



Due For A Pause ...

In April the Pelargos Japan equity strategy declined -2.87%. Against the Topix the strategy outperformed by +1.08%. However in absolute terms it was a disappointing set-back after the strong March performance (+4.1%), especially considering that the US markets outperformed strongly. The S&P500 appreciated +2.8% in euro terms, whilst the Topix declined -3.95% in euro terms; the biggest monthly decline since July last year.

The Japanese market was rather balanced with 11 up-days and 10 down-days. However, the Topix drifted steadily lower with a lack of catalysts going into earnings seasons and the BOJ increasingly reluctant to buy the down-days.

From the low at 1200 on March 17 last year, the Topix rallied to 2012 on March 19 this year. After this 68% appreciation the market was and is due for a correction. Volatility remained elevated in Japan; the peak-to-trough drawdown in January was -4.1%, in February -5.6%, in March -4.4% and in April -5.5%. Despite the intra-monthly hiccups, at the end of April, the Topix index was still up +5% year-to-date.

The past 14 months, since the Covid19 virus went global, are the most unusual of times. No one has lived through such a remarkable episode, and market participants are still struggling with the impact of this pandemic. Especially to figure out which elements of change will be structural and which ones will be temporary. The current big debate in markets is whether the spike in inflation is temporary or structural. It is not either one or the other, it is both. Risk markets are betting markets and as the future is unknowable, markets act as probability-weighting machines. Some probability of structurally higher inflation needs to be discounted into risk assets and it is not unlikely that the pandemic acted as a catalyst for a regime shift. It is important to gauge such shifts early on as it has tremendous impact on which business models can pass on cost inflation and which can't. Japanese corporates have a tendency to underestimate cost acceleration as cost accounting is deficient. Japanese consumer-goods companies are extremely reluctant to increase prices, as Japanese consumers tend to react extremely harshly by refusing to buy products after price increases.

SINGLE STOCK COMMENTS

The price action in Daibiru (ticker 8806) was utterly disappointing in April. The stock rallied +12.6% in March and dropped -10.7% in April. The company announced full year numbers on April 30. The actual numbers were decent, however the management low-balled guidance and no buy-back nor plans to address current undervaluation were announced. Worst of all, the dividend forecast was slightly

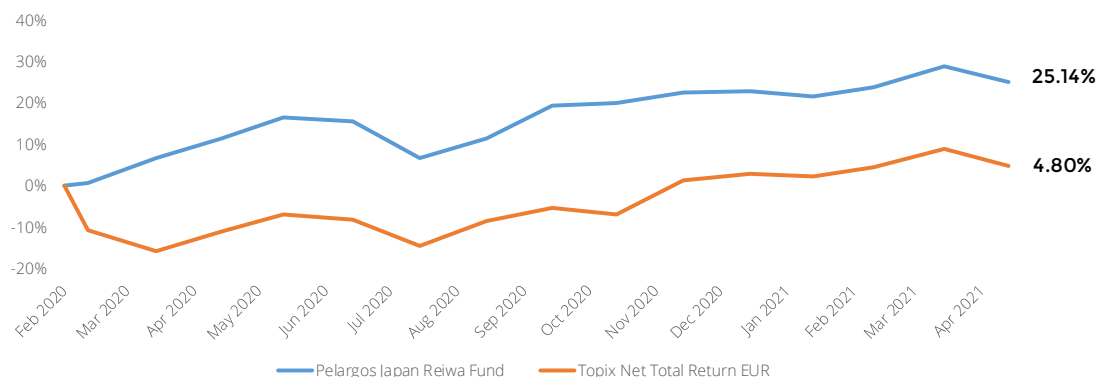
lowered, which reflects bad practice and poor judgement. We are left with the impression that there might be an intentional low balling, we will find out and follow-up with the Daibiru's management.

