



BULL MARKET RESUMES

Pelargos' Japan long only strategy celebrated its 1st anniversary on Feb 17th and during the month reached +30% performance since inception. In February, the strategy made +1.6%, exactly matching the Topix performance in euro terms despite an active share over 90%. The bull market resumption in Japan lifted the index by +8.5% in EUR into mid-month, just to enter a nosebleed correction in the second half, selling off by -6.3%. Nothing particular unusual in Japan.

In our opinion, the market is climbing the proverbial wall-of-worry. Worried about social media induced short-squeeze campaigns; worried about inflation accelerating and bond vigilantes forcing yields higher; worried about the "bubble-in-everything" popping ... at the height of a bubble there are no worries, only FOMO. Of course, valuations in US markets are extreme and higher yields are negative for crowded quality growth mega-caps, but Japanese equities are cheap and value stocks are sought after. Higher inflation expectations are conducive for Japanese equities to outperform. Indeed, it is head scratching that US equities are selling off already on a yield "scare", whilst the 10-year Treasuries are approaching just 1.5%. However, in our opinion, it is the speed of repricing in fixed income that matters, selling begets selling and throws the risk-parity strategies under the truck, especially when fixed income assets sell off in unison with equities.

On Feb 25, the VIX jumped 35% when the SPX declined 2.5%, just 3% off its all-time-high. That is what you get in a highly leveraged financial system, when money is literally free and access to debt widely available. So far, many of those excesses seem US related, but it is naïve to assume it stays there, "debt connects us all".

SINGLE STOCK COMMENTS

The top 5 positions are Daibiru (ticker 8806), Fujitec (ticker 6406), Info Services International-Dentsu (ISID – ticker 4812), Heiwa Real Estate (HRE – ticker 8803) and Canadian Solar IF (CSIF – ticker 9284). The position in ISID has been initiated in June 2020 and the way we found out about this company was rather unusual. In our hedge fund product, we held a short position in Dentsu; the largest traditional advertising company in Japan. With its bloated cost base and reliant on fading, but still rather influential TV advertising, we figured that Dentsu is a Blue Chip destined to be disrupted. The way Millennials consume media requires a new approach to build brands and to engage with younger demographics. In the new digital world Dentsu faces tough new competitors such as Accenture and Nomura Research Institute that were not competing in the analogue era. Dissecting Dentsu, we found out about listed subsidiary ISID that provides (amongst others) digital marketing solutions. We came to the conclusion that there is great mutual

dependency between Dentsu and ISID, as circa 30% of ISID's revenues are(in)directly from Dentsu and its customers. On the other hand, Dentsu cannot win a new advertising account without ISID presenting a digital campaign. What triggered us recently, was the announcement by Dentsu to sale-and-lease back its headquarter building in Shiodome. The rumored value of this building is JPY300bn (USD2.75bn). ISID's market cap is about JPY240bn (USD2.2bn). As Dentsu already owns 61.8%, only 38.2% needs to be bid for, of course with a pleasing premium for minority shareholders. 38.2% of 240bn JPY is 91.7bn JPY, thus Dentsu has plenty of firepower even adding in its recent announcement to buyback JPY30bn of its own shares to calm-down and appease its own revolting shareholders. In the current corporate governance regime, it is a given that the Dentsu board has to decide (at some point!), whether to sell its majority stake or buy-in the minorities. Even if Dentsu decides to do nothing for the time being, ISID is still good value with solid fundamentals in a growing industry.

Last month, we wrote about our positions in the Maeda family (Maeda Corp.; ticker 1824 and Maeda Road; ticker 1883) and one of its affiliates, Toyo Construction (ticker 1890). The latter being currently attacked by an activist. On Feb 24, the Maeda family announced great news, it will merge itself and the listed subsidiaries into a newly to be established holding company, and cancel all currently outstanding treasury shares. The merged holding company will have (at current prices) a market capitalization of JPY280bn and JPY112bn in cross-shareholdings, which we expect to be unwound and used for buybacks as well as buying-in our other long position Toyo Construction, which is 20% owned by Maeda Corp..

OUTLOOK

Earnings proved to be surprisingly resilient, though expectations were low given current circumstances. However, most of our companies presented great results, admittedly, some benefited from the pandemic, others have cut costs aggressively and even more importantly, announced share buybacks in light of low valuations. Whilst US centric investors talk about bubblemania, we still find ridiculously cheap stocks in Japan. Currently the fund has 35% exposure to Industrials. Economic activity is skyrocketing and improvements in corporate governance is accelerating. However, another generational shift has emerged. Good old traditional Japan with its paternalistic, feudalistic organizational structures is going digital. Finally, the age of disruption has hit Japan and beyond the irritating buzz words such as IoT and AI, we find the emergence of SaaS platforms being the true trigger of disruption. Whilst we own deep value engagement situations, we have several tiny positions, which we consider call option premia, with tremendous convexity; such as Sansan, FeedForce, Kaizen Platform, WealthNavi, Base Inc, and QD Laser.

STRATEGY CHARTS AND FACTS



	ITD
Pelargos Japan Reiwa Fund	23.78%
TOPIX Net Total Return Index	4.39%
TOPIX Core 30 Index	3.06%
TOPIX Mid 400 Index	3.73%
TOPIX Small Index	-3.56%
TOPIX Growth	8.31%

TOP 10 POSITIONS

DAIBIRU	5.4%
FUJITEC	4.1%
INFO SERVICES INTL DENTSU	4.0%
HEIWA REAL ESTATE	3.5%
CANADIAN SOLAR INFRASTRUCTURE	3.3%
MAEDA ROAD CONSTRUCTION	3.1%
TAKARA LEBEN INFRASTRUCTURE	2.9%
ELECOM	2.9%
DIGITAL HOLDINGS	2.4%
TOYO CONSTRUCTION	2.3%

TOP 5 MOVERS

QD LASER	0.60%
MAEDA ROAD CONSTRUCTION	0.36%
FUJITEC	0.34%
DAIBIRU	0.27%
ICHIGO INC	0.24%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	1.60%	1.88%
Year to date performance	0.77%	2.00%
Inception to date performance	23.78%	4.39%

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

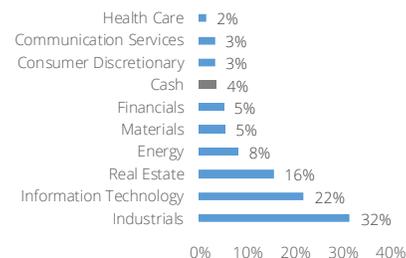
FUND FACTS*

Fund size in mln EUR	31.57
Fund size in mln USD	38.11
Firm size in mln EUR	169.75
Firm size in mln USD	204.95

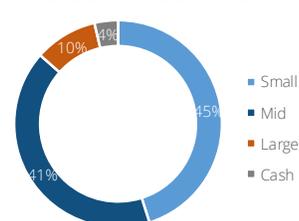
TOP 5 SHAKERS

BASE	-0.33%
METAWATER	-0.32%
ELECOM	-0.22%
NEC NETWORKS & SYSTEM	-0.20%
HEIWA REAL ESTATE	-0.16%

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%											0.77%	23.78%
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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