



MARKET COMMENTS

October was an extremely tough month. It was the worst 1-month return for global equities in 9 years. The MSCI Japan collapsed -9%. Intra-month volatility was even higher with a peak-to-trough drop in this benchmark of -13%. The US dollar rapidly appreciated against most Asian currencies and aggravated an already tight US dollar liquidity situation. US dollar strength is a major headwind for Asian risk assets, whilst under 'normal' circumstances a strong US dollar is a tailwind for Japanese equities. However, with the US Fed's tightening cycle progressing 'a small step at the time', last month was a clear indication that its policy reached a point at which US dollars shortage started to impact risk assets globally.

Against this backdrop, the global economy is slowing and the prevailing narrative is one that the US economy is most resilient and therefore the US stock market a preferred investment destination for global investors. Foreign investors aggressively sold their Japanese equity holdings during 2018. Foreign investors now sold almost all their equity allocation which they had acquired during the 2012-2013 'Abenomics trade'. Japanese equities are now as under-owned by global investors as they were in 2008/2009. We have reached again a low point in sentiment, Japanese equities are again disliked, ignored and extremely inexpensive. That said, earnings are solid, but earnings growth is decelerating and cash continues to accumulate on Japan's corporate balance sheets. It is now confirmed that the 4th quarter of 2018 will have the highest level of share buy-backs ever. The BOJ is buying, the corporates are buying and foreigners have been selling. Our fund lost -3.69% last month, a significant loss and rather disappointing, because we were defensively positioned to begin with. As it happens time and again, during sharp sell-offs, correlations increase and even the most defensive stocks come under pressure.

SINGLE STOCK OBSERVATIONS

October was a strange month as we noted a blatant disconnect between fundamentals and intrinsic value of the underlying business. More than ever, investors engaged in 'get-me-out' mentality and sold irrespectively of what the business is worth. Some of our sizeable holdings such as Taihei Dengyo (-11.5%), Okamoto Ind. (-18%), Maeda Corp. (-15%) and Maeda Road (-11%) were big losers. These are reasonably stable businesses and these companies have fortress like balance sheets and are trading at stupidly cheap levels. The long book declined -7.6%, it was actually defensively positioned and nicely outperformed the market. However, the short book declined by just the same amount and thereby no alpha was gained and the net exposure of about, on average, 30% took a hit. The top five contributors last month were all short positions, which seems obvious in a

market like this. We were delighted that our largest long position, Toshiba Plant Systems (TPS), delivered again great results and its business is very solid. We are less content with the fact that these great earnings are retained within the company rather than returned to its shareholder and putting downward pressure on future Return-On-Equity. TPS holds JPY100bn (\$880m) of cash versus a current market capitalization of JPY240bn (\$2.1bn).

RISK ALLOCATION

The net exposure at end of the month stood at +37%, of which 20% are high yielding, low beta REITS (1 hotel, 2 solar, 2 office REITS). Another way to look at the net and gross exposure is by sector allocation. The sector with the highest net exposure is Industrials with +22%, followed by Real Estate +18%. These are the two market segments where we currently find the greatest mispricing and potential for valuation gains. We kept the gross exposure at close to 160%, which is above average.

STYLE ANALYSIS

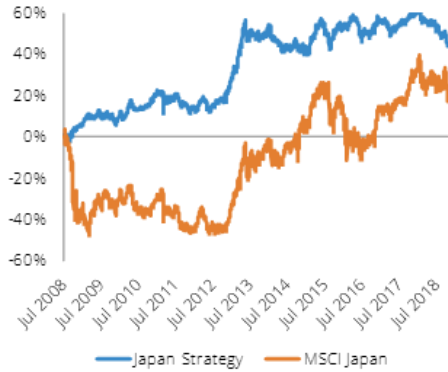
We track factor returns on a daily basis using our proprietary quant model and observed a strong rally in the value stocks in the last week of the month. Value as a style has had a disastrous performance so far this year and in midst of the global turmoil it seems cheap stocks started to outperform. Price momentum had a poor month, it seems that the bargain hunting season into year-end has already started late October. We noted that hedge funds globally had very poor returns, especially quants. Over the past few years, quant participation has drastically increased in the Japanese market and although it is impossible to assess what it means for stock picking we noticed a steady increase in short selling activity and a higher short selling participation in small/mid cap stocks.

