



THE YEAR THAT CHANGED EVERYTHING

The Pelargos Japan long only strategy posted another although small gain of +0.3% in December. From the launch in February, the strategy gained +22.8% in 2020. A solid start indeed, with only 2 negative months out of 11. It was by far the most remarkable year of our lifetime. Life, as we used to live it, stopped to exist and every corner of the world was affected by drastic change in human behavior. The implications of this pandemic will impact an entire generation with many unknown-unknowns in play. Democratic societies are confronted with unprecedented elimination of personal freedom during peacetime. Japan handled the Covid19 crises remarkably well, with low mortality rates compared to other democracies. For Japan, a few extremely positive trends have emerged. It experienced a dramatic adoption and acceleration of e-commerce and broad-based digital services. A paradigm shift due to pure necessity has finally pushed one of the most aged societies into embracing the convenience and productivity enhancements of digital applications. Against this backdrop, the Topix index appreciated +1.04% in December and closed the year in positive territory with +0.87% for the year (% returns in euro). It was a tough year in every sense. Due to the massive macro uncertainty, returns of risk assets were almost exclusively driven by policy intervention, passive flows and thematic ETFs. The initial plunge in equities and economic activity met war-style government intervention with yields dropping to “yet-another-historic” low. The decade long trend of growth outperforming value accelerated. Growth stocks geared into e-commerce and digital services were genuine Covid19 beneficiaries. At the beginning of Q4, the herding into growth/momentum stocks caused tremendous intra-market volatility with forced risk reduction on both sides of the “price momentum-value” spectrum.

SINGLE STOCK COMMENTS

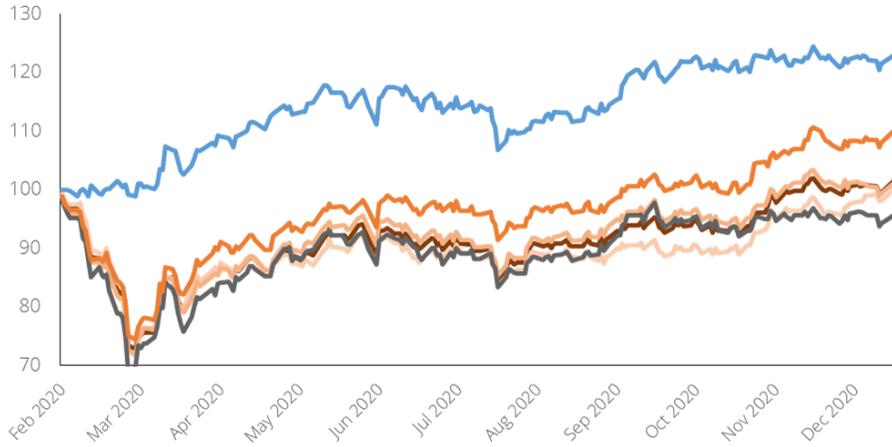
The best contributors last month were WealtNavi (+120%), Heiwa Real Estate (+9%), Elecom (+12%), Creo (+18%) and SushiRo (+19%). For a considerable time we have held a long position in FinTech company SBI Holdings. The valuation case based on their sum-of-the-parts looked extremely appealing, as we anticipated a series of IPO's from its venture capital investment division. WealthNavi was amongst its latest IPOs, which we participated in and contributed 0.44% last month. WealthNavi is a ‘robo-advisor’ with almost guaranteed parabolic growth in assets under management, ready to disrupt the hell out of old-fashioned private wealth managers, which still operate on a 1990s model. SushiRo was mentioned in the October and November newsletters and after another great month of December, it ended up being the highest contributor in 2020, adding +1.6%. SushiRo is a conveyor belt sushi