In contrast to the negative price reversal in Daibiru, another real estate holding of ours, Heiwa Real Estate (HRE) (ticker 8803), appreciated +7.5% in April after its poor performance of -7.3% during Q1 2021. HRE has delivered spectacular price performance over the past 5 years, simply because it was extraordinarily mismanaged and as such mispriced. The change over the past several years has been slow, but steadily moving into the right direction with regards to corporate governance. HRE simply was a retirement destination providing board member status and associated amenities to ex-directors of its biggest client, the Tokyo Stock Exchange (TSE). In addition, the TSE was paying below market rents and occasionally some related party, such as CEOs of securities brokers being clients of the TSE, were allowed to join the self-serving executive suite. After many several friendly, but determined, conversations with the board and more resolute shareholders using the public domain the current HRE board enacted various measures, most importantly a series of buy backs. The best defense against hostile suitors and complaints from shareholders is to make sure the share price goes up. In our November 2020 newsletter, we indicated that the HRE board will not be able to prolong the poison pill. This defense mechanism was granted for a 3 year period and will expire at the AGM in June. We do not expect any immediate suitor to show up, but the fact remains that these days a deeply undervalued real estate company attracts 'unwarranted' attention. HRE presented earnings on April 30 and delivered solid, "tick-the-box" numbers with yet another share buyback.

OUTLOOK

High margin debt in capital markets make risk assets susceptible to sharp drawdowns and as we have noted last month: "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 we stick to our thesis of a structural bull cycle for Japanese equities." The costs of being listed are dramatically increasing. Transparency requirements have increased and with it reporting requirements, the rules are changing and boards have been slow to adapt. However, for many listed companies under family control, being listed becomes burdensome and attracts unwarranted outside attention. The consolidation and MBO wave only has started; even once-mighty Toshiba is being targeted by private equity. We honestly hope the delisting of Toshiba succeeds. It is about time to wave a ceremonial sayonara to this dysfunctional dinosaur and send a signal to Japan Inc. that the regime shift is for good.

STRATEGY CHARTS AND FACTS



TOP 10 POSITIONS

INFO SERVICES INTL DENTSU	6.7%
DAIBIRU	5.6%
FUJITEC	4.7%
HEIWA REAL ESTATE	3.5%
TAIHEI DENGYO KAISHA	2.7%
NEC NETWORKS & SYSTEM	2.6%
DIGITAL HOLDINGS	2.5%
TAKARA LEBEN INFRASTRUCTURE	2.5%
CREO	2.4%
NIPPON PILLAR PACKING	2.3%

TOP 5 MOVERS

HEIWA REAL ESTATE	0.19%
FUJITEC	0.15%
FINDEX	0.12%
KAIZEN PLATFORM	0.11%
INFO SERVICES INTL DENTSU	0.11%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	-2.87%	-3.96%
Year to date performance	1.88%	1.79%
Inception to date performance	25.14%	4.80%

*Inception date 17 February 2020, Total Net Return TOPIX Index in euro performance

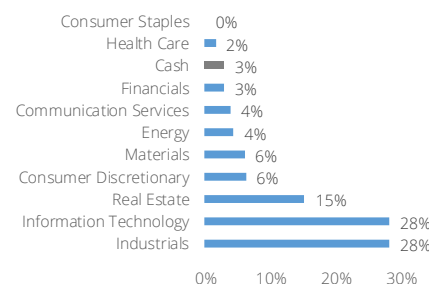
FUND FACTS*

Fund size in mln EUR	32.03
Fund size in mln USD	38.49
Firm size in mln EUR	175.46
Firm size in mln USD	210.87

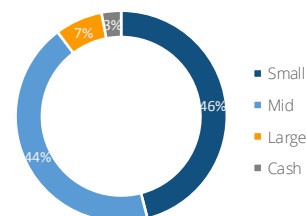
TOP 5 SHAKERS

DAIBIRU	-0.73%
USS	-0.21%
DIGITAL HOLDINGS	-0.20%
ELECOM	-0.15%
NEC NETWORKS & SYSTEM	-0.14%

SECTOR EXPOSURE



MARKET CAP EXPOSURE



STRATEGY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2021	-0.81%	1.60%	4.09%	-2.87%									1.88%	25.14%
2020		0.74%	5.93%	4.50%	4.60%	-0.81%	-7.66%	4.43%	7.08%	0.54%	1.97%	0.28%	22.83%	22.83%



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