



What goes up...

In September, the Pelargos Japan Alpha Fund appreciated +1.5% in euro terms, which brings the performance to +6.1% ytd. The Topix rallied +8% in the first two weeks and gave back half of its gains in the second half of the month. On September 3rd, Suga-san announced to step down, which ignited a risk-on rally as the odds of a LDP victory in the general election improved significantly. Almost exactly one month later, on October 5th, Fumio Kishida was elected as the new LDP-leader and PM. Kishida-san, which is seen as the conservative choice for continuity, replaced 18 of 20 Cabinet members, of which 13 will hold posts for the first time. The old guard, the Triple A faction consisting of Abe, Aso, Amari, is retiring into the back-seats, whilst still in control with most new appointees being their protégées. Kishida-san is the establishment's choice and is on a tight leash. The media picked up on the capital gains and dividend tax increase, however this will not happen as long as the Triple A's are still breathing air. Most importantly, one should not forget that Japanese PMs come with a short expiration date. Kishida-san is the 100th PM over a time span of 136 years. Kishida-san will be gone before taxes can be raised. At the end of this month, Japan will hold general elections and before that, investors can only expect good news from the new PM. The fiscal package is ready to go, and Kishida-san's talks about 'redistribution' is one of pushing wages higher, rather than a newly found notion of socialism. Despite extreme labor shortages, repricing of labor has not yet happened. The labor market is too rigid to allow for adjustments downward as well as upward. Abe-san was pushing for higher wages to induce 'good' inflation and this is the line Kishida-san will pursue. This is a good thing as the Japanese service sector has enormous potential for labor productivity improvements. More service output with the same labor input justifies higher wages, which support consumption against demographic headwinds. Enough about politics, at the end it's all about earnings. However, in Japan politics tend to matter more for capital markets than in many other developed economies, because of its centralized decision making with the Ministry of Economy, Trade and Industry (METI) wielding more power over the private sector compared to other developed nations.

This newsletter is normally light on macro comments; however, at occasions it is worth paying attention. Japanese equities are highly sensitive to movements in the US 10yr treasury rate. With the BOJ's yield curve control, the 10yr JGB rate is basically anchored at 0%, which effectively means the yield differential between US 10yr and JGB 10yr is determined by US rates only. The yield differential correlates closely with movements in the USD/JPY cross, thus higher yields in the US means weaker yen, which tends to be a positive for earnings of multinationals such as Toyota, Panasonic etc.. US rates increased substantially in September and continued so far in October, this favors value

over growth, cyclicals over defensives and at the same time large cap over small cap (those tend to be more domestic). The current situation is somewhat unique. The global economy is going through a demand shock sending inflation expectations through the roof, while at the same time growth is throttled down by supply chain bottlenecks and material/energy cost jumps, which is an implied tax on growth. On one hand, the risk to top line shortfalls has increased due to supply constraints and China slowdown and on the other hand margins might be hit as input costs squeeze higher. Very tricky indeed.

The biggest contributor was Daibiru (ticker 8806), the stock rallied +14% last month, without any material news. This position contributed 0.9%. The other significant contributors were Murata +10% (ticker 6981), Nippo Corp +24% (ticker 1881), Sony +10% (ticker 6758) and Carta Holdings +21% (ticker 3688). The short book performance inline with the market.

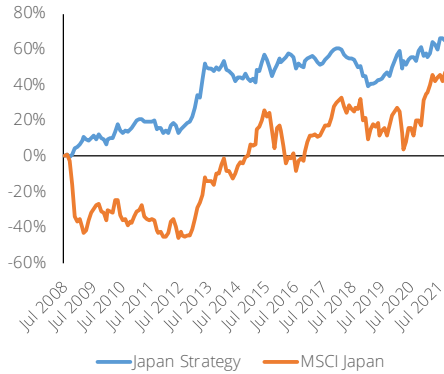
For years we have been investing in the listed pavement companies, expecting an industry consolidation. The companies we have selected were Maeda Road, Nippo Corp and Nippon Road. Maeda Road shareholders received a juicy offer for the majority stake in March last year and the company was merged with two other Maeda family members to form the new merged entity with the uninspiring name Infroneer Holding (ticker 5076). Nippo Corp received a take-over bid by its parent company (Eneos) on September 7th. The bid price is outrageously low and utterly unfair to minority holders. Since the announcement 24 million shares have traded hands, whilst there are 119 million shares outstanding and 51 million free float. Thus 50% of the free float has been traded and several vocal shareholders have stepped forward to complain about Eneos' Board of Directors (BoD) stealing Nippo Corp. from its minority shareholders. The shares have been trading above the bid price since, and unsurprisingly Eneos has refused to increase its bid. However, the pressure on Eneos' BoD is increasing with regulators having a closer look at the deal structure and validity of the process.

