



EARNINGS RECOVERY UNFOLDING

In May, the Pelargos Japan Reiwa Fund declined -2.3%. The fund is denominated in euro and last month the Japanese yen (JPY) depreciated by 1.9% against the euro. Unfortunately, the yen has been very weak year-to-date against the euro, depreciating by 5.3% and down every single month so far. In general, a weak yen tends to be good for Japanese equities. However, last month there was a major global MSCI index rebalancing event, which led to net selling of Japanese equities by the global 'index-hugging crowd'. Speaking about indices, the Topix measured in euro declined -0.5% in May, and as such outperformed the S&P500, which declined -0.9% in euro's.

Early May, the Japanese market was closed for the golden week holiday and after a brief rally had its monthly cathartic sell-off. The market dropped -5.6% in three days, without the BOJ showing up as the otherwise usual "buyer-of-last-resort". After the quick wash-out, the market was good to go and recovered its loss in daily upward baby steps.

May typically is busy season for corporate earnings announcements. With fiscal year end in March, most corporates present full year numbers, and more importantly present March 2022 guidance at their analyst meetings. In general, earnings season this time was very encouraging. Many companies showed decent cost control, partly because corporates were forced to and not able to spend on travel and sales promotions.

Digital Holdings (ticker 2389) with fiscal year end in December, increased its full year guidance after the first quarter already. More importantly, the board had announced a 2.9% buyback in February and now increased the buyback by yet another 5.8%. We were fortunate enough to buy Digital Holdings shares in the 4th quarter 2020, when the company's enterprise value was trading close to 0.

Another blow out quarter was delivered by Ebara Jitsugyo (ticker 6328), and its share price rallied 32% in May. The company already had several quarters of massive top-line and bottom-line earnings beats, largely due to strong demand for its negative-pressure-equipment, which is used to clean the air (in medical facilities) for infection control. More importantly, a vocal investor holds a significant stake in the company, which had the pleasant side-effects of an aggressive buyback last year, a subsequent dividend increases.

We discussed Heiwa Real Estate (ticker 8803) in some detail last month, and it remains the gift that keeps on giving. The shares rallied another 11.6% in May, as a vocal shareholder announced proposals for the AGM confronting the company's board to improve its corporate governance. All those proposals are legitimate and it is too late to play defense. Share buybacks

are the only way out of the discount to NAV misery and fending off likely hostile suitors.

The biggest drag on performance in May was ISID (ticker 4812). In the February newsletter, we provided some details on the investment case. The earnings, which were already announced on Apr 28th, were good. Q1 sales grew 4% y-o-y and OP +13% y-o-y, whilst its guidance was disappointingly conservative. The stock was down -4.8% in May in sympathy with other growth companies, but despite the poor May performance the share price is still +22.7% year-to-date. As the AGM season approaches, time is ticking for this (still) listed subsidiary, which is 62% owned by Dentsu Group.

Creo's (ticker 9698) share price performance was the biggest disappointment in May. The share price declined -13%. Creo is a small system integrator, working with Fujitsu and Amano (a 31% shareholder) amongst others. Creo announced earnings on May 7th, and missed on the revenue line, but the OP and EPS were much better than guidance. The dividend increased by 10% and has been guided for another small increase. The stock trades at 13x P/E, 3.2% dividend yield, 30% cash to market capitalization and 12% RoE. What is there not to like? It's quarterly earnings can be lumpy due to project revenue recognition, which can have a sizeable impact on this small company's quarterly earnings.

Roland Corp (ticker 7944), a recent IPO and maker of digital instruments, presented blow-out numbers, which supported our investment thesis that growth and margins at the company have been vastly underestimated.

OUTLOOK

Annual General Shareholder Meeting (AGM) season is approaching and we expect, at this year's FY2020 AGM's, a sharp drop in approval rates for CEO's and board members. Shareholders are accepting that earnings and profit indicators might have suffered due to the global pandemic, which is part of doing business. However, the pandemic is no excuse to defer enhancing corporate governance to attain commonly accepted business practices and follow the Corporate Governance Code guidelines as stipulated in the latest revision. We expect a steep acceleration in cross-shareholding unwinds and share buybacks. For those interested in more details, we have recently published our voting report for 2020 on our website.

STRATEGY CHARTS AND FACTS



TOP 10 POSITIONS

INFO SERVICES INTL DENTSU	5.8%
DAIBIRU	5.6%
FUJITEC	4.6%
HEIWA REAL ESTATE	4.3%
TAIHEI DENGYO KAISHA	3.0%
DIGITAL HOLDINGS	2.6%
TAKARA LEBEN INFRASTRUCTURE	2.4%
MAEDA ROAD CONSTRUCTION	2.3%
MAEDA CORP	2.2%
TOYOTA MOTOR	2.2%

TOP 5 MOVERS

DIGITAL HOLDINGS	0.52%
EBARA JITSUGYO	0.43%
HEIWA REAL ESTATE	0.35%
ROLAND CORP	0.22%
NIPPON PILLAR PACKING	0.17%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	-2.29%	-0.58%
Year to date performance	-0.45%	1.21%
Inception to date performance	22.28%	4.20%

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

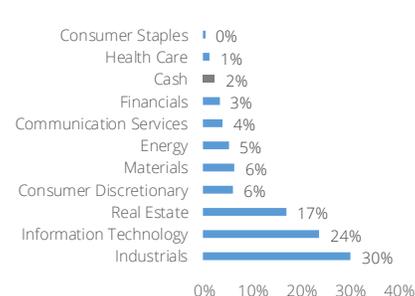
FUND FACTS*

Fund size in mln EUR	31.30
Fund size in mln USD	38.26
Firm size in mln EUR	172.18
Firm size in mln USD	210.50

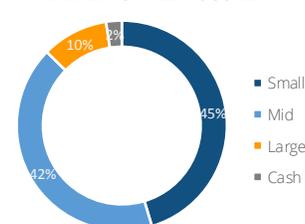
TOP 5 SHAKERS

INFO SERVICES INTL DENTSU	-0.43%
CREO	-0.36%
DAIBIRU	-0.22%
FUJITEC	-0.22%
NEC NETWORKS & SYSTEM	-0.22%

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%	-2.29%								-0.45%	22.28%
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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