



JANUARY SQUEEZE

January was, as most Januaries are, a spectacularly weird month. At the turn-of-the-year new money is being deployed with fresh optimism and clean P&L's. Most often, operationally and financially geared stocks perform best in the first month of the year and January 2021 was no exception.

After the 2020 economic collapse, Japanese policy makers went full throttle to avoid financial disaster. Banks were given guarantees to roll loans and, where necessary, the government provided stimulus checks to supplement cash flow short-falls.

Whilst sentiment in Japan is not frothy and valuations are still supportive, the US equity market certainly has elements of bubblyness. In the US, margin debt-to-GDP has reached unprecedented levels and the social media manipulated retail flows almost blew up the system late January. Fundamental long/short strategies had the biggest drawdown and steepest gross exposure reduction on record.

In our opinion, the headline grabbing GameStop short squeeze is just the beginning and a precursor of what might come. These are the unintended consequences of democratizing access to credit in an environment of money printers facilitating free stimulus checks. Our Japan equity strategy declined -0.81% in January, whilst the Topix, a broad market capitalization weighted index with more than 2200 constituents, ended January in positive territory with a +0.12% gain.

SINGLE STOCK COMMENTS

The top 5 positions are Daibiru, Fujitec, Heiwa Real Estate (HRE), Elecom and Canadian Solar IF. Daibiru and HRE are real estate development companies trading at steep discount to NAV. These businesses have seen limited impact from Covid19 and we expect, due to improved corporate governance and pressure from shareholders, that continued buybacks will eliminate the ludicrous undervaluation.

As can be seen on the factsheet, the sector weight of real estate is 18%, and by far the biggest sector weight is the Industrials sector with 31%. The majority of exposure within Industrials, is to the construction sector. The highest contribution last month came from the position in Toyo Construction (ticker 1890).

We have been investing in this space successfully for many years and current valuations are outrageously cheap. The valuations are so far off the mark, that it offers tremendous asymmetry: plenty of up-side with little downside. Toyo Construction is part of the "Maeda-Family". We have been part of the family since 2016, investing in Maeda Corp. (ticker 1824) and Maeda Road (ticker 1883) as well. Toyo Construction is a civil engineering company with a dominant position in marine/off-shore construction. The share price rallied +17% in

January, prompted by the announcement that the Murakami Fund, one of Japan's most notorious activist funds, had acquired a 5%+ stake. Pelargos Capital owns 1.6%, because of the tremendous value the shares offers. The company operates in a stable domestic environment, generates low double-digit RoE's, is able to grow its earnings-per-share, whilst trading at a single-digit PE, a discount to book value and 3.5% dividend yield. Most importantly, its market capitalization is about JPY50bn with cash-on-hand of 20bn Japanese yen. Of course, this highly inefficient balance sheet draws unwarranted attention and shortly after Murakami filed its position, the company announced a massive earnings upward revision. Not only were earnings revised up but the board of directors also announced a dividend hike from JPY12 per share to JPY20. A 66% dividend increase based on a (still only) 27% payout ratio. That's a clear statement! A higher share price is good defense, as it makes it more expensive to further increase the stake to have a bigger say about future shareholder rewards. The second biggest contributor was Takuma (ticker 6013), the stock rallied +20%. This engineering company designs, constructs and operates waste incinerator and water treatment plants. Few investors know about the company and a recent initiation report explained the growth trajectory for this industry leader and implications for its earnings potential. Daibiru (ticker 8806) was amongst the top losers last month. The share price pulled back -9%, for the simple reason that the company's buyback program ended Dec 23 2020. Fundamentally, this real estate developer is massively undervalued and a majority controlled, thus listed subsidiary, of Mitsui OSK, a leading shipping company in Japan. In conversations with the company's board, we addressed the lack of independence and striking undervaluation. We still believe this investment has an outstanding risk/reward. On April 1st, Mitsui OSK will have a new CEO, maybe this fresh leader can take decisive actions and decide what needs to happen with its listed subsidiary.

OUTLOOK

Late January, earnings season started in Japan. So far earnings were extraordinarily strong. We are delighted to see our companies present formidable upward revisions and more importantly, share buybacks have returned. A few of our holdings announced cross-shareholding unwinds, which is underpinned by the corporate governance code. In contrast to the US market, there are still ridiculously cheap stocks to be found in Japan. The low valuations and shift in corporate governance are exciting enough, but a second major shift has emerged. The past twelve Covid19 months acted as a tremendous catalyst to accelerate IT-adoption. Pure necessity forced change in corporate behavior and widespread acceptance of new digital services. We hold small positions in recently IPO'ed companies with tremendous optionality such as Sansan, FeedForce, WealthNavi, Base Inc, and QD Laser.

STRATEGY CHARTS AND FACTS



	ITD
Pelargos Japan Reiwa Fund	21.83%
TOPIX Net Total Return Index	2.46%
TOPIX Core 30 Index	-0.43%
TOPIX Mid 400 Index	3.45%
TOPIX Small Index	-3.65%
TOPIX Growth	10.04%

TOP 10 POSITIONS

DAIBIRU	5.7%
FUJITEC	4.9%
HEIWA REAL ESTATE	4.5%
ELECOM	4.0%
CANADIAN SOLAR INFRASTRUCTURE	3.9%
TAKARA LEBEN INFRASTRUCTURE	3.0%
NOMURA REAL ESTATE	2.9%
METAWATER	2.5%
TOYO CONSTRUCTION	2.4%
CREO	2.4%

TOP 5 MOVERS

TOYO CONSTRUCTION	0.34%
TAKUMA	0.32%
INFO SERVICES INTL DENTSU	0.23%
ROLAND	0.19%
SANSAN	0.14%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	-0.81%	0.11%
Year to date performance	-0.81%	0.11%
Inception to date performance	21.83%	2.46%

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

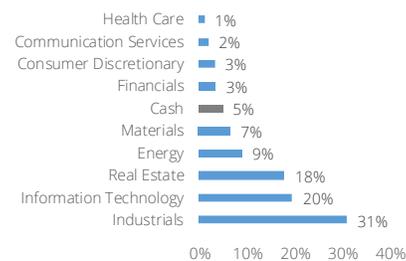
FUND FACTS*

Fund size in mln EUR	30.91
Fund size in mln USD	37.51
Firm size in mln EUR	167.59
Firm size in mln USD	203.39

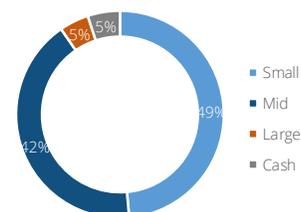
TOP 5 SHAKERS

DAIBIRU	-0.61%
ELECOM	-0.32%
TOSEI	-0.30%
KEIHANSHIN BUILDING	-0.22%
HEIWA REAL ESTATE	-0.21%

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%												-0.81%	21.83%
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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