OUTLOOK

After such a brutal month, it is always good to take a step back and look at the bigger picture. The global economic cycle has been decelerating this year and with the most important central bank withdrawing liquidity, volatility finally returned. We still expect Japanese equities to do well in the coming year, because the underlying structural improvements will lead to higher Return-On-Invested-Capital and valuations are cheap. However, earnings volatility has and will increase and so will price volatility. We aim to use volatility to our advantage and buy more of what we like most, but it is always easier to identify when something is cheap rather than predicting when market participants recognize this and have prices appreciate. We pay special attention to companies that see recent stock price as an opportunity to buy back stock, because management believes in the company strengths and stock undervaluation.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

Toshiba Plant Sy
Ichigo Hotel REIT Investment C
Ichigo REIT
Alpine Elec
Taihei Dengyo

TOP 5 MOVERS

Sharp Corp	0.34%
Pepper Food Serv	0.32%
Ube Industries	0.22%
Shinoken Group	0.19%
Alps Elec	0.19%

TOP 5 SHAKERS

Taihei Dengyo	-0.58%
Okamoto Inds	-0.57%
Maeda Corp	-0.48%
Maeda Road Const	-0.42%
Ichigo Hotel REIT Investment C	-0.40%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	14.8	18.1
EV/EBITDA	11.0	13.9
Price to Book (PB)	1.4	2.6
Dividend Yield	2.5	1.8
EV/IC	1.1	2.5
1 month momentum	-6.6	-10.5
12-1 month momentum	13.0	0.5

FUND PERFORMANCE*

Month to date performance	-3.69%
Year to date performance	-9.59%
Inception to date performance	45.18%

*based on share class B EUR

FUND FACTS*

Fund size in mln EUR	94.95
Fund size in mln USD	107.58
Firm size in mln EUR	223.80
Firm size in mln USD	253.58

RISK STATISTICS

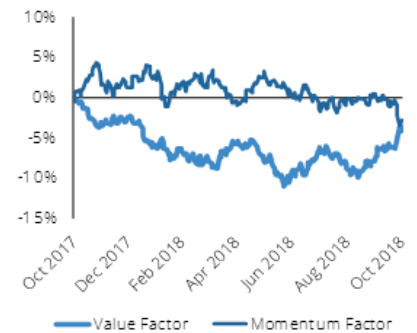
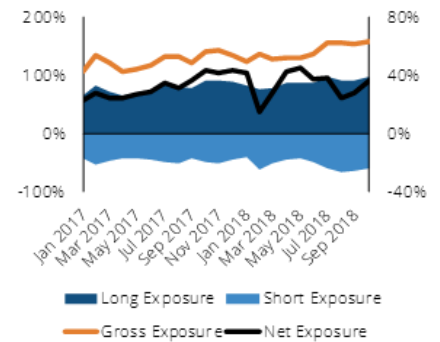
Net Exposure	37%
Gross Exposure	157%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.54
Sortino Ratio	0.99
Sterling Ratio	0.44
Max Drawdown (monthly)	-8.4%
Annualized Return	3.7%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	10	-9	0	19
Consumer Staples	4	-10	-6	15
Energy	0	0	0	0
Financials	3	-2	2	5
Health Care	1	0	0	1
Industrials	38	-16	22	53
Information Technology	7	-6	1	14
Materials	5	-1	3	6
Real Estate	26	-7	18	33
Telecommunication Services	0	0	0	0

GENERAL STATISTICS

% Return long book	-7.61%
% Return short book	-7.60%
# Long stocks	53
# Short stocks	21
% Long stocks ↑	15%
% Short stocks ↓	81%
# Up days / Down days	6 / 16
Turnover as % NAV	73%



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%	-1.66%	0.36%	-3.69%			-9.59%	45.18%
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%	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%	3.39%	-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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