restaurant chain, once restructured by private equity and now run by ex-private equity managers. SushiRo can operate with less staff, gained tremendous market share and had the digital acumen to accelerate its business during the pandemic. Creo contributed +0.4% in December. 2021 will be a formidable year for this tiny IT system integrator company. It has a great project line-up, for which 2020 was investment phase, and profit contribution will accelerate starting from Jan-Mar 2021. Valuations remain extremely attractive with solid growth outlook and an overcapitalized balance sheet. Heiwa Real Estate (HRE) rallied +9% rally in December. It was amongst the best performing real estate stocks in 2020 in Japan. The stock added +0.9% to 2020 fund performance. HRE has been a major corporate governance success for us. For many years, the Pelargos Capital team has been engaging with the board of directors. With a renowned activist joining the shareholder register, it is a given that the poison pill will not be extended at the next AGM and a significant buyback in due course can be expected. The only way to defend this massively undervalued company against a hostile take-over is to make sure the discount to NAV diminishes rapidly. The top 5 losers last month were in decreasing order: SBI Holdings (-14%), Daibiru (-2.8%), Findex (-14%), Digital Holdings (-5%, ticker 2389) and ISID (-10%, ticker 4812). SBI Holdings had a significant drop in share price due to its Ripple exposure. Despite last month's overreaction to the downside, it was still a great outperformer in 2020. Daibiru is our largest position and comparable to HRE. This real estate developer is a listed subsidiary of Mitsui OSK with obvious corporate governance shortcomings. Under current corporate governance guidelines, this situation is unattainable and will be resolved soon and in combination with a share buyback we expect the stock rally to resume in 2021.

OUTLOOK

Against all odds, the Japanese bull market re-established itself in 2020. Extreme cheapness is widely accepted and equally ignored, as value-investing has not worked for too long. Indeed, the number of value traps is staggering, but the step-up in corporate governance reforms ensures that listing and compliance costs will make ‘being listed for being listed sake’ extremely cumbersome and expensive. The latest bull leg was VIP only; with well-known mega-caps such as Softbank, Fanuc, Daikin, Nidec etc. carrying the load. However, there won't be a sustainable bull market without small cap participation. The stars are lining up for a massive re-rating of small caps. No sellers left and incrementally news can only get better from current low base. As an aside, green investing is the next big thing in Japan. The 9% position in our three solar REITs will pay off nicely, however it seems they are still too small and the ESG funds have not yet found out about them.

STRATEGY CHARTS AND FACTS



	ITD
Pelargos Japan Reiwa Fund	22.83%
TOPIX Net Total Return Index	1.29%
TOPIX Core 30 Index	-0.31%
TOPIX Mid 400 Index	0.84%
TOPIX Small Index	-4.60%
TOPIX Growth	9.81%

TOP 10 POSITIONS

DAIBIRU	6.7%
HEIWA REAL ESTATE	5.3%
FUJITEC	5.0%
ELECOM	4.1%
CANADIAN SOLAR INFRASTRUCTURE	4.0%
TAKARA LEBEN INFRASTRUCTURE	2.9%
CREO	2.4%
ENEX INFRASTRUCTURE	2.4%
TOSEI	2.3%
MAEDA CORP	2.2%

TOP 5 MOVERS

WEALTHNAVI	0.44%
HEIWA REAL ESTATE	0.36%
ELECOM	0.35%
CREO	0.35%
SUSHIRO	0.29%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	0.28%	0.89%
Year to date performance	22.83%	1.29%
Inception to date performance	22.83%	1.29%

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

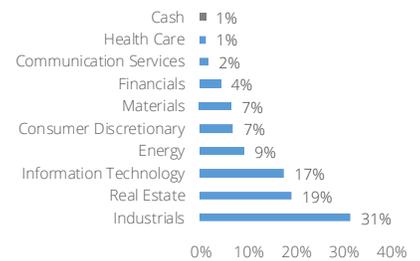
FUND FACTS*

Fund size in mln EUR	31.11
Fund size in mln USD	37.99
Firm size in mln EUR	169.53
Firm size in mln USD	207.04

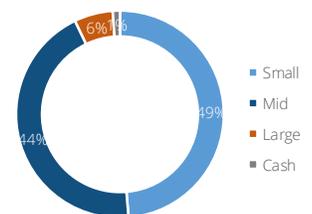
TOP 5 SHAKERS

SBI HOLDINGS	-0.46%
DAIBIRU	-0.30%
FINDEX	-0.22%
DIGITAL HOLDINGS	-0.14%
INFO SERVICES	-0.12%

SECTOR EXPOSURE



MARKET CAP EXPOSURE



STRATEGY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
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%



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.