



## **The Bull Market Continues ...**

In March, the Topix rallied +4.8% in Japanese yen terms, and despite a beta of just 0.14 the Pelargos Japan Alpha EUR share class appreciated +3.76% (+3.47% USD share class). The Japanese market continued to “climb-the-wall-of-worry”, despite another massively levered player by the name of Archegos blowing-up. The systematic quant strategies were destroyed in Q4 '20. Risk parity was decimated in Q1 '21. The social media frenzy targeting shorts of US hedge funds resulted in the biggest alpha draw down in history. The latest incident, the implosion of Archegos with exposure in excess of USD100bn is a reminiscence of “When Genius Failed”, aka LTCM-style systematic risk. Welcome to the strange world of equity investing in 2021. In Japan, some of the above mentioned factors are limited in scope, because Japan, (at least on a single stock level) does not provide the deep liquidity to facilitate this type of ‘financial alchemy’. On the other hand, we have been complaining for years about uninformed passive flows, such as the ETFs used by the Bank of Japan, and equity basket socialism that destroy price discovery. As a consequence, over the years we shifted towards a more concentrated portfolio in the smaller caps and focus on predominantly domestic business models. On a portfolio level we combine deep value situations with hyper-growth exposure to mitigate the binary nature of value-growth flows.

## **SINGLE STOCK OBSERVATIONS**

The biggest contributor last month was our largest position Daibiru (ticker 8806). The share price rallied +12.6% without any particular news, except for the announcement to cancel 1,800,000 shares as of 31<sup>st</sup> of March, which is 1.54% of outstanding shares. This historic moment concluded Daibiru's first buyback since its listing in 1950, which was announced in May '20. Of course, this is good news and more importantly, Daibiru is so stupendously undervalued that buying back its own shares is the only rational use of cash, at least from a shareholder's perspective. No other real estate investment would yield such a high return-on-investment, compared to simply buying back its own, deeply discounted shares. Indeed, the discount to intrinsic value is a reflection of inadequate governance, which has been confirmed by recent board changes. In stark contrast to the recommendation in the Corporate Governance Code, Daibiru does not have an independent board and no such thing as a (soon-to-be-required) nomination committee. Therefore the parent company controlling the majority of votes sends board members as it deems fit and necessary. The last appointment to the board sent by Mitsui OSK, is Maruyama-san who will become CEO most likely in one year's time. It will be Maruyama-

san's job to address the gross undervaluation of the share price and we would not be surprised if under his helm Daibiru will be either bought-in by its parent Mitsui OSK (ticker 9104) or sold to a 'real' real estate company.

The second largest contributor last month was Nippon Pillar Packing (ticker 6490). The share price finally rallied +10% last month. The GICS-classification of this company is Capital Goods, and indeed 30% of its revenues relates to industrials, with mechanical seals being the main product. These products are on-demand, thus no inventory with stable 10% operating profit margins, but cyclical by nature. The other 70% of revenue is from electronics, of which 90% is related to SPE makers (Screen, Tokyo Electron, Samsung, Lam Research). The most important product Nippon Pillar makes are 'plastic' pipes that can handle acids at high temperature most often used in the semiconductor cleaning process. Nippon Pillar Packing is the de-facto standard in the SPE industry for those pipes and achieves 20%+ operating profit margins. Great company, great products at the right point in the cycle, the balance sheet is cash-rich and the stock trades below 1x price-to-book. The company is not well-known and its orders are very short cycle, and many investors dislike the lack of visibility, however the long term outlook and positioning is solid.

