba scandal is a wake-up call for other boards to take their shareholders seriously.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

CANADIAN SOLAR INFRASTRUCTURE	
DAIBIRU	0.1
INFO SERVICES INTL DENTSU	
FUJITEC	0.1
TAKARA LEBEN INFRASTRUCTURE	

TOP 5 MOVERS

INFO SERVICES INTL DENTSU	1.30%
DAIBIRU	0.97%
SRE HOLDINGS	0.68%
TOYOTA MOTOR	0.62%
SECOM JOSHINETSU	0.43%

TOP 5 SHAKERS

DAITO TRUST CONSTRUCTION	-0.12%
NIFCO	-0.11%
ROLAND CORP	-0.09%
AEON CO	-0.09%
KAIZEN PLATFORM	-0.07%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	4.18%	4.27%
Year to date performance	5.57%	5.53%
Inception to date performance	15.55%	66.48%

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

FUND FACTS*

Fund size in mln EUR	147.26
Fund size in mln USD	174.58
Firm size in mln EUR	180.35
Firm size in mln USD	213.81

RISK STATISTICS

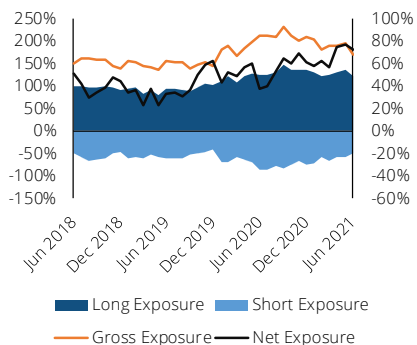
Net Exposure	73%
Gross Exposure	171%
Volatility (ex-ante; 3 months daily data)	6%
Beta (ex-ante)	-0.03
Sharpe Ratio	0.52
Sortino Ratio	1.17
Sterling Ratio	0.27
Max Drawdown (monthly)	13.5%
Annualized Return	3.69%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	4	-15	-11	19
Consumer Staples	3	-9	-6	12
Energy	16	0	16	16
Financials	4	-3	0	7
Health Care	1	-9	-8	11
Industrials	34	-15	20	49
Information Technology	29	-10	19	39
Materials	7	-4	2	11
Real Estate	19	-3	16	23
Communication Services	5	-8	-3	12
Utilities	0	-2	-2	2

GENERAL STATISTICS

% Return long book	8.26%
% Return short book	5.84%
# Long stocks	68
# Short stocks	13
% Long stocks ↑	75%
% Short stocks ↓	85%
# Up days / Down days	15 / 6
Turnover as % NAV	68%



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%							5.53%
	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%	6.46%
CLASS C USD	2021	-1.34%	1.63%	3.47%	-0.84%	-1.50%	4.18%							5.57%	15.55%
	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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