



## EARNINGS RECOVERY UNFOLDING

In May, the Pelargos Japan Alpha share classes declined -1.66% EUR share class and -1.5% USD share class. So far this year, the Japanese yen (JPY) has been very weak against the euro and the US dollar. In general, a weak JPY tends to be good for Japanese equities. However, last month there was a major global MSCI index rebalancing event, which led to net selling of Japanese equities by the global 'index-hugging crowd'. Early May, the Japanese market was closed for the golden week holiday and after a brief rally had its monthly cathartic sell-off. The market dropped -5.6% in three days, without the BOJ showing up as the otherwise usual "buyer-of-last-resort". After the quick wash-out, the market was good to go and recovered its loss in daily upward baby steps. The Topix ended the month in positive territory; +1.3% in JPY.

May is typically the busy season for corporate earnings announcements. With fiscal year end in March, most corporates present full year numbers and more importantly present March 2022 guidance at its analyst meetings. In general, earnings season this time was very encouraging. Many companies showed decent cost controls, partly because corporates were forced to and not able to spend on travel and sales promotions. **Digital Holdings (ticker 2389)** with fiscal year end in December, increased its full year guidance after the first quarter already. More importantly, the board had announced a 2.9% buyback in February and now increased the buyback by yet another 5.8%. We were fortunate enough to buy Digital Holdings shares in the 4<sup>th</sup> quarter 2020, when the company's enterprise value was trading close to 0.

Another blow out quarter was delivered by **Ebara Jitsugyo (ticker 6328)**, and its share price rallied 32% in May. The company already had several quarters of massive top-line and bottom-line earnings beats, largely due to strong demand for its negative-pressure-equipment, which is used to clean the air (in medical facilities) for infection control. More importantly, a vocal investor holds a significant stake in the company, which had the pleasant side-effects of an aggressive buyback last year, a subsequent dividend increases. We discussed **Heiwa Real Estate (ticker 8803)** in some detail last month, and it remains the gift that keeps on giving. The shares rallied another 11.6% in May, as a vocal shareholder announced proposals for the AGM confronting the company's board to improve its corporate governance. All those proposals are legitimate and it is too late to play defense. Share buybacks are the only way out of the discount to NAV misery and fending off likely hostile suitors.

The biggest drag on performance in May was **SID (ticker 4812)**. In the February newsletter, we provided some details on the investment case. The earnings, which were already announced on Apr 28<sup>th</sup>, were good. Q1 sales grew 4% y-o-y and OP +13%

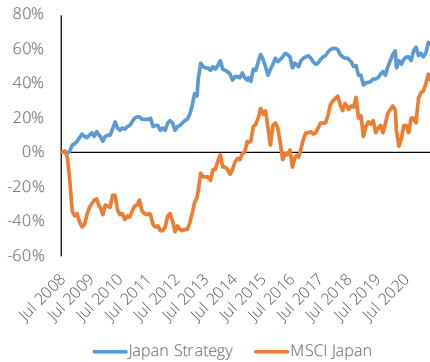
y-o-y, whilst its guidance was disappointingly conservative. The stock was down -4.8% in May in sympathy with other growth companies, but despite the poor May performance the share price is still +22.7% year-to-date. As the AGM season approaches, time is ticking for this (still) listed subsidiary, which is 62% owned by Dentsu Group. **Creo's (ticker 9698)** share price performance was the biggest disappointment in May. The share price declined -13%. Creo is a small system integrator working amongst others with Fujitsu and Amano (a 31% shareholder). Creo announced earnings on May 7<sup>th</sup>, and missed on the revenue line, but the OP and EPS were much better than guided for. The dividend increased by 10% and has been guided for another small increase. The stock trades at 13x P/E, 3.2% dividend yield, 30% cash to market capitalization and 12% RoE. What is there not to like? It's quarterly earnings can be lumpy due to project revenue recognition, which can have a sizeable impact on this small company's quarterly earnings. **Roland Corp (ticker 7944)**, a recent IPO and maker of digital instruments, presented blow-out numbers which supported our investment thesis that growth and margins at the company have been vastly underestimated. **Fujitec (ticker 6406)** underperformed the market last month as the share price declined 2.5%. As this company is amongst the biggest positions, this small decline led to a 26bps drag on performance. Nevertheless, the quarterly call with Fujitec's IR team was constructive and the company seems eager to deliver on its targets to improve margins and RoE, through production efficiency and a shift to asset light services. However, the company seems to be dragging its feet when questioned about more drastic and speedy adjustments to its geographical mix. With last year's strategic review announcement, the board has bought time and the poison pill only expires in 2022. In December, the board will present its new mid-term plan and we need to monitor the risk of overly ambitious M&A, which we consider a risk and at the same time could backfire on the management team as shareholders closely monitor potential risk of capital mis-allocation. Nevertheless, Fujitec has a great business model and is undervalued with potential for further share price re-rating.