OUTLOOK

Japan was somewhat late with regards to vaccinating its population, but caught up very quickly with almost 70% of its population fully vaccinated. The country currently is in full re-opening mode with office workers returning to the corporate offices. As we enter the 4th quarter of 2021, earnings season will start soon and surprises will be plentiful. The global economy turned up-side-down last year and the path back to 'normal' will certainly lead to a different 'equilibrium'. Our top 10 positions are tilted towards corporate engagement and parent-subsidiary unwind. More than ever, we pay attention to business models that have pricing power and/or able to pass through cost increases.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

DAIBIRU	
SONY GROUP	0.1
MURATA	
IDEMITSU KOSAN	0
CANADIAN SOLAR INFRASTRUCTURE	

TOP 5 MOVERS

DAIBIRU	0.90%
MURATA MANUFACTURING	0.51%
NIPPO	0.48%
SONY GROUP	0.45%
CARTA HOLDINGS	0.28%

TOP 5 SHAKERS

HEIWA REAL ESTATE	-0.29%
DAIFUKU	-0.22%
HIKARI TSUSHIN	-0.16%
JTOWER	-0.16%
AZBIL	-0.10%

FUND PERFORMANCE*

	EUR*
Month to date performance	1.54%
Year to date performance	6.09%
Inception to date performance	67.37%

*based on share class B EUR

FUND FACTS*

Fund size in mln EUR	135.55
Fund size in mln USD	156.98
Firm size in mln EUR	170.27
Firm size in mln USD	197.19

RISK STATISTICS

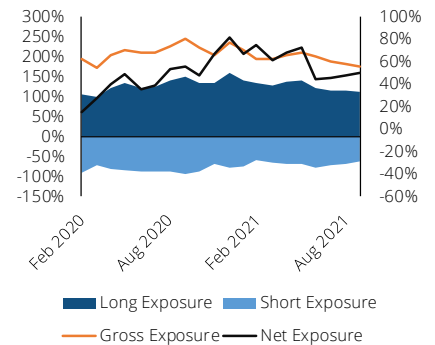
Net Exposure	50%
Gross Exposure	176%
Volatility (ex-ante; 3 months daily data)	5%
Beta (ex-ante)	0.12
Sharpe Ratio	0.55
Sortino Ratio	1.11
Sterling Ratio	0.29
Max Drawdown (monthly)	13.5%
Annualized Return	3.87%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	13	-11	2	24
Consumer Staples	1	-11	-10	12
Energy	15	0	15	16
Financials	2	-2	0	5
Health Care	1	-7	-7	8
Industrials	37	-12	25	49
Information Technology	20	-8	12	28
Materials	4	-3	1	7
Real Estate	16	-1	15	17
Communication Services	4	-5	-1	10
Utilities	0	-1	-1	1

GENERAL STATISTICS

% Return long book	3.44%
% Return short book	4.85%
# Long stocks	56
# Short stocks	14
% Long stocks ↑	70%
% Short stocks ↓	57%
# Up days / Down days	12 / 10
Turnover as % NAV	93%



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%	-0.70%	1.54%				6.09%	67.37%
	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%	

DISCLAIMER

Pelargos Capital B.V. has compiled this publication. Pelargos Capital B.V. is a management company and in that capacity avails of a license pursuant to section 2:65 of the Act on Financial Supervision of the Netherlands (Wft) as that section reads following the incorporation of the AIFM Directive in the Wft.

Although the information contained in this publication is composed with great care and although we always strive to ensure the accuracy, completeness and correctness of the information, imperfections due to human errors may occur, as a result of which presented data and calculations may vary. Therefore, no rights may be derived from the provided data and calculations. All information is provided "as is" and is subject to change without prior notice.

Pelargos Capital B.V. does not warrant the adequacy, accuracy or completeness of any information and expressly disclaims any liability for errors or omissions therein. The recipients of this publication are responsible for evaluating the accuracy, completeness or usefulness of this information.

The information contained in this publication does not constitute any recommendation, investment proposal, offer to provide a service, nor a solicitation to buy or sell any security or other investment product.

The publication of this information may be subject to restrictions imposed by law in some jurisdictions. Pelargos Capital B.V. requests any recipient of this publication to become acquainted with, and to observe, all restrictions. Pelargos Capital B.V. accepts no liability for infringement of such restrictions.

The recipient shall not distribute, forward or publish this information. No rights may be derived from the provided information, data and calculations. Also by risks inherent to this investment fund, the value of the investments may fluctuate. Past performance is no guarantee or guide to future performance.