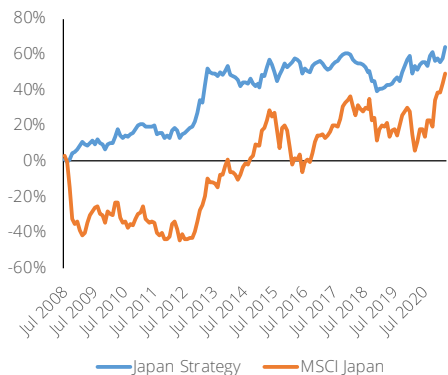
The biggest drag on performance last month was Canadian Solar Infrastructure Fund (ticker 9284). The company announced to issue new shares to acquire solar assets. The capital raise was well timed and will be accretive for existing shareholders. We are happy with this deal and to see the number of outstanding shares increase. With that, trading volume rose significantly, which enables more institutional investors to participate in this high yield (5.8%) producing asset.

## **OUTLOOK**

Certain aspects of global equities, especially US equities, have bubble symptoms and certain equity markets look short-term overbought. Japan can have its usual drawdowns resulting from liquidity imbalances, but those need to be bought. Valuations are supportive, despite the run-up in price-to-earnings and price-to-book anticipating a swift earnings recovery. However, we stick to our thesis of a structural bull cycle for Japanese equities and our books are well positioned for the gigantic M&A wave that will hit Japan in due course. The most recently revised Corporate Governance Code will trigger a further unwind of cross-shareholdings, accelerate the deconsolidation/buy-ins of subsidiary listings and fast-track buybacks to fend of suitors. It will be fast & furious, and we stick to our thesis that from the current 3500 listed companies, 1/3 will be no longer listed by the end of this decade.



## FUND CHARTS AND FACTS



### TOP 5 GROSS POSITIONS

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

### TOP 5 MOVERS

DAIBIRU	0.75%
NIPPON PILLAR PACKING	0.24%
TOSEI	0.22%
TOYO CONSTRUCTION	0.21%
DIGITAL HOLDINGS	0.19%

### TOP 5 SHAKERS

CANADIAN SOLAR INFRASTRUCTURE	-0.27%
ICHIGO INC	-0.19%
BASE	-0.17%
FUJITEC	-0.15%
OSAKA GAS	-0.15%

### FUND PERFORMANCE\*

	USD <sup>^</sup>	EUR <sup>*</sup>
Month to date performance	3.47%	3.76%
Year to date performance	3.75%	3.92%
Inception to date performance	13.55%	63.94%

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

### FUND FACTS\*

Fund size in mln EUR	145.10
Fund size in mln USD	170.17
Firm size in mln EUR	175.29
Firm size in mln USD	205.58

### RISK STATISTICS

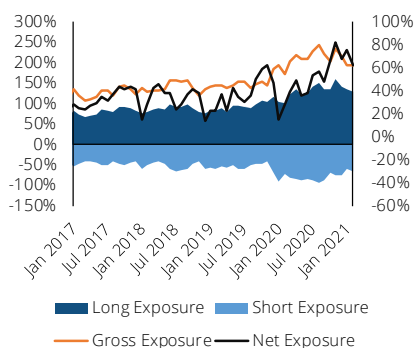
Net Exposure	62%
Gross Exposure	195%
Volatility (ex-ante; 3 months daily data)	8%
Beta (ex-ante)	0.14
Sharpe Ratio	0.57
Sortino Ratio	0.92
Sterling Ratio	0.30
Max Drawdown (monthly)	13.5%
Annualized Return	3.98%

### SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	9	-13	-4	22
Consumer Staples	0	-5	-5	5
Energy	19	-2	17	21
Financials	3	-3	0	7
Health Care	1	-7	-5	8
Industrials	37	-16	21	53
Information Technology	29	-8	21	37
Materials	9	-3	6	12
Real Estate	18	-1	17	19
Communication Services	4	-6	-3	10
Utilities	0	-1	-1	1

### GENERAL STATISTICS

% Return long book	4.40%
% Return short book	6.04%
# Long stocks	66
# Short stocks	16
% Long stocks ↑	77%
% Short stocks ↓	44%
# Up days / Down days	12 / 10
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%	1.55%	3.76%											3.92%
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%	1.63%	3.47%											3.75%
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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