## OUTLOOK

Annual General Shareholder Meeting (AGM) season is approaching and we expect, at this year's FY 2020 AGM, a sharp drop in approval rates for CEO's and board members. Shareholders are accepting that earnings and profit indicators might have suffered due to the global pandemic, which is part of doing business. However, the pandemic is no excuse to defer enhancing corporate governance to attain commonly accepted business practices and follow the corporate governance guidelines as stipulated in the latest revision. We expect a steep acceleration in cross-shareholding unwinds and share buybacks. For those interested in more detail, we have recently published our voting report for 2020 on our website.



**FUND CHARTS AND FACTS**



**TOP 5 GROSS POSITIONS**

CANADIAN SOLAR INFRASTRUCTURE	
INFO SERVICES INTL DENTSU	0.1
DAIBIRU	
FUJITEC	0.1
HEIWA REAL ESTATE	

**TOP 5 MOVERS**

DIGITAL HOLDINGS	0.59%
HEIWA REAL ESTATE	0.44%
ROLAND CORP	0.27%
EBARA JITSUGYO	0.27%
NIPPON PILLAR PACKING	0.18%

**TOP 5 SHAKERS**

INFO SERVICES INTL DENTSU	-0.49%
CREO	-0.42%
DAIBIRU	-0.26%
FUJITEC	-0.26%
FINDEX	-0.25%

**FUND PERFORMANCE\***

	USD <sup>^</sup>	EUR <sup>*</sup>
Month to date performance	-1.50%	-1.66%
Year to date performance	1.34%	1.21%
Inception to date performance	10.91%	59.66%

*\*based on share class B EUR, ^based on share class C USD*

**FUND FACTS\***

Fund size in mln EUR	140.88
Fund size in mln USD	172.23
Firm size in mln EUR	172.18
Firm size in mln USD	210.50

**RISK STATISTICS**

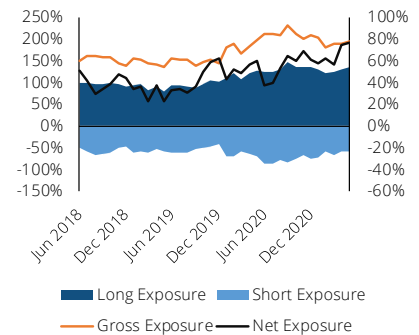
Net Exposure	77%
Gross Exposure	195%
Volatility (ex-ante; 3 months daily data)	10%
Beta (ex-ante)	0.20
Sharpe Ratio	0.54
Sortino Ratio	1.13
Sterling Ratio	0.29
Max Drawdown (monthly)	13.5%
Annualized Return	3.85%

**SECTOR EXPOSURES (IN PERCENT)**

	Long	Short	Net	Gross
Consumer Discretionary	8	-14	-6	22
Consumer Staples	1	-10	-9	10
Energy	19	0	19	19
Financials	4	-3	1	7
Health Care	2	-7	-6	9
Industrials	42	-12	30	53
Information Technology	31	-8	24	39
Materials	9	-3	6	12
Real Estate	21	-2	19	24
Communication Services	4	-7	-2	11
Utilities	0	-2	-2	2

**GENERAL STATISTICS**

% Return long book	-2.32%
% Return short book	-0.53%
# Long stocks	72
# Short stocks	17
% Long stocks ↑	24%
% Short stocks ↓	41%
# Up days / Down days	10 / 10
Turnover as % NAV	45%



## FUND PERFORMANCE

	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD	
<b>CLASS B EUR</b>	2021	-1.38%	1.55%	3.76%	-0.97%	-1.66%									1.21%	59.66%
	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%		
<b>CLASS C USD</b>	2021	-1.34%	1.63%	3.47%	-0.84%	-1.50%								1.34%	10.91%	
	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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